

EXAMINATION REPORT OF  
EMC REINSURANCE 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 REINSURANCE 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 Reinsurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013. 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
Dakota Fire Insurance Company	North Dakota
<b>EMC Reinsurance Company</b>	Iowa
EMC Property & Casualty 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 was incorporated on February 27, 1981 and authorized to transact business perpetually under provisions of Chapters 491 and 515, Code of Iowa.

CAPITAL STOCK AND DIVIDENDS THEREON

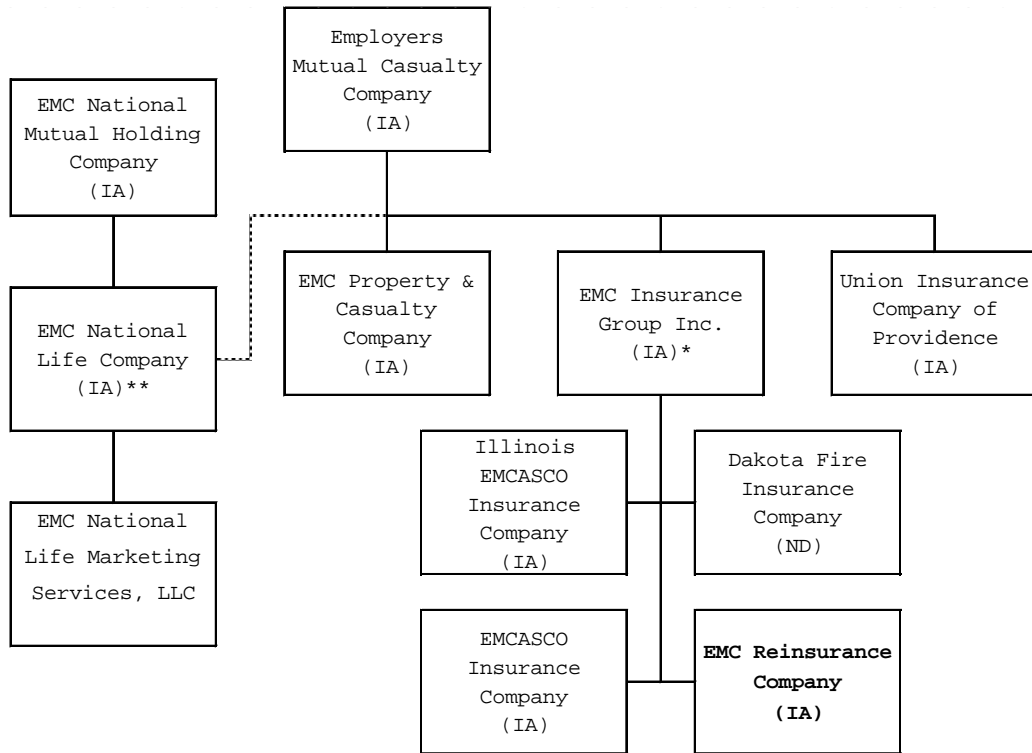
The authorized capital stock of the Company is \$2,600,000 represented by 260,000 shares of common stock with a par value of \$10 per share. Issued and outstanding capital, as of December 31, 2018, consists of 250,008 shares of common stock, all of which is held by EMC Insurance Group Inc. Common capital stock and gross paid in and contributed surplus totaled \$2,500,080 and \$11,000,080, respectively. Cash dividends paid to the shareholders during the examination period are as follows:

2014	\$	0
2015		3,000,096
2016		4,000,128
2017		0
2018		3,750,120

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, 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 the 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 at the Company's Home Office during the first four months of each year, upon such date and at such time as may be determined by the Chief Executive Officer or 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, the Secretary or the persons calling the meeting, 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 or by the Board of Directors, and shall be called by the Chief Executive Officer at the request of the holders of not less than ten percent of all outstanding shares of capital stock of the corporation entitled to vote at the meeting.

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 shall be fixed at nine. Each director shall hold office until the next annual meeting of the shareholders. The majority of directors shall be residents of the State of Iowa.

A regular meeting of the Board of Directors shall be held without other notice immediately after, and at the same place as, the annual meeting of the shareholders. Such additional regular meetings shall be held on the call of the Chief Executive Officer or the Executive Committee, at such place and upon such notice, 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>
Scott R. Jean Des Moines, Iowa	Chairman, Executive Vice President- Finance & Strategy Employers Mutual Casualty Company	2019
Dan D. Aksamit Des Moines, Iowa	Senior Vice President- Corporate Risk Management Employers Mutual Casualty Company	2019
Angela M. Baughman Des Moines, Iowa	Assistant Vice President- Reinsurance Employers Mutual Casualty Company	2019
Bradley J. Fredericks Des Moines, Iowa	Senior Vice President- Chief Investment Officer Employers Mutual Casualty Company	2019
Vicki L. Freese Des Moines, Iowa	Vice President- Reinsurance Employers Mutual Casualty Company	2019
Bruce G. Kelley Des Moines, Iowa	President, Chief Executive Officer & 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

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

Vicki L. Freese  
 Scott R. Jean  
 Mick A. Lovell (Chair)

Investment

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

In addition, EMC Insurance Group Inc. has an established Audit Committee which provides oversight to the Company. Members serving on the Audit Committee were as follows:

Gretchen H. Tegeler (Chair)  
 Peter S. Christie  
 Stephen A. Crane

OFFICERS

The following officers positions, if filled, shall be considered as executive officers of the company: Chairman, Vice Chairman, Chief Executive Officer, Chief Operating Officer, a President, an Executive Vice President, Senior Vice President(s), Vice President(s), a Secretary, Treasurer and General Counsel elected at the annual meeting of the Board of Directors. Any executive office, except that of Chairman, President, one Vice President, Treasurer and Secretary, may be left unfilled as the Board 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
Barnes G. Kelley**	Secretary
Meyer T. Lehman	Senior Vice President - Chief Actuary
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
Vicki L. Freese**	Vice President - Reinsurance

\*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.

\*\*Subsequent to the exam period, Vicki Freese was replaced by Mondale Smith on February 3, 2019. Barnes Kelley was replaced by Douglas Van Zanten on May 3, 2019.

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 October 30, 2015.

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

The Bylaws were amended January 20, 2015, to increase number of Directors from eight to nine.

The Bylaws were amended November 13, 2017, to change the composition of any Board committees to permit the exclusion of the Chief Executive Officer.

## 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 affiliate 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

##### ASSUMED

EMCC voluntarily assumes reinsurance business from nonaffiliated insurance companies. This assumed business is primarily from multiple-line companies with an emphasis on property lines. The majority of this business is ceded through a 100% retrocessional quota share agreement with EMC Reinsurance Company. Assumed EMCC written premiums ceded to EMC Reinsurance Company for 2018 totaled \$150,432,162.

##### CEDED

EMCC maintains two excess of loss agreements with EMC Reinsurance Company. The first is a 20% co-participation, per occurrence catastrophe excess of loss treaty with a retention of \$10M and limit of \$10M. The second is a 20% co-participation, annual aggregate catastrophe excess of loss treaty with a retention of \$20M and limit of \$100M.

##### INDUSTRY LOSS WARRANTY

###### Pro Rata Industry Loss Warranty Catastrophe Excess of Loss

This contract pays all property losses arising from natural perils for any Loss Occurrence in excess of \$20,000,000,000 as reported and defined by the Index Provider. Loss Occurrence meaning the sum of all the individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one happening that occurs within the territorial scope which arises from natural perils. The reinsurer shall be liable for 0.1% of the Original Insured Market Loss in excess of \$20,000,000,000 each and every Loss Occurrence, subject to a maximum recovery of \$10,000,000 Ultimate Net Loss each Loss Occurrence excess of \$50,000 Ultimate Net Loss each Loss Occurrence. If the Loss Occurrence is equal to or greater than \$30,000,000,000, the full limit will be recovered.



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 \$2,688,179. The book/adjusted carrying values of special deposits held in trust for Georgia, which are not held for the protection of all policyholders of the Company, totaled \$99,195.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in six jurisdictions. The Company does not write any direct business in those six jurisdictions, however it does write direct business internationally on a limited basis. The primary plan of operation is the assumption of multiple line reinsurance business produced through intermediaries and pools, with an emphasis on excess of loss business. The Company's market is local, regional, national and international.

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:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2014	\$ 409,245,794	\$ 160,384,564	\$ 118,341,276	\$ 82,614,098	\$ 14,387,442
2015	443,887,482	191,170,273	123,069,473	72,744,532	13,981,719
2016	467,205,175	208,558,017	135,941,071	84,210,774	13,156,140
2017	492,334,799	215,672,853	134,789,883	111,911,768	13,298,477
2018	498,932,683	206,822,245	149,736,309	118,322,728	12,162,414

ACCOUNTS AND RECORDS

The Company's general ledgers are 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.

SUBSEQUENT EVENTS

On September 19, 2019, Employers Mutual Casualty Company purchased all outstanding shares of common stock of EMC Insurance Group, Inc.

Effective January 1, 2020, Employers Mutual Casualty Company terminated the per occurrence catastrophe excess of loss treaty with EMC Reinsurance Company and amended the aggregate catastrophe excess of loss treaty.

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>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 351,635,716		\$ 351,635,716
Preferred stocks	4,770,961		4,770,961
Common stocks	73,937,138		73,937,138
Cash and short-term investments	13,882,063		13,882,063
Other invested assets (Schedule BA)	11,373,460		11,373,460
Investment income due and accrued	2,824,090		2,824,090
Uncollected premiums and agents' balances in the course of collection	34,817,039		34,817,039
Amounts recoverable from reinsurers	553,079		553,079
Current federal and foreign income tax recoverable and interest thereon	4,629,378		4,629,378
Net adjustment in assets and liabilities due to foreign exchange rates	509,759		509,759
Other prepaid expenses	345,372	345,372	0
	<hr/>		
Total assets	\$ 499,278,055	\$ 345,372	\$ 498,932,683

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses			\$ 234,028,856
Reinsurance payable on paid losses and loss adjustment expenses			26,818,101
Loss adjustment expenses			5,279,634
Commissions payable, contingent commissions and other similar charges			3,310,160
Other expenses (excluding taxes, licenses and fees)			436,922
Taxes, licenses, and fees (excluding federal and foreign income taxes)			40,800
Net deferred tax liability			533,880
Unearned premiums			19,182,295
Ceded reinsurance premiums payable (net of ceding commissions)			1,312,500
Payable to parent and affiliates			1,167,290
			<hr/>
Total liabilities			\$ 292,110,438
Common capital stock			\$ 2,500,080
Gross paid in and contributed surplus			11,000,080
Unassigned funds (surplus)			193,322,085
Surplus as regards policyholders			\$ 206,822,245
			<hr/>
Total liabilities and surplus			\$ 498,932,683

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

<u>Underwriting Income</u>		
Premiums earned		\$ 149,736,309
<u>Deductions</u>		
Losses incurred	\$118,322,728	
Loss adjustment expenses incurred	5,915,398	
Other underwriting expenses incurred	<u>34,902,588</u>	
Total underwriting deductions		<u>159,140,714</u>
Net underwriting gain or (loss)		\$ (9,404,405)
<u>Investment Income</u>		
Net investment income earned	\$ 13,247,562	
Net realized capital gains (losses)	<u>(1,085,148)</u>	
Net investment gain(loss)		12,162,414
<u>Other Income</u>		
Realized loss on foreign currency exchange rates	\$ (379,337)	
Miscellaneous income	<u>78,334</u>	
Total other income		<u>(301,003)</u>
Net income before federal income taxes		\$ 2,457,006
Federal and foreign income taxes incurred		<u>(138,707)</u>
Net income		<u>\$ 2,595,713</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		\$ <u>215,672,853</u>
<u>Gain and (Losses) in Surplus</u>		
Net Income		\$ 2,595,713
Change in net unrealized capital gains (losses)		(8,541,517)
Change in net unrealized foreign exchange capital		802,922
Change in net deferred income tax		21,006
Change in non-admitted assets		21,388
Dividends to stockholders		<u>(3,750,120)</u>
Change in surplus as regards policyholders for the year		<u>\$ (8,850,608)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 206,822,245</u>

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

Cash from Operations

Premiums collected net of reinsurance	\$145,955,373	
Net investment income	15,949,784	
Miscellaneous income	<u>(301,003)</u>	
Total		\$ 161,604,154
Benefit and loss related payments	101,516,155	
Commission, expenses paid and aggregate write-ins for deductions	38,957,051	
Federal income taxes paid (recovered)	<u>(2,465,207)</u>	
Total		<u>138,007,999</u>
Net cash from operations		<u>\$ 23,596,155</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$116,112,719	
Stocks	30,744,525	
Other invested assets	<u>5,302,065</u>	
Total investment proceeds		\$ 152,159,309
Cost of investments acquired (long-term only):		
Bonds	\$123,468,089	
Stocks	31,905,835	
Other invested assets	<u>11,625,720</u>	
Total investments acquired		<u>166,999,644</u>
Net cash from investments		<u>\$ (14,840,335)</u>

Cash from Financing and Miscellaneous Sources

Cash Provided:		
Dividends to stockholders	\$ 3,750,120	
Other cash provided (applied)	<u>(687,617)</u>	
Net cash from financing and misc. sources		<u>\$ (4,437,737)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ 4,318,083
Cash and short-term investments:	
Beginning of year	9,563,980
End of year	<u>\$ 13,882,063</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$661,878,012
<u>Deductions</u>		
Losses incurred	\$469,803,900	
Loss adjustment expenses incurred	32,266,844	
Other underwriting expenses incurred	<u>158,275,658</u>	
Total underwriting deductions		<u>660,346,402</u>
Net underwriting gain(loss)		\$ 1,531,610
<u>Investment Income</u>		
Net investment income earned	\$ 64,374,595	
Net realized capital gains(losses)	<u>2,611,597</u>	
Net investment gain(loss)		66,986,192
<u>Other Income</u>		
Net gain or (loss) from agents' balances charge off	\$ 6	
Aggregate write-ins for miscellaneous income	<u>1,945,817</u>	
Total other income		<u>\$ 1,945,823</u>
Net income before federal income tax		\$ 70,463,625
Federal and foreign income taxes incurred		<u>15,144,705</u>
Net income		<u>\$ 55,318,920</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	<u>\$160,384,564</u>
<u>Gain and (Losses) in Surplus</u>	
Net Income	\$ 55,318,920
Change in net unrealized capital gains or (losses)	4,854,207
Change in net unrealized foreign exchange capital	699,692
Change in net deferred income tax	(3,370,384)
Change in non-admitted assets	465,692
Dividends to stockholders	10,750,344
Aggregate write-ins for gains and losses in surplus	<u>(780,102)</u>
Change in surplus as regards policyholders for the exam period	<u>\$ 46,437,681</u>
Surplus as regards policyholders, December 31, 2018	<u>\$206,822,245</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