

EXAMINATION REPORT OF
AMERICAN REPUBLIC CORP INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2020

Des Moines, Iowa
June 7, 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

AMERICAN REPUBLIC CORP INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2020

with its home office located at 601 6th Ave, Des Moines, Iowa.

INTRODUCTION

American Republic Corp Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2015 by examiners of the Nebraska Department of Insurance (“NE DOI”).

In conjunction with the examination of the Company as of December 31, 2020 by the Iowa Insurance Division (“Division”), affiliates American Republic Insurance Company (“ARIC”), Medico Insurance Company (“MIC”), Medico Corp Life Insurance Company (“MCLIC”), Medico Life and Health Insurance Company (“MLHIC”) and Great Western Insurance Company (“GWIC”) were also examined by the Division.

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 about the insurer and its financial condition.

HISTORY

The Company was incorporated under the laws of the Commonwealth of Pennsylvania and commenced business in 1962 as the Pennsylvania National Life Insurance Company. At the time, the Pennsylvania National Mutual Casualty Insurance Company controlled the Company. In 1994, MidAmerica Mutual Life Insurance Company (“MAMLIC”) changed the name of the Company to MidAmerica Life Insurance Company. World Insurance Company (“World”) acquired the Company on April 1, 1997 due to the merger of its parent, MAMLIC, with World. The Company was subsequently re-domiciled from Pennsylvania to Nebraska on December 2, 1997.

On May 18, 2006, the Company amended its Articles of Incorporation and By-Laws to change the Company’s corporate name to American Republic Corp Insurance Company.

On December 4, 2007, the Board of Directors of World adopted a resolution declaring a stock dividend to its sole shareholder, American Enterprise Group, Inc. (“AEG”), consisting of all the outstanding common stock of the Company. On January 1, 2008, the stock dividend was distributed to AEG and AEG in turn, transferred the stock as a capital contribution to ARIC. As a result of these transfers, the Company became a wholly owned subsidiary of ARIC.

Following approval from the Division and the NE DOI, the Company re-domesticated from Nebraska to Iowa, effective January 1, 2017.

CAPITAL STOCK AND DIVIDENDS

The Company has 15,000 shares of common stock with a par value of \$100.00 per share authorized, issued and outstanding as of December 31, 2020. All shares of stock outstanding are held by ARIC.

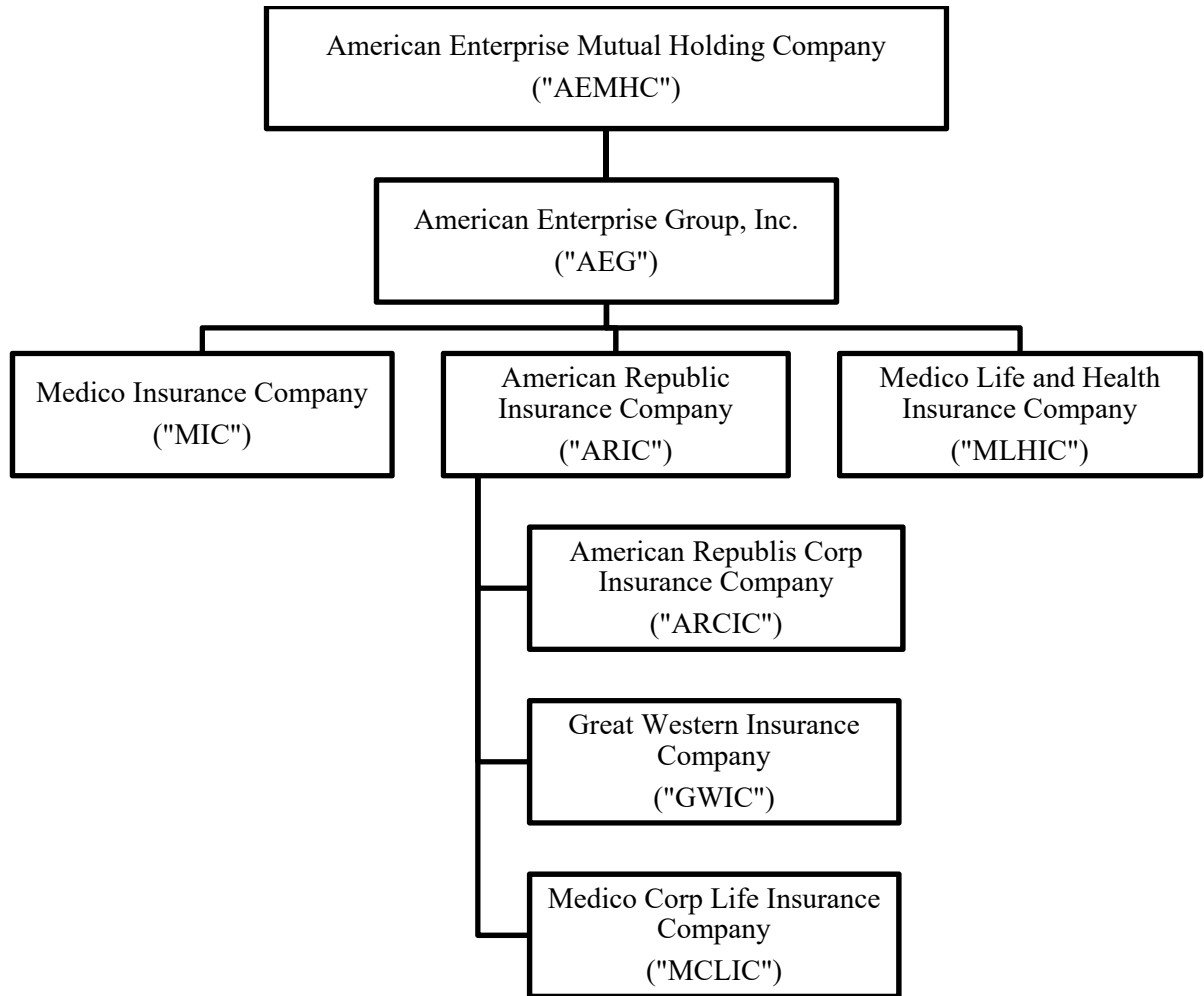
Dividends paid to ARIC during the examination period were as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 0
2017	892,082
2018	580,895
2019	0
2020	0

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. American Enterprise Mutual Holding Company (“AEMHC”), an Iowa mutual insurance holding company, is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed annually with the Iowa Insurance Division for each year of the examination period.

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



MANAGEMENT AND CONTROL

SHAREHOLDER

The annual meeting of the shareholder for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held on the first Tuesday in March of each year at such place as the Board of Directors shall each year fix, or at such other place, time and date as the Board of Directors shall fix, which date shall be within the earlier of the first six (6) months after the end of the Company's fiscal year or fifteen (15) months after the shareholder's last annual meeting.

Special meetings of the shareholder, for any purpose or purposes, unless otherwise prescribed by law, may be called by the Chairman of the Board, Chief Executive Officer 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 (10) percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting. The time, date and place of any special meeting shall be determined by the Board of Directors or, at its direction, by the Chief Executive Officer.

Notice of the place, date and time of all meetings of the shareholder and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be communicated not fewer than ten (10) days nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote at such meeting.

Every shareholder entitled to vote may vote in person or by proxy. Except as provided in subsection (c) or unless otherwise provided by law, each outstanding share, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholder. Directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. If a quorum exists, action on a matter, other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number is required by law.

Except as otherwise set forth in this Section 3.12, any action required or permitted by law to be taken at a meeting of the shareholder may be taken without a meeting or vote if one or more consents in writing setting forth the action taken shall be signed and dated by the holders of outstanding shares having not less than ninety percent (90%) of the votes entitled to be cast at a meeting at which all shares entitled to vote on the action were present and voted, and are delivered to the Corporation for inclusion in the minutes or filing with the Corporation's records. Written consents may be delivered to the Corporation by electronic transmission.

BOARD OF DIRECTORS

The Bylaws state that the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than five (5) nor more than twenty-one (21) directors, who shall be individuals nominated and elected as provided in the Articles and further subject to the provisions of the Bylaws.

Directors shall be elected for three-year (3-year) terms and, as nearly as may be, one-third (1/3) shall be elected annually and shall serve until the annual meeting following the term for which each was elected and until his successor is qualified.

The Board of Directors shall hold an annual meeting for the purpose of organization, the election of officers and the transaction of other business. Regular meetings of the Board of Directors shall be held at such place and at such times as the Board of Directors shall by resolution fix and determine from time to time. No notice shall be required for any such regular meeting of the board.

Special meetings of the directors may be called by the Chairman of the Board, Chief Executive Officer or one-third (1/3) of the directors at the time being in office at least one (1) day before the date on which the meeting is to be held.

A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. The Board has general charge of the business and affairs of the Company including the power to adopt, amend or alter Bylaws unless otherwise specified by the shareholders.

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>
David John Keith Des Moines, Iowa	American Enterprise Services Company President of Insurance Solutions	2021
Sara Elaine Lehan Des Moines, Iowa	American Enterprise Services Company Vice President, Chief Investment Officer	2021

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Thomas Anthony Swank Des Moines, Iowa	American Enterprise Services Company Chief Executive Officer and President	2022
Jeffrey Scott Harms Des Moines, Iowa	American Enterprise Services Company Assistant Vice President, Financial Planning and Reporting	2023
Scott Michael Haugh Des Moines, Iowa	American Enterprise Services Company Senior Vice President, Chief Financial Officer, Chief Actuary, and Treasurer	2023

David John Keith and Sara Elaine Lehan were re-elected at the annual meeting of the shareholders of the Company on March 4th, 2021 for a three-year term, expiring in 2024.

Thomas Anthony Swank was re-elected at the annual meeting of the shareholders of the Company on March 2, 2022 for a three-year term, expiring in 2025.

COMMITTEES

The Board of Directors, by resolution adopted by the affirmative vote of a majority of the number of directors then in office, may establish an Executive Committee and one or more other committees of the Board of Directors, each to consist of one (3) or more directors appointed by the Board of Directors. Any such committee shall serve at the will of the Board of Directors. As of December 31, 2020, the Board of Directors has not adopted a resolution establishing an Executive Committee or any other committees.

The following committees of the Board of Directors of AEMHC serve for all entities within the holding company group.

The membership of the committees as of December 31, 2020 was as follows:

Governance Committee

<u>Name</u>	<u>Principal Business Affiliation</u>
James A. Walker*	Heim-Walker President and Chief Executive Officer
Kathy M. Collins	Massage Envy Chief Marketing Officer
Kathleen M. Redgate	Global Atlantic Financial Group Limited Former Executive Vice President

*Chair

Investment Committee

<u>Name</u>	<u>Principal Occupation</u>
John L. Maginn*	Maginn Associates President
Craig W. Bainbridge, M.D.	Retired Physician, Private Practice
Thomas A. Swank	American Enterprise Mutual Holding Company President and Chief Executive Officer

*Chair

Audit Committee

<u>Name</u>	<u>Principal Occupation</u>
Donna J. Blank*	National Financial Partners Corp. Former Chief Financial Officer
Michael E. Abbott	American Enterprise Mutual Holding Company Retired Chief Executive Officer
Terrance J. Lillis	Principal Financial Group Retired Chief Financial Officer

*Chair

OFFICERS

The Bylaws provide that the executive officers of the Company shall be a Chairman of the Board, a President, one of whom shall be designated by the Board of Directors as the Chief Executive Officer, and a Secretary. The Chief Executive Officer, the President, and the Secretary are elected annually by the Board of Directors at their annual meeting. The Company shall have other officers as may be appointed by the Chief Executive Officer. One person may hold two or more offices at the same time.

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

<u>Name</u>	<u>Title</u>
Thomas Swank	President and Chief Executive Officer
Scott Haugh	Senior Vice President, Chief Actuary, Chief Financial Officer and Treasurer
Eric Nemmers	Vice President, General Counsel and Secretary
David Keith	President of Insurance Solutions
Dennis Case	Senior Vice President and Chief Sales Officer
Debbie DeCamp	Vice President, Corporate Marketing and Communications
Margaret Brown	Vice President, Chief Human Resources Officer and Assistant Secretary
Sara Lehan	Vice President, Chief Investment Officer
Kim Barney	Vice President, Chief Administration Officer

<u>Name</u>	<u>Title</u>
Julie Larson	Vice President, Chief Technology and Innovation Officer
Julie Pearce	Assistant Vice President, AE Ventures
Chris Axiotis	Director Audit Services and Risk Management

Effective January 1, 2022, AEMHC adopted a co-Chief Actuary model. Matt Johnson was named the co-Chief Actuary and his focus is on the Health business. At that time, Dale Ward, who had served as Chief Actuary of the Company since October 15, 2021, became co-Chief Actuary and his focus is on the Life business. Scott Haugh retained his role as Chief Financial Officer and Treasurer.

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 reviewed 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

On March 25, 2016, the Company amended its Articles of Incorporation to amend its registered agent, as was required under Nebraska law. On January 1, 2017, the Company amended and restated both its Bylaws and its Articles of Incorporation as part of the Company's re-domestication to Iowa.

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 Board of Directors of the Company acknowledged and accepted the 2015 Examination Report of the Company through written consent without a meeting on August 16, 2017.

FIDELITY BOND AND OTHER INSURANCE

Under a financial institution bond, AEMHC and affiliated companies are protected against loss from any fraudulent or dishonest act of any employee up to \$5,000,000 each loss occurrence and \$10,000,000 aggregate limit of liability which meets the NAIC recommended minimum amount.

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

RELATED PARTY AGREEMENTS

Shared Services Agreement

Effective July 1, 2015, AEMHC and all of its subsidiary companies became parties to a Shared Services Agreement. The Agreement allows American Enterprise Services Company (“AES”), as the employer of all employees in the AEMHC system and wholly owned subsidiary of AEG, to provide employee services and then allocate related employee expenses to all other affiliate companies. The Agreement details the procedure for the affiliate companies to determine expense allocations annually related to these services, as well as for their review and reconciliation.

Consolidated Tax Allocation Agreement

AEMHC, AEG, the Company and its affiliates are parties to a Tax Allocation Agreement that provides for the allocation of certain tax benefits in the filing of a consolidated tax return.

EMPLOYEE WELFARE

AES is the sponsor of the American Enterprise 401(k) savings plan, under which the employees of the Company participate in a qualified defined contribution plan. Disability, dental and health insurance benefits are provided on a contributory basis through a cafeteria plan.

REINSURANCE

The reinsurance contracts of the Company were reviewed and no contract provisions were found to be outside the custom of the industry. All contracts had acceptable insolvency clauses and transfer of risk.

Effective April 1, 2010, the Company entered into an intercompany coinsurance agreement to cede a 100% quota share of its Medicare supplement and life riders’ business to ARIC.

Effective November 10, 2008, the Company entered into an intercompany coinsurance agreement to cede a 50% quota share of the Company’s Medicare supplement policies sold by American Family agents to ARIC.

Effective November 10, 2008, the Company entered into a coinsurance agreement to cede a 50% quota share of the Company’s Medicare supplement policies sold by American Family agents to American Standard Insurance Company of Wisconsin.

STATUTORY DEPOSIT

The Company had securities on deposit with the Iowa Insurance Division in excess of the minimum statutory requirement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in 35 states and the District of Columbia. The Company offers primarily Medicare supplement insurance. The Company cedes 10.4% of the premiums from its Medicare supplement insurance policies to an unaffiliated company and the remaining premiums to ARIC.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the annual statements for the years indicated.

(000's omitted)

<u>Year</u>	<u>Admitted</u>	<u>Capital and</u>	<u>Premium Income*</u>			<u>Life Insurance Inforce</u>	
	<u>Assets</u>	<u>Surplus</u>	<u>Life</u>	<u>Annuity</u>	<u>A&H</u>	<u>Ordinary</u>	<u>Group</u>
2016	\$23,992	\$8,921	\$ -	\$ -	\$ -	\$2,814	\$ -
2017	22,909	8,075	-	-	-	2,814	-
2018	21,847	7,690	-	-	-	2,706	-
2019	15,119	7,909	-	-	-	2,492	-
2020	14,661	8,131	-	-	-	2,292	-

**All premiums are ceded.

ACCOUNTS AND RECORDS

The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files. In most 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>Assets</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds	\$ 8,542,141	\$	\$ 8,542,141
Cash, cash equivalents and short-term investments	1,424,828		1,424,828
Contract loans	6,781		6,781
Investment income due and accrued	50,383		50,383
Amounts recoverable from reinsurers	3,057,335		3,057,335
Other amounts receivable under reinsurance contracts	663,457		663,457
Net deferred tax asset	324,776	156,718	168,058
Guaranty funds receivable or on deposit	677,833		677,833
Health care and other amounts receivable	16,603	16,603	
Miscellaneous receivable	74,926	4,860	70,066
Prepaid expenses	6,799	6,799	
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$14,845,862</u>	<u>\$184,980</u>	<u>\$14,660,882</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Other amounts payable on reinsurance	\$ 5,064,197
Interest maintenance reserve	43,903
Commissions to agents due or accrued	2,077
General expenses due or accrued	113,951
Taxes, licenses and fees due or accrued, excluding federal income taxes	703,969
Current federal and foreign income taxes	50,537
Unearned investment income	157
Amounts withheld or retained by company as agent or trustee	58
Amounts held for agents' account	127,161
Remittances and items not allocated	22,412
Asset valuation reserve	60,065
Payable to parent, subsidiaries and affiliates	299,317
Unclaimed property	42,576
	<hr/>
Total Liabilities	<u>\$ 6,530,380</u>
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	5,994,115
Unassigned funds (surplus)	636,387
	<hr/>
Total Surplus and Other Funds	<u>\$ 8,130,502</u>
	<hr/>
Total Liabilities, Surplus and Other Funds	<u>\$14,660,882</u>

SUMMARY OF OPERATIONS

Net investment income	\$ 249,294
Amortization of Interest Maintenance Reserve	17,482
Commissions and expense allowances on reinsurance ceded	4,751,735
Miscellaneous income	380
Total	<u>\$5,018,891</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$1,619,387
General insurance expenses	3,083,591
Insurance taxes, licenses and fees, excluding federal income taxes	107,204
Fines/penalties	211
Total	<u>\$4,810,393</u>
Net gain from operations before federal income taxes	\$ 208,498
Federal and foreign income taxes incurred	<u>50,079</u>
Net Income	<u>\$ 158,419</u>

CAPITAL & SURPLUS

Capital and surplus, December 31, 2019	<u>\$7,908,521</u>
Net Income	\$ 158,419
Change in net deferred income tax	3,157
Change in non-admitted assets	81,442
Change asset valuation reserve	<u>(21,037)</u>
Net change in capital and surplus for the year	<u>\$ 221,981</u>
Capital and Surplus, December 31, 2020	<u>\$8,130,502</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ (340,996)	
Net investment income	267,585	
Miscellaneous income	4,844,789	
Total		\$4,771,378
Benefit and loss related payments	\$ (799,790)	
Commissions, expenses paid and aggregate write-ins for deductions	4,834,385	
Total		4,034,595
Net cash from operations		\$ 736,783

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$2,248,237	
Total investment proceeds		\$2,248,237
Cost of investments acquired:		
Bonds	\$1,978,702	
Miscellaneous applications	423	
Total investments acquired		1,979,125
Net cash from investments		\$ 269,112

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ (228,237)	
Net cash from financing and miscellaneous sources		\$ (228,237)

Reconciliation of Cash, Cash Equivalents, and Short-Term Investments

Net change in cash, cash equivalents and short-term investments		\$ 777,658
Cash, cash equivalents and short-term investments:		
Beginning of year		647,170
End of year		\$1,424,828

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, INS Services, Inc., information systems specialists, and Insurance Strategies Consulting, LLC, actuarial 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/ Amanda Theisen
Amanda Theisen, CFE
Supervisor, Assistant Chief Examiner
Iowa Insurance Division
State of Iowa