

**REPORT OF
EXAMINATION**

OF

MUTUAL SAVINGS FIRE INSURANCE COMPANY

ST. LOUIS, MISSOURI

AS OF

DECEMBER 31, 2019

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT	iii
SALUTATION	1
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	3
MANAGEMENT AND CONTROL	4
Stockholders.....	4
Board of Directors	4
Officers.....	5
Committees	5
Conflict of Interest.....	6
CORPORATE RECORDS	6
HOLDING COMPANY AND AFFILIATE MATTERS.....	6
Administrative Service and Tax Allocation Agreements.....	6
Affiliated Agreements.....	7
United Insurance Company of America Administrative Service Agreement.....	7
Kemper Corporation Administrative Services Agreement	8
Federal Income Tax Agreement.....	14
ORGANIZATIONAL CHART.....	14
FIDELITY BONDS AND OTHER INSURANCE	16
EMPLOYEE AND AGENT WELFARE.....	16
Compliance with 18 U.S.C § 1033	17
MARKET CONDUCT ACTIVITIES	17
Territory.....	17
Plan of Operation.....	18
Advertising and Marketing.....	18
Policyholders' Complaints.....	18
Claims Payment Practices	18
Review of <i>Paid Claims</i>	18
Review of <i>Denied Claims</i>	19
Compliance with Producer Licensing Requirements.....	19
<i>Appointments</i>	19
<i>Terminated Producers</i>	19
Underwriting and Rating.....	19
<i>Rates and Forms</i>	19

<i>Underwriting Practices</i>	20
Privacy Standards	20
SPECIAL DEPOSITS.....	21
FINANCIAL CONDITION AND GROWTH OF THE COMPANY	21
REINSURANCE	21
Reinsurance Assumed.....	21
Reinsurance Ceded.....	22
ACCOUNTS AND RECORDS	22
FINANCIAL STATEMENT INDEX.....	23
NOTES TO FINANCIAL STATEMENTS	28
COMMENTS AND RECOMMENDATIONS	28
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS.....	29
CONTINGENT LIABILITIES AND PENDING LITIGATION	29
SUBSEQUENT EVENTS	29
CONCLUSION	31

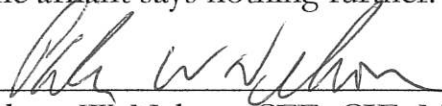
EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF COFFEE**

Palmer W. Nelson, CFE, CIE, MCM being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of Mutual Savings Fire Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Mutual Savings Fire Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



Palmer W. Nelson, CFE, CIE, MCM

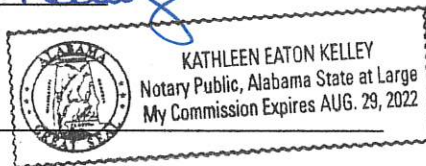
Subscribed and sworn before me by Palmer W. Nelson on the 30th day of April, 2021.

(Seal)



(Signature of Notary Public)

My commission expires _____





KAY IVEY
GOVERNOR

JIM L.
RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

DEPUTY COMMISSIONER
JIMMY GUNN
MARK FOWLER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

April 30, 2021

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2019, has been made of

**Mutual Savings Fire Insurance Company
St. Louis, Missouri**

and was conducted remotely with support from Company management located in Chicago, Illinois. The Company's Statutory address is located at 12115 Lackland Road, St. Louis, MO 63146. The report of examination is submitted herewith. Where the description "The Company" or "MSFIC" appears herein, without qualification, it will be understood to indicate Mutual Savings Fire Insurance Company.

SCOPE OF EXAMINATION

We have performed an examination of Mutual Savings Fire Insurance Company, a multi-state insurance company. The last examination covered the period of January 1, 2010 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2019.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the 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. 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, as mentioned in the *Code of Alabama*, 1975, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of

operation, claims handling practices, advertising and marketing, underwriting and rating, policyholders' complaints, compliance with producers' licensing requirements, and privacy standards. See the "Market Conduct Activities" section of this report on page 17 for further discussion.

Deloitte & Touche was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate. The workpapers of the Company's internal audit department were used to complete examination work as determined to be appropriate.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2019.

ORGANIZATION AND HISTORY

The Company was incorporated in Decatur, Alabama, on September 16, 1971, under the laws of the State of Alabama and commenced business on January 2, 1973. The Certificate of Incorporation stated that the objects and purposes of the corporation were "to engage in, maintain and transact general fire and casualty insurance business, and to do all things necessary and incidental thereto." The Articles of Incorporation were filed and recorded in the office of the Judge of Probate of Morgan County, Alabama.

The original charter provided that the total authorized capital was 1,000,000 shares of common stock with a par value of \$1 per share. The Company was capitalized initially with \$200,000 of Paid-up capital and \$300,000 of contributed surplus. On July 15, 1975, the Company increased its contributed surplus to \$500,000, through the sale of additional shares of common stock. The Company increased its common stock par value to \$3 per share on December 18, 1992, thereby increasing its Paid-up capital to \$1,500,000.

On December 4, 1998, Primesco, Inc., a Delaware corporation, acquired 100% of the outstanding common stock of Mutual Savings Life Insurance Company (MSLIC), the sole stockholder of the Company.

During March 2008, a Form "A" filing made by Unitrin, Inc. was approved by the Alabama Department of Insurance. On April 1, 2008, Primesco, Inc. and its subsidiary MSLIC were acquired by Unitrin, Inc., a Delaware corporation, along with

the Company. On June 1, 2009, United Insurance Company of America purchased MSLIC and the Company from Primesco, Inc.

Effective January 1, 2009, the Company entered into a 100% quota share reinsurance agreement with Trinity Universal Insurance Company, a Texas-domiciled, affiliated company. The agreement was approved on February 17, 2009 by the Alabama Department of Insurance.

The Company's authorized capital has not changed during the five-year period covered by this examination. At December 31, 2019, the Company's Annual Statement reflected outstanding capital stock totaling \$1,500,000, consisting of 500,000 shares of \$3 par value common stock; Gross paid in and contributed surplus of \$2,400,000; and, Unassigned funds of \$61,518.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2019, 100% of the Company's issued and outstanding common stock was owned by Mutual Savings Life Insurance Company (MSLIC), an Alabama corporation. MSLIC is 100% owned by United Insurance Company of America. Kemper Corporation is the ultimate parent of the Company.

Board of Directors

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2019, were as follows:

Director	Residence	Principal Occupation
Cheryl Kingsfield Neal	St. Louis, MO	President of Mutual Savings Life Insurance Company and Senior Vice President of Kemper Life and Health Division
Mark Atchley Green	Glenview, IL	President of Kemper Life and Health Division and Executive Vice President of Kemper Corporation
Charles Stanley Belter	Talladega, AL	Kemper Home Service Companies District Manager
John Michael Boschelli	Geneva, IL	Executive Vice President and Chief Investment Officer of Kemper Corporation

At December 31, 2019, the Company had four directors, one of which was an Alabama resident. ALA. CODE § 27-27-23a(1975) states: “The affairs of every domestic insurer shall be managed by not less than three directors, and at least one-third of the directors shall be bona fide residents of this state.”

Committees

The following committees were functioning on behalf of the Company as of December 31, 2019:

Executive Committee

Mark A. Green

Investment Committee

John M. Boschelli

UICA Audit Committee

John M. Boschelli

Maxwell Mindak

Richard Roeske

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2019 were as follows:

<u>Officer</u>	<u>Title</u>
Cheryl Kingsfield Neal	President
Jane Ann Nordby	Treasurer
Jennifer Marie Kopps-Wagner	Secretary
Scott Forrest Snider	Senior Vice President

Conflict of Interest

The Conflict of Interest Statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no disclosures that indicated that any officers or directors had a conflict of interest.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with respect to actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE §27-29-1(1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. The Company is responsible for holding company registration and periodic filings in accordance with ALA. CODE §27-29-4(1975), and ALA. ADMIN CODE 482-1-055(1994).

Administrative Service and Tax Allocation Agreements

The following administrative service agreements and tax allocation agreements were in effect as of December 31, 2019.

Affiliated Agreements

United Insurance Company of America Administrative Services Agreement

An Insurance Administrative Agreement was made and entered into as of September 1, 2008 by and between the Company and United Insurance Company of America (UICA). This agreement was first filed with the Alabama Department of Insurance on July 21, 2008, and was approved on July 29, 2008.

Under the terms of the agreement, UICA will provide the following administrative services:

- Underwriting services for the issuance of fire insurance policies in accordance with the underwriting guidelines.
- Print policies, forms, and supplies bearing the Company's logo. The policies, forms, and supplies will remain the sole property of the Company.
- Properly rate and issue policies, binders, and endorsements in accordance with the Company's procedural guidelines and will administer and service all the Company's fire business.
- Data processing support necessary for the timely servicing of the Company's business.
- Maintain a phone center at its administrative office to assist and aid in responding to all inquiries received by field personnel and customers.
- Defend, adjust, settle, and pay all new and existing claims.
- Compile all statistical data necessary to comply with all financial and regulatory reporting requirements.
- Legal support for all fire business and see that the operations conducted by the Company are in compliance with all applicable laws and regulations.
- The Company will reimburse UICA for all direct, shared, and out-of-pocket expenses.
- Any expenses payable by the Company on which an amicable understanding or settlement cannot be reached will be settled by a certified independent public accounting firm not currently representing either party.
- The book of records will be maintained by UICA and the Company. The books of UICA will be owned and remain the separate property of UICA and the records of the Company will be owned and remain separate property of the Company. The records of the Company and data associated with such records will be maintained and made available to the Alabama Commissioner of Insurance or the Commissioner's designees.

- The Company will indemnify and hold UICA harmless from and against any and all liability, loss, costs, damages, claims, suits, and other legal proceedings, attorney fees, and expenses of any kind or nature to which UICA may become subject as a result of the provisions of services under the agreement, other than as a result of UICA's willful misconduct or gross negligence.
- The agreement will be unlimited as to its duration unless terminated by either party upon not less than thirty days prior written notice to the other. The agreement may be amended from time to time by a written instrument executed by the parties to the contract.
- The agreement shall be construed, interpreted, and enforced in accordance with the laws of the State of Alabama, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

Kemper Corporation Administrative Services Agreement

A service agreement was made and entered into as of December 21, 2012, by and between the Company (MSFIC) and Kemper Corporate Services (formerly known as Unitrin Services Company) (KCS). The agreement was first filed with the Alabama Department of Insurance on November 13, 2012 (amendments filed December 5 & 6, 2012), and Alabama Department of Insurance approved in letter dated December 13, 2012.

According to the terms of the agreement, MSFIC will receive and pay for the following services:

- General services: administration of post-retirement life and medical benefits, automobile fleet management, benefit plan regulatory reporting and support, capital project review and evaluation, cash management and bank relations, corporate secretarial functions, financial accounting and reporting, financial planning and analysis of results of operations, human resource management (including recruitment, training, and salary and performance administration), internal audit including field audit, investment accounting, legal support and advice, loss reserving and actuarial reports and opinions, maintenance of benefit plans (such as life, health, disability, pension, and savings benefit plans), payroll processing and administration, purchasing and accounts payable, real estate management, risk management (including corporate insurance), tax accounting and tax advice, tax return preparation, trade execution and investment analysis, and consulting services in other areas, including, but not limited to media relations, branding initiatives, and other

corporate functions. In exchange for these general services, the MSFIC agrees to pay KCS its share of the corporate expenses as follows:

- The charges and fees shall be fair and reasonable; the corporate expenses associated with such general services shall be allocated in a fair and reasonable basis in conformity with customary insurance practices, and shall include no added profit factor or markup.
 - Direct expenses shall be charged on an actually incurred basis.
 - Out of pocket expenses shall be reimbursed based on those directly attributable to the Company.
 - Shared or indirect expenses shall be apportioned to Company based on cost studies, usage metrics of services provided, transactions processed, hours worked and/or any other generally accepted allocation method including, but not limited to those based on earned or written premium, net investment income, special studies of employee activities, salary ratios, premium ratios (earned or written premiums), number of employees or participants, assets, or equity.
- Computer and Information Technology Services Provided to Company
 - KCS will provide data processing and other information technology services (“computer services”) to MSFIC using the following components (the “Systems”) as KCS may from time to time maintain at any facilities of its own or of its subsidiaries, affiliates or contractors: Mainframe, midrange and minicomputer and other central processors and controllers; data storage devices, cartridge and tape drives; MVS, UNIX, and other operating system software; database management software (exclusive of applications running under such software); CICS and other transaction processing software; groupware, middleware, and network software; routers and other network and telecommunications equipment and lines located at its data center facilities; and internet and intranet access software and systems. Company, or KCS at its option, shall supply terminals, personal computers, workstations, monitors, modems, printers and other equipment necessary to use the Systems (“Company Equipment”).
 - To the extent possible, MSFIC may run batch processing jobs on the Systems, as well as real time operations. KCS will supply personnel for

computer operations, network operations, network security, consulting services, general Systems support and consultation, and any other services deemed necessary for the efficient operation of KCS' provision of the Computer Services, provided, however, that MSFIC shall otherwise be responsible for performing its own operations with and on the Systems. MSFIC may access the Systems during hours published by KCS, which hours may be changed by KCS from time to time at its discretion. KCS will cooperate to the extent reasonably practicable for use of the System outside such hours.

- KCS shall have sole responsibility for maintaining the Systems. MSFIC, or KCS at its option, shall have responsibility for maintaining Company Equipment. MSFIC shall select applications software after consulting with KCS to determine compatibility with the Systems, and for loading it on the Systems, maintaining, debugging, modifying, and otherwise using such software.
 - MSFIC will be responsible for conforming to KCS' published policies, and shall access the Systems using said policies.
 - KCS will perform regular backup of the Systems, and agrees to assist MSFIC in backing up whatever applications software and data MSFIC may have on the Systems, provided that MSFIC shall remain solely responsible for determining the applications and data to be backed up, the frequency of such backups, and the verification of such backups.
- Equipment and Software Acquisitions
 - EQUIPMENT. KCS may, at MSFIC's request, purchase, lease, license, or otherwise acquire computer hardware and equipment ("Equipment") on behalf of MSFIC. Said equipment may be installed at any location within the United States that MSFIC may request. Equipment may include, but not be limited to: mainframe computers, midrange computers, minicomputers, personal computers, computer workstations, data storage devices, drives, tapes, cartridges, laser disk devices, "juke boxes", monitors, printers, plotters, modems, multiplexers, telecommunications devices, scanners, imaging systems, local and wide area network equipment, as well as cable, connectors, chips, cards, boards, and any operating software or utilities relating to any of the foregoing.

- SOFTWARE. KCS may, at MSFIC's request, license or otherwise acquire computer software ("Software"). The license for such Software and any agreements may contain reasonable terms and conditions agreeable to KCS relating to: the cost, duration and type of license; transferability of the license; vendor warranties and indemnities; maintenance and support obligations of the vendor; options, discounts, or credits on future licenses by MSFIC, KCS or affiliates; acquisition of software on an evaluation basis; and the right of the licensee to obtain source code upon events of default by the vendor (source code escrows).
 - The licensee under such license may be KCS, MSFIC, or an affiliate, provided that MSFIC acquires necessary usage rights. The license of any Software may allow the use of such Software by any affiliate of KCS or MSFIC, or the right of any such entities to license or acquire additional copies of Software, so long as MSFIC's usage rights aren't impeded.
 - CONSULTING AND OTHER SERVICES. KCS shall provide information technology consulting and related services to MSFIC through its data center employees and other technical personnel, subject to the availability of personnel. Such services shall include: pre-acquisition evaluation of Equipment or Software; negotiation or advice concerning the terms and conditions of proposed acquisitions of Equipment or Software; implementation and/or installation of Equipment or Software; advice or assistance in the use, maintenance, enhancement, reconfiguration, or replacement of Equipment or Software; advice and assistance relative to network, data and systems security issues; and advice and assistance with disaster recovery capabilities.
- SERVICE CHARGES.
 - General: As consideration for Computer Services provided above, MSFIC agrees to pay KCS its share of the corporate expenses as follows: the fees shall be fair and reasonable, shall be allocated in accordance with the provisions of Alabama Insurance Laws and Regulations, and shall include no added profit factor or markup. Direct expenses will be charges on an actually incurred basis; out of pocket

expenses shall be reimbursed based on those directly attributable to MSFIC. Shared expenses will be apportioned to MSFIC based on cost studies, usage metrics, transactions processed, hours worked, and/or any other generally accepted allocation method in accordance with regulations.

- Data Processing and Systems-Related Services. If KCS elects to bill MSFIC based on service projections, it shall project its costs for maintaining and operating the Systems annually (or other such frequency), and shall invoice MSFIC no frequently less than monthly for its proportional share, plus any direct costs. MSFIC shall be invoiced for all taxes, if any, levied on KCS with respect to MSFIC's usage of the Systems. Within 45 days after the end of each calendar quarter, KCS shall reconcile its budgeted cost and MSFIC's projected usage with KCS' actual cost and MSFIC's actual usage for said period, and should the usage be less than budgeted, KCS will reimburse MSFIC or apply such excess for MSFIC's usage for the following period. Should usage be greater than budgeted, KCS will bill MSFIC for usage in excess of budgeted.
- Equipment and Software Acquisitions Costs: at KCS' discretion, KCS may bill MSFIC for either: a) its proportionate amount of the cost of Equipment or Software, including shipping charges, sales and similar taxes, b) its proportionate share of KCS' lease or license cost for Equipment or Software, or c) a reasonable depreciation charge for Equipment or Software. In no event shall the cost to MSFIC for any acquisition by KCS of Equipment or Services be at terms less favorable than MSFIC could reasonably be expected to receive if it were to acquire such Software or Equipment directly.
- Consulting and Other Services: KCS may assess reasonable charges in relation to services rendered above, which shall be the blended hourly rate based on the average salary and employee benefit cost of KCS' information technology personnel, plus any applicable overhead costs, not to exceed the total hourly rate of \$250.00, adjusted annually for inflation, based on the consumer price index.

General Provisions: for purposes of this agreement, an "affiliate" of KCS or MSFIC shall mean any corporation or other person controlling, controlled by, or under common control with either of them.

- a. MSFIC agrees that any services to be provided by KCS may be outsourced, provided: 1) KCS shall remain primarily liable for the performance of services, 2) any affiliate-performed service shall be subject to regulatory approval, 3) affiliate-performed services will be charged at actual cost, without markup or profit, and third-party-provided services shall be charged at prices and on terms no less favorable than MSFIC could be expected to receive if MSFIC were to acquire such services directly from the third party.
- b. KCS and MSFIC agree that the terms of this agreement are fair and reasonable, and shall be unlimited in duration unless terminated by either party with not less than 60 days' prior written notice. This agreement may be amended from time to time, subject to the approval of both parties and any regulatory authorities.
- c. Invoices for services previously described shall be forwarded on or before the 30th day of the month following the date the services were rendered or costs incurred. Payment for such invoices shall be due 30 days after receipt of invoices.
- d. KCS and MSFIC shall maintain separate books, and each company's books shall remain each company's separate property. The records will be made available upon request to the Alabama Commissioner of Insurance or the Commissioner's designees.
- e. KCS shall hold MSFIC harmless for any damages, judgments, settlements, costs and expenses that arise out of or result from KCS' negligence or intentional misconduct in providing the services in this agreement.
- f. If any part of this agreement is contrary to applicable law or regulation, that provision shall not apply and shall be omitted to the extent that it is contrary to law, but the remainder of the agreement shall be valid, and remain in force.
- g. This agreement shall be interpreted in accordance with the laws of the State of Alabama, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

Federal Income Tax Agreement

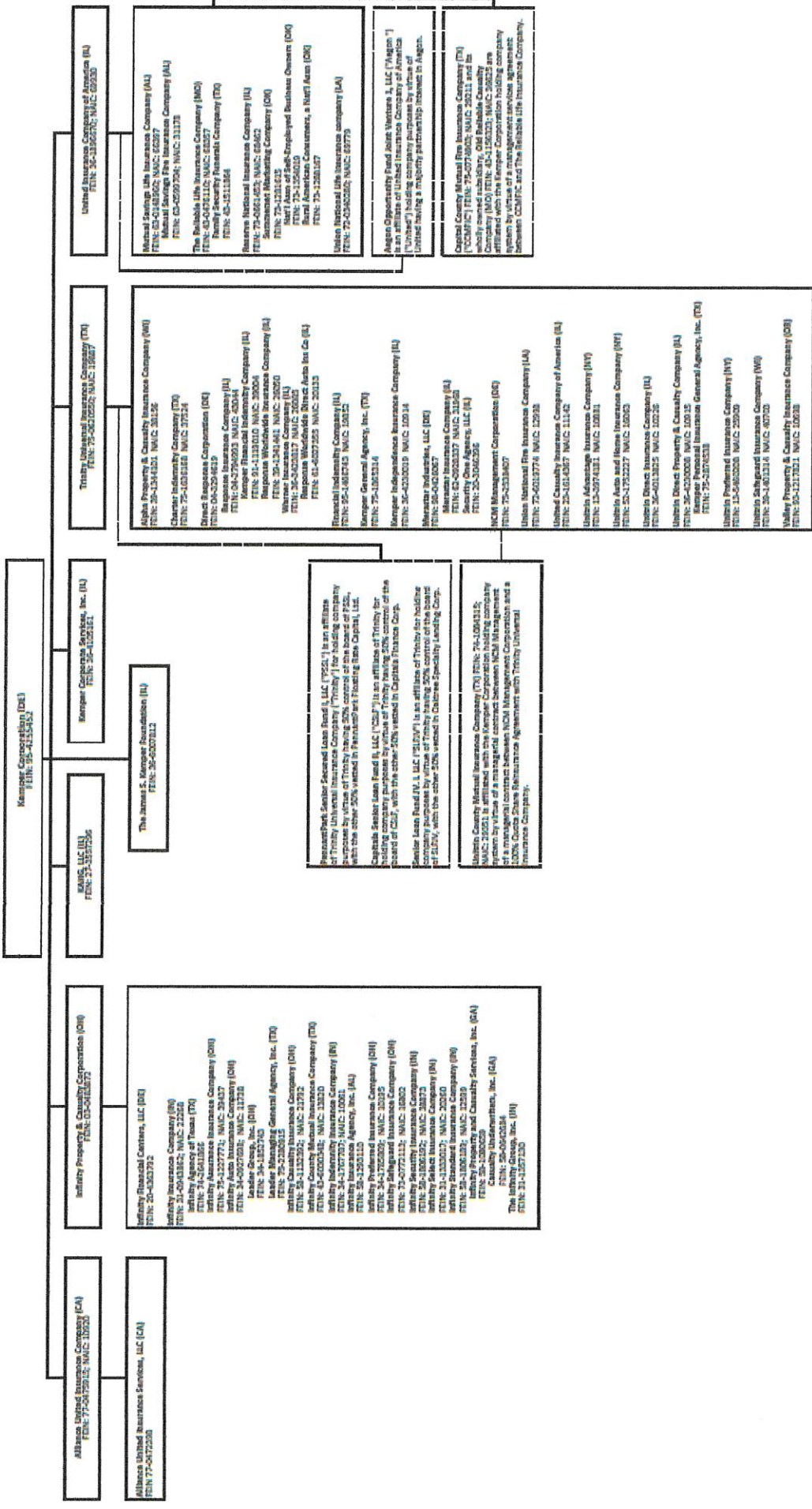
An amendment to the Federal Income Tax Agreement entered into December 31, 1995 between Kemper (f/k/a Unitrin, Inc.) (“Parent”) certain affiliates (“Affiliates”) was entered into in order to establish the method of settlement of Federal Income Tax (FIT) payments and refunds between Parent and Affiliates.

Mutual Savings Fire Insurance Company (MSFIC), and Mutual Savings Life Insurance Company (MSLIC) (together, “New Affiliates”) became indirect, wholly-owned subsidiaries of Parent on April 1, 2008. New Affiliates were included in the Consolidated FIT return with Parent for the calendar year ending December 31, 2014.

This Agreement is to establish a method of payment of taxes under various Sections of Internal Revenue Service (IRS) Code, as a consolidated group for Federal Income Tax (FIT), rather than individually. All Affiliate members of the group will pay to the Parent the amount of regular FIT, or receive from the Parent the amount of refund of regular FIT, that they would have paid/received had the Affiliates filed FIT returns on their own. This applies to FIT, Alternative Minimum Tax, and Environmental Tax. Affiliates will have use of their own operating losses and other tax credits, the accrual method of accounting will be used. The Affiliates shall settle estimated FIT payments on or about the 15th day of April, June, September, and December of each year, with an additional settlement on or about March 15th the following year with the filing of the annual FIT return or extension, and will be made via check or wire transfer. The FIT records will be maintained at the Parent’s home office.

ORGANIZATIONAL CHART

The following chart represents the relationships of the entities affiliated with the Company as of December 31, 2019.



FIDELITY BONDS AND OTHER INSURANCE

Mutual Savings Fire Insurance Company is a named insured on a Financial Institution Bond issued by Hartford Fire Insurance Company. The bond was issued to Kemper Corporation and Subsidiaries and was in effect as of December 31, 2019. The bond amount was applicable to fidelity, in transit, premises, trading loss, computer system fraud, voice-initiated transfer fraud, tele facsimile initiated transfer fraud and data destruction caused by a virus. The amount of the fidelity bond maintained by the Company exceeded the minimum amount suggested in the NAIC *Financial Condition Examiners Handbook*.

In addition to the above coverage, the Company was a named insureds under policies affording the following protections:

- Auto Liability Coverage with Travelers Property Casualty Company of America
- General Liability Coverage with Travelers Property Casualty Company of America
- Cyber Liability Coverage with Indian Harbor Insurance Company
- Property Insurance with North American Elite Insurance Company
- Errors and Omissions Coverage with Twin City Insurance Company

It was assessed that the Company held adequate coverage in force covering the hazards to which the Company may have been exposed to.

EMPLOYEE AND AGENT WELFARE

The Company's duties and functions are performed by employees of affiliated entities in accordance with the terms of the administrative and management and services agreements with affiliated entities. The Company contracts with captive agents to market its products. Most of the agents are licensed for both life and health business and property and casualty business. Because the Company does not have any direct employees, no liabilities are accrued relating to pensions or post employee benefits.

Compliance with 18 U.S.C § 1033

The examiners reviewed a sample containing contracting employees within the Kemper Life Division that were employed during the examination period as well as employees that have been retained that were hired prior to the examination period. The examiners verified that criminal background checks were obtained for newly hired staff and that the Company had a procedure in place to determine whether existing employees have been convicted of a felony. However, the Company does not apply the required procedure on a periodic basis. This is not in accordance with ALA. ADMIN CODE 482-1-146-.11(2009), which states:

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting. (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department. (3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

MARKET CONDUCT ACTIVITIES

Territory

As of December 31, 2019, the Company was licensed to transact business in four states. The Company is licensed in the following: Alabama, Georgia, Louisiana, and Mississippi.

The Certificates of Authority were inspected for the period under review and found to be in order.

Plan of Operation

The Company's lines of business include fire and allied lines of insurance, writing is limited Contents coverage on low-valued dwellings in Alabama, Mississippi and to a lesser extent, Georgia. The Company also participates to a minor degree, in involuntary property pools in each State where it writes business. The insurance products are offered to low-middle income households through a home service approach.

Advertising and Marketing

The Company's advertising and marketing strategy was executed by the use of printed sales aids that were provided to producers for soliciting prospective clients and to counsel clients during the sales of products. The Company also had a website <http://www.kemper.com> which included basic product information and limited product descriptions. The Company does not allow producers to produce their own website, advertisement, solicitation or marketing materials. All advertising and sale materials require Company approval prior to being used. All advertisements required to be approved by the Company prior to use.

Policyholders' Complaints

The Company recorded all of its complaints in its complaints register in the required format, including those received directly from consumers and those that were received by the Department of Insurance related to the Company. The examiners reviewed the Company's consumer direct complaints and complaints received by the Alabama Department of Insurance that were filed during the examination period. It was determined that the complaints were responded to timely and addressed the issues raised.

Claims Payment Practices

Review of Paid Claims

The examiners reviewed a sample of 105 Alabama paid claims that was selected from a population of 2,919. The sample was reviewed for compliance with policy provisions, timeliness of payment and adequacy of documentation. The examiners verified the date the claim was reported, the date that proof of loss was provided, and the date of claim payment. The examiners determined that the Company properly followed its policy provisions, timeliness of payment, and documented its claims files for the sample selected.

Review of Denied Claims

A sample of 84 Alabama denied claims was selected from a population of 775. The sample was reviewed for compliance with policy provisions and adequacy of claims documentation and a time study of notification letters and claim acknowledgements was conducted. The examiner verified for each claim in the sample that the Company properly and promptly acknowledged the claims and notified the claimants. The denials complied with the policy provisions and was adequately documented.

Compliance with Producer Licensing Requirements

Appointments

A random sample of 116 premium transactions was selected from a population of 2,939 premium transactions from the direct written premiums file for the examination period 2015-2019. The examiners used the NAIC's State Based System (SBS) to verify that all of the producers that produced the business represented in the sample were appropriately licensed and appointed by the Company prior to writing the business. No issues of non-compliance were identified as a result of the review.

Terminated Producers

A random sample of 113 terminated producers was selected from a population of 504 terminations during the examination period 2015-2019. The examination determined that the Company did not send notifications to one of the terminated producers' last known addresses as required by ALA. CODE § 27-7-30.1(a)(1975), which states: "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address."

Underwriting and Rating

Rates and Forms

The Company appropriately filed its rates with the Alabama Department of Insurance (ALDOI). The examination indicated that all the forms and endorsements used in Alabama during the examination period have been properly filed and approved by the ALDOI. The Company's rates that were used were filed with the ALDOI.

Underwriting

The examiners selected samples of direct written premium, insured requested cancellation, Company requested cancellations, rejected applications for insurance during the examination period. No issues were noted during the review.

A random sample of 116 Alabama premium transactions was selected from a population 2,939 that included all lines of business. The sample was selected to determine whether the policy premiums were calculated in accordance with the filed rates. The examination determined policy premiums were calculated in accordance with its filed rates.

A random sample of 84 Alabama rejected applications for insurance was selected from 375 rejected applications received by the Company during the examination period. The examiners determined that the applicants were rejected for valid reasons.

A random sample of 116 Alabama cancellations was selected from 29,996 policies cancelled during the examination period. The cancellations/nonrenewals were properly documented and were valid according to the policy provisions

Privacy Standards

The Company's PRIVACY NOTICE was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2001). The Company sent out the initial notices to new business policyholders when a policy was written. The Company provided notices to its customers that indicated the types of information collected, the way the information is used and the manner that it is collected.

The Company does not share customer and/or consumer personal information with any nonaffiliated third parties, except as allowed by law. The Company does not send out annual notices to its consumers because it qualifies for the exception in section B of the ALA. ADMIN. CODE 482-1-122-.06(B), which states:

... allows licensees to be excepted from section A if they abstain from providing personal information to nonaffiliated third parties except as allowed under other sections of the Administrative Code and if the company has not changed its practices regarding disclosing nonpublic personal information from the most recent disclosure sent to consumers.

The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial, health or medical information.

SPECIAL DEPOSITS

The Company had the following securities on deposit with state authorities as of December 31, 2019 in order to satisfy the statutory deposit requirements of the various states in which the Company writes business:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama *	\$ 137,792	\$ 166,628
Louisiana	108,998	127,395
Georgia	114,525	127,957
TOTALS	\$ 361,315	\$ 421,980

*Held for the protection of all policyholders

FINANCIAL CONDITION AND GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

	2015	2016	2017	2018	2019
Admitted Assets	4,775,057	4,923,867	4,915,013	5,110,320	4,906,409
Liabilities	842,336	942,757	925,309	894,052	944,891
Gross Written Premium	4,719,113	4,810,368	4,979,871	5,030,996	5,032,524
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Gross Paid in and Contributed Surplus	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Unassigned Funds	32,721	81,110	89,705	316,268	61,518

REINSURANCE

Reinsurance Assumed

Schedule F Part 1 – Assumed Reinsurance indicated that the Company is a party to pooling arrangements with certain state mandatory risk pool associations. The 2019 assumed premiums were \$77,853 or approximately 1.5% of the Company's gross premiums. Typically, a company's participation is calculated by the pool as a percentage of written or earned premiums to the total of all premiums written or earned in the respective state.

Reinsurance Ceded

Schedule F – Part 3 Ceded Reinsurance indicated that the Company had one agreement with Trinity Universal Insurance Company (Trinity), an affiliated Texas insurance company. The 100% Quota Share Reinsurance Agreement was effective January 1, 2009, and continues in force until terminated by either party by written twelve month notice to the other party.

The business insured by the Company and assumed by Trinity under the 100% quota share agreement is: “(i) all losses incurred prior to the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company’s coverage of such losses sometimes hereinafter referred to as the “Existing Business”), and (ii) all losses incurred on or after the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company’s coverage of such losses sometimes hereinafter referred to as the “New Business”).” In a separate but related assignment and consent agreement all liabilities for existing claims were transferred to Trinity.

The agreement was filed with the Alabama Department of Insurance and the approval was granted on February 17, 2009.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically. The Company maintained additional electronic workpapers, reconciliations and statements in its database of imaged records.

The Company’s independent audit was performed by Deloitte & Touch, LLP, a certified public accounting firm.

FINANCIAL STATEMENT INDEX

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statements of Assets	Page 24
Statement of Liabilities, Surplus and Other Funds	Page 25
Summary of Operations.....	Page 26
Capital and Surplus Account.....	Page 27

MUTUAL SAVINGS FIRE INSURANCE COMPANY
STATEMENT OF ASSETS
For the Year Ended December 31, 2019

	Assets	Non-admitted Assets	Admitted Assets
Bonds	\$ 2,140,568		\$ 2,140,568
Cash, cash equivalents, short-term investments	1,256,127		1,256,127
Investment Income due and accrued	50,658		50,658
Premiums and considerations: Uncollected premiums and agents' balances in course of collection	167,711		167,711
Amounts recoverable from reinsurer	131,578		131,578
Funds held by or deposited with reinsured companies	999,404		999,404
Net deferred tax asset	177,986	128,937	49,049
Receivable from parents, subsidiaries and affiliates	107,427		107,427
Aggregate write-ins for other than invested assets	<u>3,887</u>		<u>3,887</u>
Totals	<u>\$ 5,035,346</u>	<u>\$ 128,937</u>	<u>\$ 4,906,409</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF

MUTUAL SAVINGS FIRE INSURANCE COMPANY
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2019

LIABILITIES	
Losses	\$207,420
Other Expenses excluding taxes, licenses and fees	14,214
Taxes, licenses, and fees excluding federal and foreign income taxes	45,217
Current Federal and foreign income taxes	109
Advance Premium	39,019
Ceded reinsurance premiums payable net of ceding commissions	421,119
Remittances and items not allocated	1,174
Payable to parent, subsidiaries, and affiliates	182,363
Payable for securities	5,250
Aggregate write-ins for liabilities	<u>29,005</u>
Total Liabilities	<u>944,891</u>
Common capital stock	1,500,000
Gross paid in and contributed surplus	2,400,000
Unassigned funds surplus	<u>61,518</u>
Surplus as regards to policyholders	<u>3,961,518</u>
Total	<u>\$4,906,409</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS
REPORT ARE AN INTERGRAL PART THEREOF**

MUTUAL SAVINGS FIRE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2015, 2016, 2017, 2018 and 2019

	2015	2016	2017	2018	2019
Underwriting Income					
Premiums earned					
Losses Incurred					
Loss expenses incurred					
Other underwriting expenses Incurred					
Total underwriting deductions					
Net underwriting gain/(loss)					
Investment Income					
Net investment income earned	71,315	77,146	86,972	90,568	98,175
Net realized capital gains/(losses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>48,771</u>	<u>13</u>
Net investment gain/(loss)	71,315	77,146	86,972	139,339	98,188
Other Income					
Total other income					
Net income after dividends to policyholders, after capital gains tax and before all federal and foreign Income tax	\$71,315	\$77,146	\$86,972	\$139,339	\$98,188
Federal and foreign income taxes Incurred	<u>(152,649)</u>	<u>(149)</u>	<u>4,224</u>	<u>(9,391)</u>	<u>(20)</u>
Net Income	<u>\$223,964</u>	<u>\$77,295</u>	<u>\$82,748</u>	<u>\$148,729</u>	<u>\$98,208</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS
REPORT ARE AN INTERGRAL PART THEREOF

MUTUAL SAVINGS FIRE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31, 2015, 2016, 2017, 2018 and 2019

	2015	2016	2017	2018	2019
Surplus as regards policyholders, December 31 prior year	\$3,828,621	\$3,932,721	\$3,981,110	\$3,989,705	\$4,216,268
Net income	223,964	77,295	82,748	148,729	98,208
Change in net unrealized capital gains or losses	(4,899)	1,796	3,947	(15,163)	
Change in net deferred income tax	(164,069)	(12,919)	(157,315)	(32,602)	(33,649)
Change in non-admitted assets	49,103	(17,782)	154,215	125,600	(19,309)
Dividends to Stockholders			(75,000)		(300,000)
Change in surplus as regards policyholders for the year	<u>104,100</u>	<u>48,389</u>	<u>8,595</u>	<u>226,563</u>	<u>(254,749)</u>
Surplus as regards policyholders, December 31 current year	<u>\$3,932,721</u>	<u>\$3,981,110</u>	<u>\$3,989,705</u>	<u>\$4,216,268</u>	<u>\$3,961,518</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS
REPORT ARE AN INTERGRAL PART THEREOF**

NOTES TO FINANCIAL STATEMENTS

Analysis of Changes to Surplus

No changes were made to surplus.

COMMENTS AND RECOMMENDATIONS

Board of Directors – Page 4

It is recommended that the Company ensure that one-third of its Directors are Alabama residents in accordance with ALA. CODE § 27-27-23a(1975) which states: “The affairs of every domestic insurer shall be managed by not less than three directors, and at least one-third of the directors shall be bona fide residents of this state.”

Employee and Agent Welfare – Page 16

It is recommended that the Company apply the procedure, to determine if an existing employee has been convicted of a Title 1033 offense, on a periodic basis as is required by ALA. ADMIN CODE 482-1-146-.11(2009), which states:

(1) A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting. (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department. (3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

Compliance with producer licensing requirements – Page 19

It is recommended that the Company send notifications to the terminated producers' last known addresses in compliance with ALA. CODE § 27-7-30.1(a)(1975), which states: "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address."

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The examiners performed procedures to determine whether the Company complied with the recommendations in the Report of Examination as of December 31, 2014 conducted by the Alabama Department of Insurance. The examination did not identify any instances in which the Company did not comply with previous examination recommendations.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by the Company's managers, a review of the Company's records and files for the period under examination, and a review of the records subsequent to the examination date. The reviews performed did not identify any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2019 examination date was done. The following item was noted during the review:

- Effective September 2020, Cheryl K. Neal resigned from her positions as Director, Chairman of the Board and President of the Company, and as a member of the Executive and Investment Committees of the Board. Erich Sternberg was elected as interim President of the Company and elected to serve as Director and Chairman of the Board. Tim Stonehocker was appointed by the Board to replace Mr. Sternberg.

The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U. S. and global insurance and reinsurance industry. At the time of releasing of this report, the examination's review of Mutual Savings Life Insurance Company noted that there

has not been a significant impact to the Company, primarily due to reserves established based on what are still reasonable mortality assumptions even after the outbreak and the adaptation of business practices as respects marketing and sales and servicing of existing policies to facilitate the safety of the Company's agents and consumers. The Alabama Department of Insurance (the Department) has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

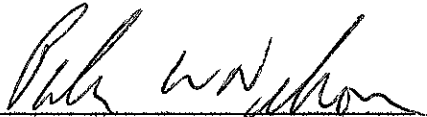
CONCLUSION

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

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, AIE, ALMI, MCM; Jacob Grissett, CFE (Fraud); and David Martin, Examiners; David Gordon, CISA, CIA, CFE (Fraud), CDFE, MBA, Jim Coyle, CISA, and Lisa Bringman, CRP, CBA, IT Specialists representing INS, represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,



Palmer W. Nelson, CFE, CIE, MCM
Examiner-in-charge
Alabama Department of Insurance