

EXAMINATION REPORT
of
COMMONWEALTH MUTUAL
FIRE INSURANCE COMPANY
St. Louis, Missouri
as of
December 31, 2023

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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RICHMOND, VIRGINIA 23219
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I, Scott A. White, 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, 2023, 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 8th day of August 2024

A handwritten signature in black ink, appearing to read "Scott A. White".

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
June 7, 2024

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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

COMMONWEALTH MUTUAL FIRE INSURANCE COMPANY

St. Louis, Missouri

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

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2018. The current examination covers the five-year period from January 1, 2019 through December 31, 2023.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, 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.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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 Kemper Corporation.

The Company's directors and officers were as follows at December 31, 2023:

Directors:

<u>Representative</u>	<u>Principal Occupation</u>
Daniel G. Denton	District Manager United Insurance Company of America Richmond, Virginia
Jose M. Galiano	Vice President and Head of Operations Kemper Life St. Louis, Missouri
Christian A. Dancer	Vice President and Controller Kemper Life & Health St. Louis, Missouri
Christopher W. Flint	Executive Vice President and President Kemper Life St. Louis, Missouri

Officers:

Christopher W. Flint	President
Jennifer M. Kopps-Wagner	Vice President & Secretary
Christian A. Dancer	Treasurer

All of the above listed officers and directors were employees of Kemper Corporation or one of its affiliated insurers.

SERVICE AGREEMENT

The Company terminated its service agreement previously held with United Insurance Company of America on February 1, 2019.

Effective January 1, 2019, the Company entered into a new service agreement with Infinity Insurance Company (Infinity) and Merastar Insurance Company (Merastar). This

agreement shall automatically renew for a term of three years unless terminated on a date determined by the Company and communicated to Service Providers, in the event that Service Providers do not perform satisfactorily or by the Company or Service Providers upon not less than sixty days written notice.

As consideration for the Corporate Services provided under this agreement, each Company agrees to pay Service Providers their share of the corporate expenses incurred by Service Providers for the benefit of its affiliates "Corporate Expenses" as follows:

a. For all Corporate Services provided to the Companies, the fees and expenses shall be fair and reasonable in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 25. Corporate Expenses associated with such Corporate Services shall be allocated to the Companies on a fair and reasonable basis in conformity with customary insurance practices consistently applied and the provisions of applicable insurance laws and regulations and shall not include any added profit factor or mark-up.

b. Direct expenses shall be charged on an actually incurred basis. Out-of-pocket expenses shall be reimbursed based on those directly attributable to the Companies.

c. Shared or indirect expenses shall be apportioned to the Companies based on cost studies, usage metrics of services provided, transactions processed, hours worked and/or any other generally accepted allocation method in accordance with SSAP No. 70.

The Company paid \$67,976, \$301,393, \$412,655, \$283,937 and \$104,329 pursuant to this agreement for the years ended 2019, 2020, 2021, 2022 and 2023, respectively.

TERRITORY AND PLAN OF OPERATION

The Company transacts its business throughout the Commonwealth of Virginia through Infinity and Merastar Service Providers 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. Infinity and Merastar Service Providers 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.

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. 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.

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, 2023:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2014	\$1,677,907	\$174,837	\$1,503,069
2015	1,684,951	158,989	1,525,961
2016	1,700,531	151,570	1,548,961
2017	1,713,204	130,160	1,583,044
2018	1,679,937	78,760	1,601,177
2019	3,322,963	1,685,346	1,637,617
2020	1,980,948	331,972	1,648,976
2021	1,907,333	239,048	1,668,285
2022	1,903,467	213,944	1,689,523
2023	1,823,853	122,619	1,701,234

<u>Year</u>	<u>Gross Assessments</u>	<u>Investment Income</u>	<u>Direct Losses Paid</u>	<u>Number of Policies</u>
2014	\$1,177,140	\$18,511	\$165,494	7,399
2015	1,125,191	16,454	150,505	6,903
2016	1,082,440	16,977	137,914	6,454
2017	1,018,242	18,619	94,998	6,041
2018	988,219	28,222	137,734	5,700
2019	961,950	33,159	144,406	5,431
2020	913,178	5,358	221,344	5,106
2021	883,356	15,485	69,449	4,798
2022	810,061	16,871	87,134	4,355
2023	736,325	14,053	48,575	3,925

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2023. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2023.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,552,924		\$1,552,924
Cash and short-term investments	222,873		222,873
Investment income due and accrued	4,920		4,920
Uncollected premiums and agents' balances in the course of collection	13,077		13,077
Other amounts receivable under reinsurance contracts	5,952		5,952
Current federal income tax recoverable	3,857		3,857
Net deferred tax asset	1,790	1,790	
Aggregate write-ins for other-than invested assets	20,250		20,250
Totals	<u>\$1,825,643</u>	<u>\$1,790</u>	<u>\$1,823,853</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Net deferred tax liability		\$658
Advance premium		18,609
Ceded reinsurance premiums payable		58,849
Aggregate write-ins for liabilities		<u>44,503</u>
Total liabilities		\$122,619
Unassigned funds (surplus)	<u>1,701,234</u>	
Surplus as regards policyholders		<u>1,701,234</u>
Totals		<u><u>\$1,823,853</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

INVESTMENT INCOME

Net investment income earned	\$22,579
Net realized capital gains	<u>(8,526)</u>
Net Investment Gain	<u>\$14,053</u>

OTHER INCOME

Net Income before federal income taxes	\$14,053
Federal income taxes incurred	<u>1,240</u>
Net income	<u><u>\$12,813</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023*</u>
Surplus as regards policyholders, December 31, previous year	<u>\$1,601,177</u>	<u>\$1,639,519</u>	<u>\$1,650,570</u>	<u>\$1,669,782</u>	<u>\$1,689,523</u>
Ledger assets, previous year	1,658,258	1,705,125	1,962,872	1,883,091	
Non-ledger assets, current year	1,619,740	19,670	25,739	20,558	
Liabilities, current year	(1,685,346)	(331,972)	(239,048)	(93,815)	
Net income	\$46,867	\$257,747	(\$79,781)	(120,311)	\$12,813
Change in net deferred income tax					686
Change in nonadmitted assets					<u>(1,790)</u>
Change in surplus as regards policyholders for the year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$11,709</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$1,639,519</u></u>	<u><u>\$1,650,570</u></u>	<u><u>\$1,669,782</u></u>	<u><u>\$1,689,523</u></u>	<u><u>\$1,701,234</u></u>

*Company was approved to file the P&C Yellow Blank for 2023. Previous annual statements were filed using modified cash basis. Change in surplus as regards to policyholders was not reported.

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	\$6,794
Net investment income	17,535
Total	\$24,329
Benefit and loss related payments	(\$476)
Commissions, expenses paid and aggregate write-ins for deductions	(24,591)
Federal income taxes paid	6,435
Total	(\$18,632)
Net cash from operations	\$42,961

Cash From Investments

Cost of investments acquired (long-term only):	
Bonds	\$80,001
Total investments acquired	\$80,001
Net cash from investments	(\$80,001)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	\$182,719
Net cash from financing and miscellaneous sources	\$182,719
Net change in cash and short-term investments	\$145,680

Reconciliation Of Cash and Short-Term Investments

Cash and short-term investments:	
Beginning of year	\$77,193
End of year	222,873
Net change in cash and short-term investments	\$145,680

ACKNOWLEDGMENT

The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, Mario A. Cuellar, CFE, PIR, of the Bureau participated in the work of the examination.

Respectfully submitted,

Danielle T. Ellis

Danielle T. Ellis, APIR
Insurance Examiner



August 5, 2024

SENT VIA EMAIL

Jennifer Blizzard
Chief Examiner
State of Virginia State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Re: Commonwealth Mutual Fire Insurance Company Examination Report as of
December 31, 2023

Dear Ms. Blizzard:

We are in receipt of the draft examination report of Commonwealth Mutual Fire Insurance Company. We have no issues with the report as currently drafted. Once the report is finalized, we would like to receive an electronic version of the report.

Thank you and your team for your assistance and guidance throughout the examination.

Sincerely,

DocuSigned by:

Christopher W. Flint

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Christopher W. Flint

Chairman of the Board & President

Commonwealth Mutual Fire Ins Co.

cc: Vanessa Ramirez-Vollmar – Vice President, Senior Counsel
Jennifer Kopps-Wagner – Vice President & General Counsel, Life