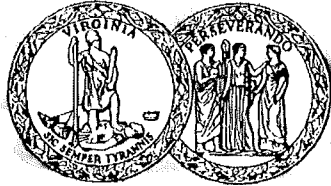


EXAMINATION REPORT
of
COMMONWEALTH MUTUAL
FIRE INSURANCE COMPANY
St. Louis, Missouri
as of
December 31, 2018

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Commonwealth Mutual Fire Insurance Company as of December 31, 2018, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 17th day of April 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
February 20, 2020

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of the provisions of § 38.2-1317 of the Code of Virginia, we have performed an examination of the financial condition, records, and affairs of

COMMONWEALTH MUTUAL FIRE INSURANCE COMPANY

St. Louis, Missouri

hereinafter referred to as the Company. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2013. The current examination covers the five-year period from January 1, 2014 through December 31, 2018.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company was incorporated under the laws of Virginia on December 29, 1953 and was licensed by the State Corporation Commission on September 30, 1957. The Company has been in operation since that date selling fire and extended coverage. In October 1989 the Company began offering burglary coverage. The Company's Certificate of Incorporation states its purpose as follows:

. . . to establish, conduct, and engage in the business of a mutual assessment fire insurance company, pursuant to and to the extent permitted under Chapter 15 of Title 38.1 of the Code of Virginia of 1950, as amended; and to do all the acts and things therein permitted to be done and performed by a mutual assessment fire insurance company, subject to the limitations and prohibitions therein contained.

MANAGEMENT AND CONTROL

The business and affairs of the Company are managed by a board of five directors who must be members of the Company. Each director elected shall serve a term of five years and each serves until his successor is elected and qualified. The annual meeting of members is held on the third Thursday in February of each year at which time the directors are elected. At all meetings of the members, each member shall be entitled to one vote in person or by proxy. In accordance with the application for insurance, in the member's absence, the president of the Company will serve as proxy.

Officers of the Company are elected each year at the annual meeting of the Board of Directors for a term of one year. According to the bylaws, the Board of Directors' meeting is held immediately following the annual meeting of members. The president has general supervision over the officers and employees of the Company but shall be responsible to the Board of Directors. Effective control of the Company is exercised by officers and employees of United Insurance Company of America (United) through a service agreement covering all of the Company's business.

The Company's directors and officers were as follows at December 31, 2018:

Directors:

| <u>Representative</u> | <u>Principal Occupation</u> |
|-----------------------|------------------------------------------------------------------------------------------------------------------|
| Thomas C. Crisanti | Assistant Vice President and Assistant Treasurer United Insurance Company of America St. Louis, Missouri |
| Daniel G. Denton | Central Virginia District Manager United Insurance Company of America Richmond, Virginia |
| Tal B. Kaufmann | Sr. Vice President and Assistant Treasurer United Insurance Company of America St. Louis, Missouri |
| Michael A. Plazony | President United Insurance Company of America St. Louis, Missouri |
| Scott F. Snider | Sr. Vice President, Secretary and Group Counsel Reserve National Insurance Company Oklahoma City, Oklahoma |

Officers:

| | |
|--------------------|----------------|
| Michael A. Plazony | President |
| Scott F. Snider | Secretary |
| Vacant | Treasurer |
| John R. Camillo | Vice President |
| Kyle D. Conrad | Vice President |
| Tal B. Kaufmann | Vice President |

All of the above listed officers and directors were employees of United or one of its affiliates.

SERVICE AGREEMENT

Effective January 1, 2009, the Company renewed its service agreement with United. The term of this agreement is continuous until terminated by United or the Company giving to the other not less than thirty days written notice. Pursuant to this agreement, United manages and controls its agency force in the selling and servicing of the Company's fire insurance policies and provides administrative services pertaining to these policies. Neither United nor its authorized agents shall have the authority to accept or reject risk on behalf of the Company. All such underwriting authority is expressly reserved to the Company.

As compensation for the performance of services, the Company shall pay United a monthly fee based on the administrative costs of United, which is determined as follows:

- a. Commissions, taxes, licenses, fees and other direct expenses will be charged to the Company and United, respectively, as direct expenses.
- b. The net general insurance overhead expenses will be allocated as mutually agreed upon based on appropriate expense allocation studies which will be reviewed from time to time.

The Company paid United \$308,594, \$291,626, \$285,977, \$266,739 and \$273,504 pursuant to this agreement for the years ended 2014, 2015, 2016, 2017 and 2018, respectively.

TERRITORY AND PLAN OF OPERATION

The Company transacts its business throughout the Commonwealth of Virginia through United agents who produce and service the business. Monthly policies covering household goods and personal effects are issued in amounts up to \$20,000 insuring against fire, lightning, windstorm and several other miscellaneous property perils. The Company also issues burglary coverage up to a maximum of \$10,000. Employees of United handle all policy transactions including hiring of agents, soliciting, collecting premiums, processing claims and record keeping.

Risks are classified according to territory, availability of fire protection and types of structure in which the property is located, and rates vary accordingly.

REINSURANCE

The Company entered into a quota-share reinsurance agreement with Trinity Universal Insurance Company (Trinity), a Texas Corporation and an affiliate of United. The agreement became effective on January 1, 2009 and was amended on January 15, 2009. Termination requires 12 months written notice by either party wishing to cancel the agreement. Pursuant to the agreement, Trinity agrees to assume 100% of the risks arising under policies written by the Company. The Company shall pay Trinity the full net premiums on policies written and all subrogation, salvage and other recoveries.

In addition to the amounts withheld above, Trinity shall pay to the Company a ceding commission in an amount equal to 1% of premiums minus any return premiums.

This reinsurance agreement contains an insolvency clause.

GROWTH OF THE COMPANY

The following data, obtained from the Company's Annual Statements and examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2018:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Surplus</u> |
|-------------|----------------------------|--------------------|----------------|
| 2009 | \$1,664,071 | \$286,099 | \$1,377,972 |
| 2010 | 1,632,226 | 243,319 | 1,388,907 |
| 2011 | 1,541,170 | 116,729 | 1,424,441 |
| 2012 | 1,629,483 | 177,534 | 1,451,949 |
| 2013 | 1,656,424 | 177,265 | 1,479,159 |
| 2014 | 1,677,907 | 174,837 | 1,503,070 |
| 2015 | 1,684,951 | 158,989 | 1,525,962 |
| 2016 | 1,700,531 | 151,570 | 1,548,961 |
| 2017 | 1,713,204 | 130,160 | 1,583,044 |
| 2018 | 1,679,937 | 78,760 | 1,601,177 |

| <u>Year</u> | <u>Gross Assessments</u> | <u>Investment Income</u> | <u>Direct Losses Paid</u> | <u>Number of Policies</u> |
|-------------|------------------------------|------------------------------|-------------------------------|-------------------------------|
| 2009 | \$1,344,899 | \$18,986 | \$162,096 | 9,499 |
| 2010 | 1,317,609 | 1,008 | 244,399 | 9,289 |
| 2011 | 1,289,687 | 23,245 | 249,143 | 8,779 |
| 2012 | 1,244,741 | 20,376 | 240,940 | 8,278 |
| 2013 | 1,209,090 | 20,423 | 212,369 | 7,877 |
| 2014 | 1,177,140 | 18,511 | 165,494 | 7,399 |
| 2015 | 1,125,191 | 16,454 | 150,505 | 6,903 |
| 2016 | 1,082,440 | 16,977 | 137,914 | 6,454 |
| 2017 | 1,018,242 | 18,619 | 94,998 | 6,041 |
| 2018 | 988,219 | 28,222 | 137,734 | 5,700 |

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

INCOME FOR THE PERIOD UNDER REVIEW

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-----------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Interest on bonds | \$18,435 | \$16,304 | \$13,011 | \$9,993 | \$1,602 |
| Interest on cash deposits | | 103 | 343 | 830 | 528 |
| Interest on short-term investments | 76 | 47 | 3,623 | 7,796 | 25,836 |
| Other investment income | | | | | 256 |
| Other income: | | | | | |
| Quota share reimbursement | <u>335,008</u> | <u>299,679</u> | <u>302,445</u> | <u>272,177</u> | <u>224,860</u> |
| Total Income | \$353,519 | \$316,133 | \$319,422 | \$290,796 | \$253,082 |
| Deduct total disbursements for the year | <u>325,685</u> | <u>306,224</u> | <u>301,708</u> | <u>277,043</u> | <u>282,442</u> |
| Net Income | \$27,834 | \$9,909 | \$17,714 | \$13,753 | (\$29,360) |
| Add Ledger Assets December 31, previous year | <u>1,618,408</u> | <u>1,646,242</u> | <u>1,656,151</u> | <u>1,673,865</u> | <u>1,687,618</u> |
| Ledger Assets December 31, current year | <u><u>\$1,646,242</u></u> | <u><u>\$1,656,151</u></u> | <u><u>\$1,673,865</u></u> | <u><u>\$1,687,618</u></u> | <u><u>\$1,658,258</u></u> |

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Commissions and brokerage | (\$11,771) | (\$11,252) | (\$10,824) | (\$10,182) | (\$9,824) |
| Directors' fees | 500 | 500 | 500 | 500 | |
| Service fees | 308,594 | 291,626 | 285,977 | 266,739 | 273,504 |
| Bank service charges | | | | | 426 |
| Taxes, licenses and fees: | | | | | |
| Virginia premium license tax | 21,379 | 21,888 | 20,605 | 19,044 | 17,442 |
| Assessment for maintenance of | | | | | |
| Bureau of Insurance | 294 | 300 | 300 | 300 | 300 |
| Flood prevention & fraud prevention | 689 | 662 | 642 | 642 | 594 |
| Federal corporate income tax | 6,000 | 2,500 | 4,500 | | |
| Loss on disposal of investments | | | 8 | | |
| Total disbursements | <u>\$325,685</u> | <u>\$306,224</u> | <u>\$301,708</u> | <u>\$277,043</u> | <u>\$282,442</u> |

ASSETS

| | <u>Ledger Assets</u> | <u>Non- Ledger Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|-------------------------|--------------------------|-----------------------------------|------------------------------------|------------------------------------|
| Cash on deposit | \$1,632 | | | \$1,632 |
| Cash equivalents | 1,626,624 | | | 1,626,624 |
| Assessments due | | 21,679 | | 21,679 |
| Reinsurance recoverable | 24,617 | | | 24,617 |
| Accounts receivable | 5,385 | | | 5,385 |
| Net deferred tax | | 5,122 | 5,122 | |
| Totals | <u>\$1,658,258</u> | <u>\$26,801</u> | <u>\$5,122</u> | <u>\$1,679,937</u> |

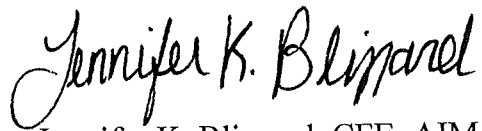
LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|------------------------------------------------------|--------------------|
| Taxes, licenses and fees: | |
| Virginia premium license tax | \$7,864 |
| Ceded reinsurance payable | 46,522 |
| Federal corporate income tax | 8,146 |
| Assessments received in advance | <u>16,228</u> |
| Total liabilities | \$78,760 |
| Excess of admitted assets over liabilities (surplus) | <u>1,601,177</u> |
| Totals | <u>\$1,679,937</u> |

ACKNOWLEDGMENT

The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE, AIM, AIAF
Insurance Principal Financial Analyst

From: Isenberg, Kevin <kisenberg@kemper.com>
Sent: Thursday, April 9, 2020 3:55 PM
To: David Smith <David.Smith@scc.virginia.gov>
Cc: Jennifer Blizzard <Jennifer.Blizzard@scc.virginia.gov>; Nordby, Jane <jnordby@kemper.com>; Longacre, Taylor <taylor.longacre@dhg.com>
Subject: RE: Commonwealth Mutual 2018 Examination Report

Mr. Smith,

This email is my response serving as confirmation of receipt of both the cover letter and Commonwealth Examination Report Draft. I do not foresee any issues taken with any of the matters disclosed within the report. We look forward to receipt of the final version once distributed.

Thank you.

B. Kevin Isenberg FLMI, FFSI, ASC, AAPA, ARA, CERT
Manager, L&H/P&C Accounting & Financial Reporting

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