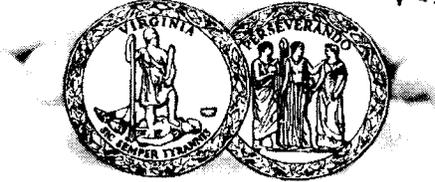


EXAMINATION REPORT
of
COMMONWEALTH MUTUAL
FIRE INSURANCE COMPANY
St. Louis, Missouri
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Commonwealth Mutual Fire Insurance Company as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 13th day of June, 2014

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 13, 2014

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

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

COMMONWEALTH MUTUAL FIRE INSURANCE COMPANY

St. Louis, Missouri

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

DESCRIPTION

The Company is a mutual assessment property and casualty insurer licensed pursuant to Chapter 25 of Title 38.2 of the Code of Virginia. The last examination was made by representatives from the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. This examination covers the period from the last examination through December 31, 2013.

HISTORY

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

. . . to establish, conduct, and engage in the business of a mutual assessment fire insurance company, pursuant to and to the extent permitted under Chapter 15 of Title 38.1 of the Code of Virginia of 1950, as amended; and to do all the acts

and things therein permitted to be done and performed by a mutual assessment fire insurance company, subject to the limitations and prohibitions therein contained.

MANAGEMENT AND CONTROL

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

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

The Company's directors and officers were as follows at December 31, 2013:

Directors:

<u>Representative</u>	<u>Principal Occupation</u>
John R. Camillo	Sr. Vice President, Secretary and General Counsel United Insurance Company of America St. Louis, Missouri
Daniel G. Denton	Central Virginia District Manager United Insurance Company of America Richmond, Virginia
Edward J. Konar	President United Insurance Company of America St. Louis, Missouri

Thomas D. Myers Sr. Vice President and Chief Operating Officer
United Insurance Company of America
St. Louis, Missouri

Deborah L. Quaglia Sr. Vice President
United Insurance Company of America
St. Louis, Missouri

Officers:

Edward J. Konar President

John R. Camillo Secretary

Tal B. Kaufmann Treasurer

Thomas D. Myers Vice President

Daniel G. Denton Vice President

Scott Renwick Vice President

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

SERVICE AGREEMENT

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

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

- a. Commissions, taxes, licenses, fees and other direct expenses will be charged to the Company and United, respectively, as direct expenses.

- b. The net general insurance overhead expenses will be allocated as mutually agreed upon based on appropriate expense allocation studies which will be reviewed from time to time.

The Company paid United \$324,111, \$321,319 and \$325,618 pursuant to this agreement for the years ended 2011, 2012 and 2013, respectively.

FIDELITY BOND AND OTHER INSURANCE

The Company had fidelity insurance in force at December 31, 2013, in the amount of \$20,000,000 with a \$500,000 deductible through an endorsement on Kemper Corporation's (Kemper) financial institution bond. Kemper is the parent of United. The Company also has other coverages usual and customary to the nature of its business.

TERRITORY AND PLAN OF OPERATION

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

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

GROWTH OF THE COMPANY

The following data, obtained from the Company's Annual Statements and examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2013:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2004	\$1,352,704	\$182,568	\$1,170,136
2005	1,380,350	169,773	1,210,577
2006	1,426,861	164,156	1,262,705
2007	1,487,366	169,843	1,317,523
2008	1,529,114	167,462	1,361,652
2009	1,664,071	286,099	1,377,972
2010	1,632,226	243,319	1,388,907
2011	1,541,170	116,729	1,424,441
2012	1,629,483	177,534	1,451,949
2013	1,656,424	177,265	1,479,159

<u>Year</u>	<u>Gross Assessments</u>	<u>Investment Income</u>	<u>Direct Losses Paid</u>	<u>Number of Policies</u>
2004	\$1,718,276	\$15,253	\$357,248	12,496
2005	1,670,131	29,989	294,992	11,637
2006	1,505,072	46,275	240,234	10,694
2007	1,422,735	42,181	218,018	9,906
2008	1,364,825	42,573	220,373	9,399
2009	1,344,899	18,986	162,096	9,499
2010	1,317,609	1,008	244,399	9,289
2011	1,289,687	23,245	249,143	8,779
2012	1,244,741	20,376	240,940	8,278
2013	1,209,090	20,423	212,369	7,877

REINSURANCE

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

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

This reinsurance agreement contains an insolvency clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2013.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Interest on bonds	\$9,465	\$20,308	\$20,320
Interest on cash deposits	117	68	
Interest on short-term investments	163		103
Other investment income	13,500		
Other income:			
Quota share reimbursement	219,598	329,436	349,359
Decrease in ledger liabilities	<u>(13,500)</u>		
Total Income	\$229,343	\$349,812	\$369,782
Deduct total disbursements for the year	<u>339,273</u>	<u>339,202</u>	<u>342,944</u>
Net Income	(\$109,930)	\$10,610	\$26,838
Add Ledger Assets December 31, previous year	<u>1,690,891</u>	<u>1,580,961</u>	<u>1,591,571</u>
Ledger Assets December 31, current year	<u><u>\$1,580,961</u></u>	<u><u>\$1,591,571</u></u>	<u><u>\$1,618,409</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Commissions and brokerage	(\$12,898)	(\$12,447)	(\$12,091)
Directors' fees	500	500	500
Charitable contributions	14	16	
Service fees	324,111	321,319	325,618
Taxes, licenses and fees:			
Virginia premium license tax	24,414	21,314	22,850
Assessment for maintenance of			
Bureau of Insurance	387	373	363
Flood prevention & fraud prevention	745	722	704
Federal corporate income tax	<u>2,000</u>	<u>7,405</u>	<u>5,000</u>
Total disbursements	<u><u>\$339,273</u></u>	<u><u>\$339,202</u></u>	<u><u>\$342,944</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$997,885			\$997,885
Cash on deposit	522,528			522,528
Interest due and accrued on bonds		7,434		7,434
Assessments due		30,240		30,240
Reinsurance recoverable	19,144			19,144
Accounts receivable	78,851			78,851
Net deferred tax		342		342
Totals	<u>\$1,618,408</u>	<u>\$38,016</u>	<u>\$0</u>	<u>\$1,656,424</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

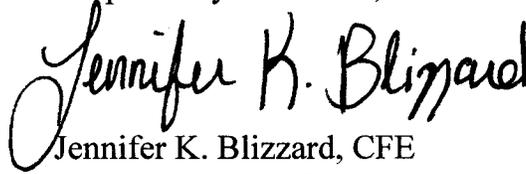
Taxes, licenses and fees:	
Virginia premium license tax	\$10,473
Ceded reinsurance payable	81,310
Federal corporate income tax	(2,593)
Accounts payable	67,689
Assessments received in advance	<u>20,386</u>
Total liabilities	\$177,265
Excess of admitted assets over liabilities (surplus)	<u>1,479,159</u>
Totals	<u>\$1,656,424</u>

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the examination is gratefully acknowledged.

In addition to the undersigned, Milton Parker, Jr., AFE of the Bureau participated in the work of the examination.

Respectfully submitted,

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

Jennifer K. Blizzard, CFE
Senior Insurance Examiner

COMMONWEALTH MUTUAL FIRE INSURANCE COMPANY

3600 WEST BROAD STREET, SUITE 166
RICHMOND, VIRGINIA 23230-4013
Telephone: (804) 358-5927 Fax: (804) 353-2830

June 2, 2014

Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218



Attn: Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner

RE: Commonwealth Mutual Fire Insurance Company
Examination Report as of December 31, 2013

Dear Mr. Smith:

This correspondence is in response to your letter to Mr. Edward J. Konar, President of Commonwealth Mutual Fire Insurance Company, dated May 13, 2014 regarding the final examination report for Commonwealth Mutual Fire Insurance Company as of December 31, 2013.

As noted in your letter, the examination report does not contain any recommendations for corrective action. Therefore, the Company acknowledges receipt of the final examination report and requests that fifteen (15) copies of the final version of this examination report be provided to us, once it is available.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven D. McGinley".

Steven D. McGinley
Assistant Treasurer
12115 Lackland Road
St. Louis, MO 63146
314-819-4497