

EXAMINATION REPORT OF
EMC PROPERTY & CASUALTY COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2018

Des Moines, Iowa
June 9, 2020

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, affairs and financial condition of the

EMC PROPERTY & CASUALTY COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 717 Mulberry Street, Des Moines, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

EMC Property & Casualty Company, hereinafter referred to as the "Company", was last examined as of December 31, 2018. The examination reported herein was conducted as a coordinated examination of an insurance holding company group with the Insurance Division of Iowa acting as the Lead State. Representatives from the North Dakota Insurance Department also participated.

The following insurance entities were examined as part of the coordinated examination, with separate examination reports prepared for each entity.

<u>Company</u>	<u>Domicile</u>
Employers Mutual Casualty Company (Ultimate Parent)	Iowa
EMC Property & Casualty Company	Iowa
Dakota Fire Insurance Company	North Dakota
EMC Reinsurance Company	Iowa
EMCASCO Insurance Company	Iowa
Illinois EMCASCO Insurance Company	Iowa
Union Insurance Company of Providence	Iowa

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, 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 we 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.

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

HISTORY

The Company, formerly known as American Liberty Insurance Company, was incorporated on June 16, 1953, under the laws of the State of Alabama.

Since the incorporation, the Company has merged with the Penn Liberty Insurance Company, Pennsylvania in October 1953, Merchants Fire Insurance Company, Colorado in December 1960, and Empire Insurance Company, California in July 1978.

Employers Mutual Casualty Company acquired control of the Company by acquisition of 99.7 percent of the outstanding common stock from Statesman Group in December 1982 with subsequent acquisition of the remaining outstanding common stock.

The Company re-domesticated from the State of Alabama to State of Iowa October 22, 1996 and changed the par value of its stock from \$160 to \$200.

The Company, formerly known as American Liberty Insurance Company, changed its name to EMC Property & Casualty Company effective January 1, 1999.

CAPITAL STOCK AND DIVIDENDS THEREON

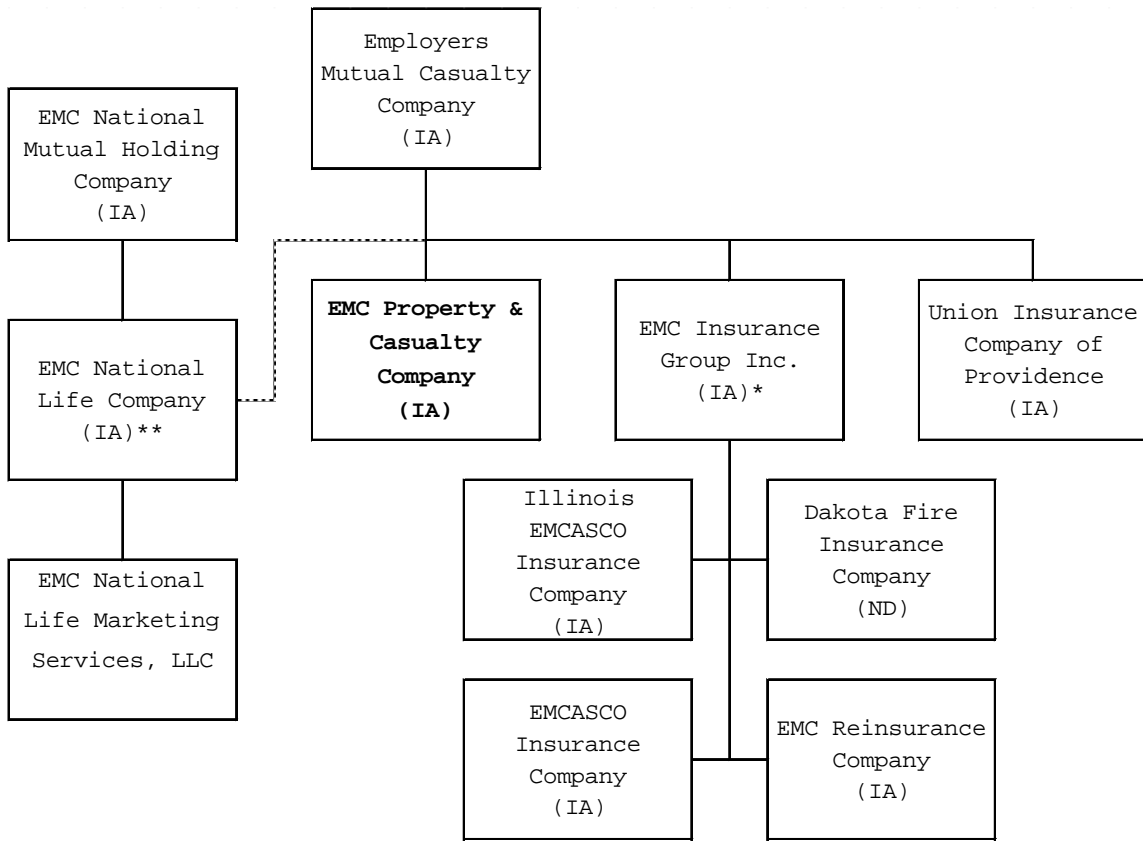
The authorized capital stock of the Company is \$4,000,000 represented by 20,000 shares of common stock with a par value of \$200 per share. Issued and outstanding capital, as of December 31, 2018, consists of 16,500 shares of common stock, all of which is held by Employers Mutual Casualty Company. Common capital stock and gross paid in and contributed surplus totaled \$3,300,000 and \$2,146,542, respectively. Cash dividends were paid to the shareholder during the examination period under review as follows:

2014	\$	0
2015		0
2016		0
2017		8,557,500
2018		16,821,750

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System (known as EMC Insurance Companies) as defined by Chapter 521A, Code of Iowa. Employers Mutual Casualty Company (EMCC), an Iowa domestic insurance entity, is the Ultimate Parent of the Holding Company System.

The identity of holding company members is shown as of December 31, 2018 in the following organizational chart:



*Employers Mutual Casualty Company owns 54.5 percent of the voting stock, the remainder is publicly owned. As of the date of this report EMC Insurance Group is 100 percent owned by Employers Mutual Casualty Company.

** EMC National Mutual Holding Company owns 51% of the voting stock, Employers Mutual Casualty Company owns 49% of the voting stock

MANAGEMENT AND CONTROL

SHAREHOLDERS

The regular annual meeting of the shareholders is held in March or April of each year or at such other time as shall be fixed by the Chief Executive Officer or the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. Notice of the time and place of all meetings of the Company, whether annual or special, shall be given by the Chief Executive Officer not less than ten nor more than sixty days prior to said meeting.

Special meetings of the shareholders may be called by the Chief Executive Officer, the Board of Directors, or at the request in writing of shareholders owning at least ten percent of the issued and outstanding capital stock.

Each shareholder at every meeting of the shareholders is entitled to one vote for each outstanding share held. A majority of the outstanding shares of stock entitled

to vote, represented in person or by proxy constitutes a quorum for the transaction of business at a meeting of shareholders.

BOARD OF DIRECTORS

All corporate powers shall be exercised by or under authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors. The number of Directors of the corporation shall be fixed at six. Each director shall hold office until the next annual meeting of the shareholders. A majority of the directors shall be residents of the State of Iowa.

A regular meeting of the Board shall be held upon adjournment of the annual meeting of the shareholders. Additional regular meetings shall be held on the call of the Chief Executive Officer or the Executive Committee at such place as they shall determine.

Directors serving at December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Bradley J. Fredericks Des Moines, Iowa	Senior Vice President- Chief Investment Officer Employers Mutual Casualty Company	2019
Scott R. Jean Des Moines, Iowa	Executive Vice President- Finance and Strategy Employers Mutual Casualty Company	2019
Bruce G. Kelley Des Moines, Iowa	Chairman, President, Chief Executive Officer and Treasurer Employers Mutual Casualty Company	2019
Michael A. Lovell Des Moines, Iowa	Executive Vice President- Chief Operating Officer Employers Mutual Casualty Company	2019
Mark E. Reese Des Moines, Iowa	Senior Vice President- Chief Financial Officer Employers Mutual Casualty Company	2019
Lisa A. Simonetta Des Moines, Iowa	Senior Vice President- Chief Claims Officer Employers Mutual Casualty Company	2019

COMMITTEES

The Board of Directors at its regular annual meeting shall appoint an Executive Committee and such other committees as it may determine. The Chief Executive Officer shall be a member and Chairman of the Executive Committee, and may be a member of any other committee. The Bylaws state that all committees shall consist of three or more directors.

The duly elected directors serving on committees were as follows:

Executive

Scott R. Jean
Bruce G. Kelley (Chair)
Mick A. Lovell

Investment

Scott R. Jean
Bradley J. Fredericks
Mark E. Reese

In addition, Employers Mutual Casualty Company has an established Audit Committee which provides oversight to the Company. Members serving on the Audit Committee were as follows:

David S. Ziegler (Chair)
Steven G. Jacobs
Bruce G. Kelley (ex officio)
Richard Koch, Jr.

OFFICERS

The executive officers of the Company shall be a Chairman, a Vice Chairman, a President, one or more Executive Vice President, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, a Treasurer, and a General Counsel elected at the annual meeting of the Board of Directors. Any executive office, except that of President, one Vice President, Treasurer, and Secretary may be left unfilled, as the Board of Directors may determine. Any two or more offices may be held by the same person except the offices of president and secretary.

The principal elected officers serving at December 31, 2018 follows:

<u>Name</u>	<u>Title</u>
Bruce G. Kelley*	President, Chief Executive Officer & Treasurer
Scott R. Jean*	Executive Vice President - Finance & Strategy
Michael A. Lovell	Executive Vice President - Chief Operating Officer
Bradley J. Fredericks	Senior Vice President - Chief Investment Officer
Meyer T. Lehman	Senior Vice President - Chief Actuarial Officer
Larry W. Phillips	Senior Vice President - Chief Field Officer
Mark E. Reese	Senior Vice President - Chief Financial Officer
Lisa A. Simonetta	Senior Vice President - Chief Claims Officer
Todd A. Strother	Senior Vice President - General Counsel & Secretary

*Subsequent to the exam period, Bruce Kelley retired as President and Treasurer of EMC Insurance Companies on Jan. 3, 2020. As of that date, Scott Jean was named President and Treasurer of EMC by the Board of Directors. On March 11, 2020, Bruce Kelley retired as Chief Executive Officer, and Scott Jean became President, Treasurer and CEO for EMC Insurance Companies.

Subsequent to Scott Jean being named CEO, Mick Lovell, Meyer Lehman, Elizabeth Nigut, and Eric Faust, President & CEO of EMC National Life Insurance Company, were promoted to Executive Vice Presidents.

The salaries of the principal officers are shown in Exhibit A which follows the signature page of this report.

CONFLICT OF INTEREST

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

of interest statements are circulated and reviewed annually. While conflicts were disclosed, none were identified that would materially impact the Company and all were addressed by the Audit Committee.

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors and committee meetings were read and noted. They were found to be properly attested. The Examination Report as of December 31, 2013 prepared by the Iowa Insurance Division was accepted at the Board of Directors meeting held August 11, 2015.

The Articles of Incorporation and Bylaws were not amended during the examination period.

RELATED PARTY AGREEMENTS

Service Agreement

EMCC shall provide certain management, operational and administrative services to named affiliated and subsidiary companies. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Inter-Company Loan Agreement

Effective January 31, 2012, the Loan Agreement allows the EMC property and casualty companies to borrow or loan money to each other on short-term basis (up to 180 days) at market-based interest rates and sets loan repayment terms. No loans made pursuant to the Loan Agreement, in the aggregate, may exceed 5% of the lending party's admitted assets as of December 31 of the current preceding year.

Investment Management Agreement

EMCC shall perform those mutually agreed upon investment management services reasonably required to assist the named affiliated and subsidiary companies in overseeing investment activities. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreement is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Agreements for Payment of Taxes

EMCC shall advance on behalf of the named affiliated and subsidiary companies any tax owed at the time of the filing of the respective returns. Each named affiliate or subsidiary shall reimburse the Company for the payment of such advanced funds no later than 45 days after the end of each applicable quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

FIDELITY BONDS AND OTHER INSURANCE

Employers Mutual Casualty Company (EMCC), its subsidiaries, and affiliates are included as joint insureds on policies of insurance currently in force that afford

protection against loss for the usual hazards to which the companies have exposure, including cyber security. The blanket fidelity bond has a basic limit of \$20,000,000 and aggregate limit of \$40,000,000, which exceeds the minimum amount suggested by the NAIC. EMCC insures all companies within the group for property, auto, commercial general liability, umbrella, and insurance company professional liability coverages.

EMPLOYEE WELFARE

Employers Mutual Casualty Company performs all operations such as data processing, claims, financial, actuarial, legal, auditing, marketing and underwriting, for all of its subsidiaries and affiliate. Subsidiaries and the affiliate are allocated employee expenses based on their respective pooling participation or employee utilization.

REINSURANCE

INTERCOMPANY POOLING ARRANGEMENT

Employers Mutual Casualty Company (EMCC) and its affiliated property and casualty insurance companies are parties to a reinsurance pooling agreement. Under the terms of the pooling agreement, the affiliated companies cede all of their gross insurance business to EMCC and assume from EMCC an amount equal to their participation in the pool. All losses, loss adjustment expenses and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by EMCC from unaffiliated insurance companies, are prorated among the companies on the basis of participation in the pool. EMCC will make up any shortfall or difference resulting from an error in its systems and/or computational process that would otherwise result in the required restatement of the pool participants' financial statements. Intercompany balances related to pooling activities are settled no later than 45 days after the end of each month. The investment activities and income tax liabilities of the pool participants are not subject to the pooling agreement.

Participation in the pooling agreement changed throughout the examination period. As of December 31, 2018 the interests in the agreement were as follows:

Employers Mutual Casualty Company	70.0%
EMCASCO Insurance Company	13.5
Illinois EMCASCO Insurance Company	10.0
Dakota Fire Insurance Company	6.5
EMC Property & Casualty Company	0.0
Union Insurance Company of Providence	0.0

Pooled net written premiums for 2018 totaled \$1,726,217,831. EMCC and pooling affiliates assumed written premiums from the pool of \$1,208,352,482 and \$517,865,349, respectively.

The Company is also a named participant in the EMCC ceded reinsurance program which provides property, casualty and umbrella excess of loss cover and catastrophe excess of loss cover for property and workers compensation business.

STATUTORY DEPOSITS

As of December 31, 2018, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner, for the benefit of all policyholders, totaled \$ 2,269,335. The book/adjusted carrying values of special deposits held in trust, which are not held for the protection of all policyholders of the Company, are as follows:

Arkansas	\$173,641	Nevada	\$329,992
Delaware	114,107	New Mexico	324,992
Georgia	248,313	North Carolina	346,342
Idaho	249,380	Oregon	110,000
Massachusetts	178,602	Virginia	226,555

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 46 jurisdictions with the majority of direct premium written in Kansas, Louisiana, and Michigan. The EMC Insurance Companies are a multiple-line property casualty insurance writer that is licensed in all fifty states and the District of Columbia. The majority of direct business is written in other liability, commercial auto liability and workers' compensation lines of coverage.

Marketing of products for the pooling EMC Insurance Companies is conducted through 16 branch offices located throughout the U.S. and produced by approximately 1,900 local independent agencies. The Branch Offices operate as individual profit centers with underwriting, claims, marketing and loss control functions with the largest direct writers located in Des Moines, Charlotte, and Wichita.

GROWTH OF COMPANY

The following significant data, as taken from the office copies of the Company's filed annual statements for the years indicated, reflects the growth of the Company:

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2014	\$159,754,326	\$78,468,618	\$49,277,768	\$28,553,170	\$6,068,708
2015	167,383,871	81,934,975	52,172,929	27,557,383	5,528,310
2016	97,527,686	88,820,606	0	0	3,777,309
2017	88,539,936	82,914,448	0	0	3,219,946
2018	71,024,291	68,260,597	0	0	2,699,387

ACCOUNTS AND RECORDS

The Company's general ledger is maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income and disbursements.

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, 2018, were identified.

SUBSEQUENT EVENTS

EMC Insurance Companies exited the sale of personal lines in April of 2019. All personal lines business is expected end by April 2020, with the exception of automobile coverage in the State of Idaho.

On September 19, 2019, Employers Mutual Casualty Company purchased all outstanding shares of common stock of EMC Insurance Group, Inc. that it did not previously own.

Effective January 1, 2020, the Intercompany Pooling Arrangement was amended to reduce the participation of affiliates EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company to 0% with Employers Mutual Casualty Company retaining 100% of the pool. Pursuant to this amendment, EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company issued promissory notes to Employers Mutual Casualty Company in order to transfer the pool-based reserves to Employers Mutual Casualty Company. The notes require the subsidiaries to pay these balances plus interest over a ten-year term.

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.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

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, 2018.

STATEMENT OF ASSETS AND LIABILITIES
EXAMINATION PERIOD ENDING DECEMBER 31, 2018

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	65,310,234		65,310,234
Preferred stocks	1,961,845		1,961,845
Cash and short term investments	1,709,080		1,709,080
Other invested assets	1,181,244		1,181,244
Investment income due and accrued	786,154		786,154
Net deferred tax asset	<u>75,734</u>	<u>-</u>	<u>75,734</u>
Total	<u>\$71,024,291</u>	<u>\$ -</u>	<u>\$71,024,291</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Other expenses (excluding taxes, licenses and fees)		\$ 47,559
Current federal & foreign income taxes		197,733
Dividends declared and unpaid to stockholders		2,508,000
Payable to parent, subsidiaries and affiliates		<u>10,402</u>
Total Liabilities		<u>\$ 2,763,694</u>
Common capital stock		\$ 3,300,000
Gross paid in & contributed surplus		2,146,542
Unassigned funds (surplus)		<u>62,814,055</u>
Surplus as regards policyholders		<u>\$68,260,597</u>
Total Liabilities and Surplus		<u>\$71,024,291</u>

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

<u>Underwriting Income</u>		
Premiums earned	\$	0
 <u>Investment Income</u>		
Net investment income earned	\$2,699,387	
Net realized capital gains(losses)	<u>97,612</u>	
Net investment gain(loss)		2,796,999
 <u>Other Income</u>		
Miscellaneous charge-offs	\$ (1)	
Total other income		<u>(1)</u>
Net income before federal income taxes	\$ 2,796,999	
Federal and foreign income taxes incurred		<u>475,175</u>
Net income		<u>\$ 2,321,823</u>

CAPTIAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	\$ 82,914,448
 <u>Gains and (Losses) in Surplus</u>	
Net Income	\$ 2,321,823
Change in net unrealized capital gains (losses)	(158,055)
Change in net deferred income tax	4,131
Dividends to stockholders	<u>(16,821,750)</u>
Change in surplus as regards policyholders for the year	\$ <u>(14,653,851)</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 68,260,597</u>

CASH FLOW STATEMENT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

Cash from Operations

Net investment income	\$ 3,728,615	
Miscellaneous income	(1)	
Total		\$ 3,728,614
Federal income taxes paid (recovered)	849,966	
Total		849,966
Net cash from operations		\$ 2,878,648

Cash from Investments

Proceeds from investment sold, matured or repaid:		
Bonds	\$15,605,138	
Other invested assets	32,440	
Total investment proceeds		\$ 15,637,578
Cost of investments acquired (long-term only):		
Bonds	\$ 1,057,052	
Other invested assets	21,668	
Total investment acquired		1,078,720
Net cash from investments		\$ 14,558,858

Cash from Financing and Miscellaneous Sources

Cash Provided:		
Dividends to stockholders	\$19,346,250	
Other cash provided (applied)	30,208	
Net cash from financing and misc. sources		\$(19,316,042)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ (1,878,536)
Cash and short-term investments:		
Beginning of year		3,587,616
End of year		\$ 1,709,080

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

<u>Underwriting Income</u>		
Premiums earned		\$101,450,697
<u>Deductions</u>		
Losses Incurred	\$56,110,553	
Loss expenses incurred	12,794,957	
Other underwriting expenses incurred	<u>27,825,783</u>	
Total underwriting deductions		<u>96,731,293</u>
Net underwriting gain (loss)		\$ 4,719,404
<u>Investment Income</u>		
Net investment income earned	\$21,293,660	
Net realized capital gains (losses)	<u>520,086</u>	
Net investment income		21,813,746
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (97,370)	
Finance and service charges not included in premiums	56,869	
Aggregate write-ins for miscellaneous income	<u>37,350</u>	
Total other income		<u>\$ (3,151)</u>
Net income before dividends to policyholders		\$ 26,529,999
Dividends to policyholders		<u>1,980,794</u>
Net income before Federal income tax		\$ 24,549,205
Federal and foreign income taxes incurred		<u>3,862,927</u>
Net income		<u>\$ 20,686,278</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		\$ <u>75,029,565</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 20,686,278
Change in net unrealized capital gains or (losses)		(1,140,617)
Change in net deferred income tax		(3,086,146)
Change in non-admitted assets		3,451,927
Capital changes: paid in		695,400
Dividends to stockholders		(25,379,250)
Aggregate write-ins for gains and losses in surplus		<u>(1,996,559)</u>
Change in surplus as regard policyholders for the exam period		<u>\$ (6,768,967)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 68,260,598</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, the following Iowa Insurance Division examiners participated in the examination and preparation of this report:

Russ Bunger
Mick Jepsen
Alex Matovu
Josh Pietan

A review of loss and loss adjusting expense reserves was performed under the direction of Dave Heppen, FCAS, MAAA, and Leslie Bosniack, FCAS, MAAA, of Risk & Regulatory Consulting.

A review of the information technology systems was performed under the direction of Darlene Lenhart-Schaeffer and Jan Moenck of Risk & Regulatory Consulting.

Respectfully submitted,

/s/ Amanda Theisen
Amanda Theisen, CFE
Examiner-in-Charge
Insurance Division
State of Iowa