

EXAMINATION REPORT OF
CUMIS SPECIALTY INSURANCE COMPANY, INC.
WAVERLY, IOWA
AS OF DECEMBER 31, 2020

Madison, Wisconsin
March 28, 2022

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

CUMIS SPECIALTY INSURANCE COMPANY, INC.

WAVERLY, IOWA

AS OF DECEMBER 31, 2020

with its principal place of business at 2000 Heritage Way, Waverly, Iowa and executive headquarters at 5910 Mineral Point Road, Madison, Wisconsin.

INTRODUCTION

CUMIS Specialty Insurance Company, Inc., hereinafter referred to as the “Company”, was last examined as of December 31, 2015 by the Iowa Insurance Division (“Division”).

The examination reported herein was conducted by the Division as a coordinated examination of an insurance holding company group. The coordinated examination includes the Company’s affiliates, CMFG Life Insurance Company (“CMFG Life”), MEMBERS Life Insurance Company (“MLIC”), and CUMIS Insurance Society, Inc. (“CUMIS”), which were also examined by the Division. The Company’s affiliate, CUMIS Mortgage Reinsurance Company (“CMRC”) was examined by the Wisconsin Office of the Commissioner of Insurance (“Wisconsin OCOI”) as part of the coordinated examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2016 to the close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The examination report includes significant findings of fact and general information of the insurer and its financial condition.

HISTORY

The Company is a surplus lines insurance company incorporated under the laws of Iowa on October 5, 2006.

CAPITAL STOCK AND DIVIDENDS THEREON

The Company has 1,000,000 shares of common stock with no stated par value, authorized, and 1,000 shares issued and outstanding as of December 31, 2020. The common stock has unlimited voting rights and is entitled to the net assets of the Corporation upon dissolution.

The Company paid dividends to CUMIS of \$10,000,000 and \$4,600,000 in 2018 and 2020, respectively.

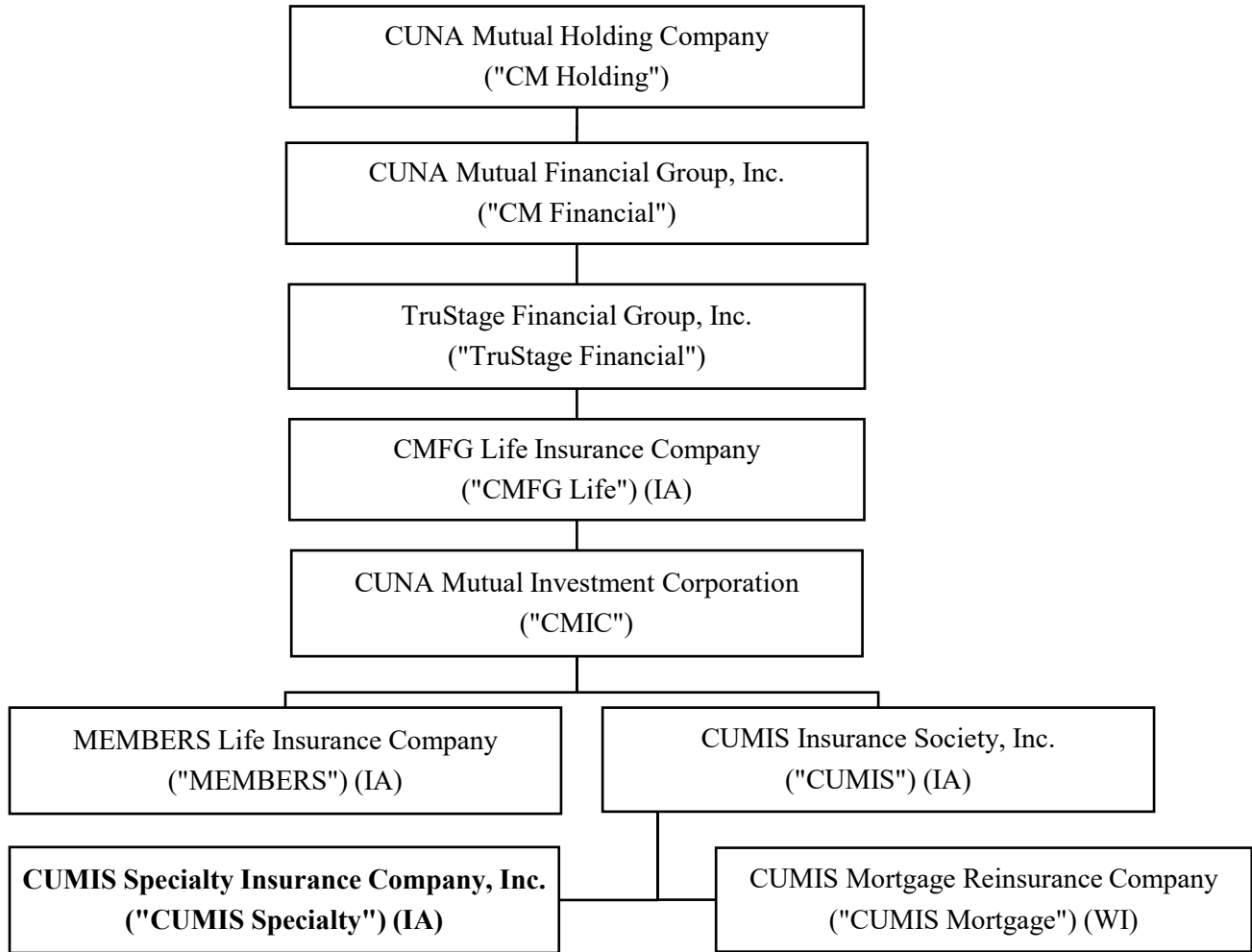
MUTUAL INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Mutual Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. An Insurance Holding Company System Registration Statement was filed annually with the Insurance Division of Iowa for each year of the examination period.

The Company is a wholly owned subsidiary of CUMIS. Cuna Mutual Holding Company ("CM Holding"), a mutual insurance holding company formed on January 21, 2012, is the ultimate controlling person for the group.

CM Holding is a separately dedicated corporate entity, without shareholders as such, but with an ownership/equity interest which, by law, is attributable to policy owners of the Company who are characterized in CM Holding's Articles of Incorporation as Members.

An abbreviated organizational chart identifying the Companies within the Holding Company System follows:



MANAGEMENT AND CONTROL

Shareholders

The Bylaws specify that the annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such place, time and date as the Board of Directors shall fix, provided that if no such date is fixed, then such meeting shall be held on the first Monday in the month of June in each year at a time and place designated by the Board of Directors.

Special meetings of the shareholders, for the consideration of such matters as may be named in the call for such meetings called by the President or the Board of Directors, and shall be called by the Board of Directors upon the written demand, signed, dated and delivered to the Secretary, of the holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

At all meetings of the shareholders, a shareholder entitled to vote may vote in person or by proxy filed with the Secretary at or before such meeting. An appointment of a proxy is valid for eleven months from the date of its

execution, unless a longer period is expressly provided in the appointment form. Shareholders shall be entitled to one vote for each share of stock standing in his or her name on the records of the Corporation. The affirmative vote of the holders of at least a majority of the votes cast by the shareholders voting at the meeting shall be required for approval of all actions required by law to be approved by the shareholders.

At any meeting of the shareholders, a majority of the outstanding shares of stock entitled to be voted, represented either in person or by proxy, shall be necessary to constitute a quorum, but less than a quorum may adjourn from time to time as it may desire, without notice other than by announcement at the meeting, until the holders of the number of shares of stock requisite to constitute a quorum shall be present in person or by proxy. At such adjourned meeting at which a quorum shall be present, any business may be transacted that might have been transacted at the meeting as originally provided in the notices.

Board of Directors

The Bylaws provide that the business and affairs of the Company shall be managed under the direction of the Board of Directors which shall consist of not less than five nor more than fifteen directors. Each director, including a director elected to fill a vacancy, shall hold office until the next succeeding annual meeting and until a successor has been elected and qualified, or until his or her death, resignation or removal.

Immediately after the final adjournment of each annual meeting of the shareholders for the election of directors, the Board of Directors shall meet, at the same place where said meeting of shareholders finally adjourned, for the purpose of organization, the election of officers and the transaction of other business. Special meetings of the Board of Directors shall be held whenever called by the President at the time being in office and shall call such a meeting upon request of a majority of the members of the Board of Directors. A quorum of the Board of Directors consists of a majority of the number of directors.

The directors duly elected and serving as of December 31, 2020 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Michael F. Anderson Madison, WI	CUNA Mutual Group Senior Vice President and Chief Legal Officer	2021
Paul D. Barbato Madison, WI	CUNA Mutual Group Vice President and Associate General Counsel	2021
Jay A. Isaacson Madison, WI	CUNA Mutual Group Vice President, P&C Solutions	2021
William A. Karls Madison, WI	CUNA Mutual Group Vice President and Controller	2021
James M. Power* Madison, WI	CUNA Mutual Group Executive Vice President and Chief Experience Officer	2021

*Chair

Christopher Copeland, Senior Vice President, Chief Product Officer, was elected to the Board of Directors on September 20, 2021, replacing James Power who informed the Board of his intent to retire from the Company on December 31, 2021.

All directors were re-elected at the annual meeting of the shareholder held on June 7, 2021.

Committees

The Board of Directors by resolution adopted by the affirmative vote of a majority of all of the directors then in office, may create one or more committees, appoint members of the Board of Directors to serve on the committees and designate other members of the Board of Directors to serve as alternates. The Board has not established any committees.

Officers

The principal officers of the Corporation shall be the President, Secretary, and Treasurer as elected by the Board of Directors. Other officers and assistant officers may be elected or appointed by the President as he or she may deem necessary. Any two or more offices may be held by the same person. The principal officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. Each officer shall hold office until his/her successor shall have been duly elected or until his/her death or until he/she shall resign or shall have been removed.

The President shall, when present, preside at all meetings of the shareholders and of the Board of Directors. The President shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the Company as the President shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the President.

The principal officers serving at December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
James Power	President and Chief Executive Officer
Brian Borakove	Treasurer
Paul Barbato	Secretary
Robert Trunzo	President and Chief Executive Officer of CUNA Mutual Group
Laureen Winger	Executive Vice President and Chief Financial and Product Officer
David Brown	Executive Vice President and Chief Investment Officer
Cedric Ellis	Executive Vice President and Chief Enterprise Services Officer
Linda Nedelcoff	Executive Vice President and Chief Strategy and Human Resources Officer
Alycia Slick	Senior Vice President, Chief Actuary
David Sweitzer	Senior Vice President, Consumer and Advisor Experience
Tom Martorana	Senior Vice President, Customer Operations
Christopher Copeland	Senior Vice President and Chief Product Officer
Mike Anderson	Senior Vice President and Chief Legal Officer
Christopher Roe	Senior Vice President, Corporate and Legislative Affairs
Jay Isaacson	Vice President, P&C Solutions
Alan Schecher	Vice President and Chief Risk and Assurance Officer
Emily Gnam	Vice President and Chief Ethics and Compliance Officer

As part of executive restructuring in 2021, Christopher Copeland was promoted to Senior Vice President, Chief Product Officer. Lauren Winger retains the adjusted title of Executive Vice President, Chief Financial Officer.

Amy Cameron was promoted to Executive Vice President, Chief Investment Officer from Senior Managing Director – Head of Private Asset Classes on September 13, 2021. David Brown retains the adjusted title of Executive Vice President, CUNA Mutual Group, and is currently serving in an advisory capacity until his upcoming retirement later in 2022.

David Sweitzer was promoted to Executive Vice President and Chief Experience Officer on February 15, 2021, replacing James Power who retired from the Company on December 31, 2021.

Christopher Copeland took over the role as President effective September 20, 2021 in place of James M. Power.

Jay Isaacson was promoted to Senior Vice President effective August 20, 2021.

The salaries for the above officers are shown in Exhibit A, found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in conflict with, or is likely to be in conflict with the official duties of such person.

The Company requires its officers and directors to complete conflict-of-interest statements and disclose any known or potential conflict of interest as part of the annual disclosure process. The examiners requested to review the conflict of interest statements completed by the Company's officers and directors for each year of the period covered by this examination. No exceptions were noted.

CORPORATE RECORDS

Neither the Articles of Incorporation nor the Bylaws of the Company were amended or restated during the period under examination.

The recorded minutes of the meetings of the Shareholder, Board of Directors, and Committees were read and noted. They appeared to be complete and were found to be properly attested.

The Audit Committee of CM Holding reviewed and accepted the 2015 Examination Report of the Company at its meeting on February 8, 2017.

FIDELITY BOND AND OTHER INSURANCE

Under a financial institution bond, CM Holding and affiliated companies are protected against loss from any fraudulent or dishonest act of any employee up to \$25,000,000 each loss occurrence and \$50,000,000 aggregate limit of liability.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

RELATED PARTY AGREEMENTS

Cost Sharing Agreement

CMFG Life and its affiliates have a cost sharing agreement whereby CMFG Life provides its affiliates, including the Company, with certain administrative, accounting, legal, office, personnel, and market services along with office space and office equipment. Fees are paid monthly.

Investment Advisory Agreement

The Company has an investment advisory agreement with MEMBERS Capital Advisors (“MCA”), an affiliate, whereby MCA provides investment advisory services to the Company. MCA is authorized to delegate some or all of its investment adviser duties to one or more subadvisors.

Tax Sharing Agreement

Effective February 1, 2012, the Company and its affiliates entered into a Tax Sharing Agreement with CM Holding, whereas, CM Holding is the common parent corporation of the affiliated group of companies.

The Agreement reflects the restructuring of the Affiliated Group and the formation of CM Holding and an intermediate holding company, CUNA Mutual Financial Group, Inc., effective on January 31, 2012.

Procurement, Disbursement, Billing and Collection Services Agreement

Under the CUNA Mutual Group Cost Sharing Procurement, Disbursement, Billing & Collection Agreement among CMFG Life and its affiliates, CMFG Life provides billing, collection, disbursement, procurement and other services to its affiliates, including the Company. Affiliates also provide goods and services to one another. CMFG Life acts as “common paymaster” for CUNA Mutual Group.

EMPLOYEE WELFARE

Employee services are provided by CMFG Life Insurance Company. Employees are offered several benefit plans including: defined contribution-401(k), pension, deferred compensation, healthcare, dental, prescription, workers compensation, group life insurance, group dental insurance, long-term and short-term disability, and flex benefits plans.

REINSURANCE

Affiliated Pooling and Quota Share

The Company cedes 100% of its business to CUMIS. Prior to January 1, 2015, CUMIS ceded to the Company 10% of the net loss in respect to the pooled business. Effective January 1, 2015, this agreement was converted to a 100% quota share agreement with the pooling agreement commuted through a transfer of cash and invested funds.

STATUTORY DEPOSIT

As of December 31, 2020, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner for the benefit of all policyholders totaled \$1,110,267. The Massachusetts Insurance Commissioner held required statutory deposits totaling a book/adjusted carrying value of \$706,533.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact direct business in the state of Iowa. The Company is accepted as a surplus lines insurer in 23 states. The Company offers blanket physical damage, commercial inland marine, management and professional liability and burglary and theft coverages.

GROWTH OF COMPANY

The following historical data, as taken from filed copies of the annual statements, reflects the financial position of the Company.

(000's) omitted

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Investment Income Earned</u>
2016	\$56,955	\$53,021	\$1,904
2017	57,021	55,493	1,950
2018	49,009	47,442	1,865
2019	50,706	49,013	1,669
2020	54,097	46,047	1,560

ACCOUNTS AND RECORDS

The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files.

In certain areas, an imaging system is used to maintain documents on the computer system rather than maintaining the original documents (paper) or other media (microfilm, microfiche etc.). The Information Systems controls were reviewed by this examination. No material exceptions were noted to accepted control practices and procedures.

The trial balance of the Company's general ledger was taken for 2020 and was found to be in agreement with the office copy of the filed annual statement.

The records in the Company's policy master file were sampled and tested by comparing data contained in supporting documents to data contained in the computer records. No material discrepancies were noted.

During the course of examination, no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2020, were identified.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

Note: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2020.

ASSETS

	<u>Ledger</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds	\$45,720,652		\$45,720,652
Cash and cash equivalents	1,256,335		1,256,335
Investment income due and accrued	575,018		575,018
Uncollected premiums and agents' balances in the course of collection	6,217,928		6,217,928
Amounts recoverable from reinsurers	323,499		323,499
Guaranty funds receivable or on deposit	300		300
Receivable from parent, subsidiaries and affiliates	2,908		2,908
Advances	<u>146,529</u>	<u>146,529</u>	<u>0</u>
Total Assets	<u>\$54,243,168</u>	<u>\$146,529</u>	<u>\$54,096,639</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Other expenses	\$ 23,700
Current federal and foreign income taxes	496
Net deferred tax liability	340,728
Advance premium	645,176
Ceded reinsurance premiums payable	3,608,104
Payable to parent, subsidiaries and affiliates	<u>3,431,746</u>
Total Liabilities	<u>\$ 8,049,950</u>
Common capital stock	5,000,000
Gross paid in and contributed surplus	40,091,755
Unassigned funds (surplus)	<u>954,934</u>
Surplus as regards policyholders	<u>\$46,046,689</u>
Total Liabilities, Surplus and Other Funds	<u>\$54,096,639</u>

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 0
<u>Deductions</u>	
Other underwriting expenses incurred	(17,944)
Total underwriting deductions	(17,944)
Net underwriting gain (loss)	17,944
<u>Investment Income</u>	
Net investment income earned	1,559,646
Net realized capital gains or (losses)	265,771
Net investment gain (loss)	1,825,417
<u>Other Income</u>	
Net gain (loss) from agents or premium balances charged off	(18,104)
Total other income	(18,104)
Net income before Federal income tax	1,825,257
Federal and foreign income taxes incurred	131,065
Net income	<u>\$ 1,694,192</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	<u>\$ 49,012,609</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	1,694,192
Change in net unrealized capital gains or (losses)	5
Change in net deferred income tax	86,412
Change in non-admitted assets	(146,529)
Dividends to stockholders	(4,600,000)
Change in surplus as regards policyholders for the year	(2,965,920)
Surplus as regards policyholders, December 31, 2020	<u>\$ 46,046,689</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$(2,459,637)
Net investment income	1,936,261
Miscellaneous income	<u>(18,104)</u>
Total	(541,479)
Benefit and loss related payments	(10,673)
Commissions, expenses paid and aggregate write-ins	(3,423,795)
Federal and foreign income taxes paid	<u>281,424</u>
Total	(3,153,044)
Net cash from operations	<u>\$ 2,611,565</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:

Bonds	\$ 2,983,955
Net gains or (losses) on cash, cash equivalents and short-term investments	<u>539,000</u>
Total investment proceeds	<u>\$ 3,522,955</u>
<u>Cost of investments acquired (long-term only):</u>	
Bonds	<u>\$ 6,719,310</u>
Total investments acquired	<u>\$ 6,719,310</u>
Net cash from investments	<u>\$(3,196,355)</u>

Cash from Financing and Miscellaneous Sources

Cash provided:	
Other cash provided (applied)	(143,505)
Net cash from financing and miscellaneous sources	<u>\$ (143,505)</u>

RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$ (728,295)
Cash, cash equivalents and short-term investments:	
Beginning of year	1,984,631
End of period	<u>\$ 1,256,335</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, examiners from the Iowa Insurance Division, Risk & Regulatory Consulting, LLC, information systems and actuarial specialists, and JP Consulting, investment specialists, participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Thomas Allen
Thomas Allen, CFE
Examiner-in-Charge
Examination Resources, LLC on behalf of the
Iowa Insurance Division
State of Iowa

/s/ Daniel Mathis
Daniel Mathis, CFE
Chief Examiner
Iowa Insurance Division
State of Iowa