# STATE OF OREGON

# DEPARTMENT OF CONSUMER & BUSINESS SERVICES

# DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**VALLEY PROPERTY & CASUALTY INSURANCE COMPANY**
**SALEM, OREGON**

AS OF

DECEMBER 31, 2018

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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**SALEM, OREGON**

**NAIC COMPANY CODE 10698**

AS OF

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## SALUTATION

May 15, 2020

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**VALLEY PROPERTY & CASUALTY INSURANCE COMPANY**
**4263 Commercial Street, Suite 400**
**Salem, Oregon 97301**

**NAIC Company Code 10698**

Hereinafter referred to as the "Company." The following report is respectfully submitted.

## SCOPE OF EXAMINATION

We have performed our regular, multi-state, full-scope examination of Valley Property & Casualty Insurance Company. The examination was conducted in conjunction with the coordinated examination of the Kemper Insurance Group, with the State of Illinois as the lead state. The last examination of this property and Casualty insurer was completed as of December 31, 2013. This examination covers the period of January 1, 2014, to December 31, 2018.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in 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 ORS 731.302 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 the Company.

## COMPANY HISTORY

The Company was incorporated in Oregon on December 5, 1996, received a Certificate of Authority to act as a property casualty insurer on December 30, 1996, and commenced business on February 2, 1997.

### *Capitalization*

The Company is a for-profit stock insurer. As of December 31, 2018, the Company's Articles authorized 100,000 shares of common stock, with a par value of $280 per share. The Company reported 12,550 shares currently issued and outstanding. Trinity Universal Insurance Company, the Company's direct parent, owns 100% of the issued and outstanding shares as of December 31, 2018.

### *Dividends to Stockholders and Other Distributions*

During the period under examination, the Company did not declare or pay any dividend to its stockholder or make any distribution.

## CORPORATE RECORDS

### *Board Minutes*

In general, the review of the 2018 Board meeting minutes indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. The minute books also contained accompanying documentation that supported the minutes. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review. The annual meeting of the shareholders of the corporation shall be held each year as designated by the Board of Directors. The Bylaws state that special meetings may be called at any time by the president or by the members of the Board of Directors.

***Articles of Incorporation***

The Company's restated Articles of Incorporation were most recently amended on August 10, 2007. The Articles of Incorporation conformed to the Oregon Insurance Code.

***Bylaws***

The Company's Bylaws were last amended on August 10, 2008. The Bylaws conformed to Oregon statutes.

## MANAGEMENT AND CONTROL

***Board of Directors***

Management and control of the Company is vested in a Board of Directors. Article III, Section 2 of the Company's Bylaws designates that the Board shall be comprised of not less than five nor more than eight members, the exact number thereof to be fixed by resolution of the Board of Directors. As of December 31, 2018, the Company was governed by a six member Board of Directors as follows:

| Name and Address | Principal Affiliation | Member Since |
|---|---|---|
| John Michael Boschelli<br>Geneva, Illinois | Executive Vice-President, Chief Investment Officer<br>Kemper Corporation | 2009 |
| Stephne Denise Challender<br>Salem, Oregon | Casualty Manager<br>Kemper Property & Casualty | 2016 |

| Name and Address | Principal Affiliation | Member Since |
|---|---|---|
| Troy Johnathan McGill<br>Cross Plains, Wisconsin | Vice President, Tax<br>Kemper Corporation | 2017 |
| Maxwell Thomas Mindak<br>Elmhurst, Illinois | Vice-President & Chief Risk Officer<br>Kemper Corporation | 2013 |
| Robert Francis Otis<br>Waco, Texas | President<br>Kemper Personal Insurance | 2018 |
| Misty Dawn Zerkel<br>Stayton, Oregon | Senior Manager, Special Investigation Unit<br>Kemper Property & Casualty | 2017 |

Note: No Chairman has been designated

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute.

***Officers***

Principal officers serving at December 31, 2018, were as follows:

| Name | Title |
|---|---|
| Robert Francis Otis | President |
| Andrew Duncan MacDonald | Senior Vice President |
| Amy Elizabeth Pinkerman Condo | Secretary |
| Nathan Alexander Smith | Treasurer |

***Conflict of Interest***

The Company is party to the Kemper Corporation's Code of Business Ethics and Conduct, which requires officers, directors, and selected responsible employees to report annually any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

***Insurance Company Holding System***

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following table depicts the relationships of the Company within the holding company system (all ownership was 100 percent unless otherwise noted):

Kemper Corporation (Delaware)

- KAHG LLC (Illinois)
- Kemper Corporate Services, Inc. (Illinois)
- Trinity Universal Insurance Company (Texas)
    - Alpha Property & Casualty Insurance Company (Wisconsin)
    - Charter Indemnity Company (Texas)
    - Direct Response Corporation (Delaware)
        - Response Insurance Company (Illinois)
            - Kemper Financial Indemnity Company (Illinois)
            - Response Worldwide Insurance Company (Illinois)
        - Warner Insurance Company (Illinois)
        - Response Worldwide Direct Auto Insurance Company (Illinois)
    - Financial Indemnity Company (Illinois)
    - Kemper General Agency (Texas)
    - Kemper Independence Insurance Company (Illinois)
    - Merastar Industries, LLC (Delaware)
        - Merastar Insurance Company (Illinois)
        - Security One Agency, LLC (Tennessee)
    - NCM Management Corporation (Delaware)
    - Union National Fire Insurance Company (Louisiana)
    - United Casualty Insurance Company of America (Illinois)
    - Unitrin Advantage Insurance Company (New York)
    - Unitrin Auto and Home Insurance Company (New York)
    - Unitrin Direct Insurance Company (Illinois)
    - Unitrin Direct Property & Casualty Company (Illinois)
        - Kemper Personal Insurance Agency Inc. (Texas)
    - Unitrin Preferred Insurance Company (New York)
    - Unitrin Safeguard Insurance Company (Wisconsin)
    - **Valley Property & Casualty Insurance Company (Oregon)**
- United Insurance Company of America (Illinois)
    - Mutual Savings Life Insurance Company (Alabama)
        - Mutual Savings Fire Insurance Company (Alabama)
    - Reserve National Insurance Company (Oklahoma)
        - Summerset Marketing Company (Oklahoma)
            - National Association of Self-Employed Business Owners (Oklahoma)
            - Rural American Consumers A National Association (Oklahoma)
    - The Reliable Life Insurance Company (Missouri)
        - Family Security Funerals Company (Texas)
    - Union National Life Insurance Company (Louisiana)

A description of the direct owners within the holding company system is as follows:

Kemper Corporation is a Delaware domiciled publically traded insurance and consumer finance corporation (NYSE: KMPR). It is a holding company owning a number of property and casualty and life and health insurers. It would be considered the ultimate controlling entity of the Company.

Trinity Universal Insurance Company (Trinity) is a Texas domiciled property and casualty insurer licensed multiple classes of insurance in Oregon and wholly owned by Kemper. It holds 100% of the common capital stock of the Company and is the direct parent.

## INTERCOMPANY AGREEMENTS

The Company was party to the following agreements with its parent and affiliates as of December 31, 2018:

General Services Agreement

Effective January 1, 2009, the Company entered into a General Services Agreement with an affiliate, Merastar Insurance Company (Merastar). Under the agreement, Merastar agrees to provide marketing, underwriting, losses, claim expenses, attorney appointments, loss reporting and reinsurance, facilities, supplies and staffing, and accounting services. During 2018, there were no expenses charged to the Company under this agreement, since expenses are net of reinsurance. Payments for such services and expenses shall be made within thirty (30) days after the close of the quarter. The agreement will be in effect unless terminated by either Merastar or Company upon not less than ninety (90) days prior written notice to the other. The agreement was terminated effective as of February 1, 2019.

Services Agreement

Effective December 21, 2012, and Amended and Restated on December 31, 2015, the Company entered into a Service Agreement with Kemper Corporate Services, Inc. (KCS), an affiliate, whereby KCS provides the companies with certain general and computer services. General services provided include, but are not limited to the following: financial accounting and reporting, internal audit including field audit, investment accounting, loss reserving and actuarial reports and opinions, tax accounting and tax advice, tax return preparation, and trade execution and investment analysis, payroll processing and administration, purchasing and accounts payable, accounts receivable, licensing, regulatory and bureau reporting, real estate and facility management, automobile fleet management, and maintenance of financial systems, cash management and bank relations; corporate development; capital project review and evaluation, and financial planning and analysis of results of operations, administration of postretirement, life and medical benefits; benefit plan maintenance, reporting and support, and human resource management (including recruitment, training and salary and performance administration), corporate secretarial functions, legal support and advice, and risk management, branding, communications, and media relations.

Computer and Information Technology Services, provided include, but are not limited to the following: 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, purchase, lease, license or otherwise acquisition of computer hardware and equipment, licensing and/or otherwise acquisition of computer software, information technology consulting and related services.

Invoices for services are prepared by Kemper Services and forwarded to Company no less frequently than monthly. Payments for such services and expenses shall be made within thirty (30) days after receipt of invoices. The agreement was terminated effective as of February 1, 2019.

Assignment and Consent Agreement

Effective January 1, 2009, the Company entered into Assignment and Consent Agreements whereby Trinity and the Company assigned administration of the business reinsured by Trinity under the 100% quota share reinsurance agreement to Merastar. Under the agreements, Merastar agrees to provide administrative services for those policies for which Trinity has assumed based on a 100% quota share reinsurance agreement entered into by Trinity and the Company effective January 1, 2009. Under the Consent, Trinity agreed to pay Merastar's fees in performing these services.

The Company is party to a general services agreement with Trinity. According to the agreement, Trinity is responsible for providing the Company the following services: executive management, financial accounting and reporting, purchasing and accounts payable, financial planning and analysis of operations, marketing and actuarial services, and certain MIS support and advice. Terms of the agreement call for the Company to reimburse Trinity based on hours of services provided or on actual costs incurred for out of pocket items.

Information Technology Services Agreement

Effective January 1, 2009, the Company entered into an information technology services Agreement with Unitrin Direct Property & Casualty Company (UDPC). Under the terms of the contract, UDPC will provide information technology services, such as IT applications and consulting services with respect to technology shared among the Unitrin, Kemper Corporation property and casualty affiliates. Payments for such services and expenses shall be made within thirty (30) days after the close of the quarter. The agreement will be in effect unless terminated on a date determined by company and communicated to UDPC, or by either Company or UDPC upon not less than ninety (90) days prior written notice to the other.

Tax Allocation Agreement

Effective for tax years ending December 31, 1999, the Company is party to a written tax sharing agreement with Kemper Corporation, and its eligible subsidiaries. Under this tax allocation agreement, the Company files a consolidated federal income tax return with Kemper Corporation and its eligible subsidiaries.

The tax sharing agreement states that each participant in the agreement shall be allocated tax as if it filed a separate company return and the tax liability can be no greater under the agreement than it would have been had a separate tax return been filed for all years in the consolidated period.

## FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages.

Kemper Corporation purchased financial institution bond coverage for itself and its subsidiaries, including the Company. This bond covers losses from forgery or alteration, securities, computer systems, trading losses and extortion up to $20,000,000 with a $500,000 single loss deductible. The Company's fidelity coverage met the limits recommended by the NAIC.

Kemper Corporation purchased other coverage for itself and its subsidiaries, including the Company. Kemper's insurance coverages include Insurance Company Errors and Omissions, Directors and Officers Liability Insurance, Employment Practices Liability, Property Damage, Cyber Risk and General Liability Insurance, among other insurances. Coverages are typically renewed annually.

## TERRITORY AND PLAN OF OPERATION

The Company is authorized to write property, casualty including workers' compensation, health, and inland marine in Oregon. It is also authorized in the States of Washington, and Wisconsin. Direct premiums written in 2018 were:

| State | Direct Premiums Written | Percentage |
|---|---|---|
| Oregon | $ 13,034,889 | 97.1% |
| Washington | 382,655 | 2.9% |
| Wisconsin | - | -% |
| Total | $ 13,417,544 | 100.0% |

The following is a breakdown of the direct premiums written in 2018:

| Lines of Business | Premium | Percentage |
|---|---|---|
| Fire | $ 362,036 | 2.7% |
| Allied lines | 220,819 | 1.6% |
| Homeowners multiple peril | 3,670,504 | 27.4% |
| Inland marine | 126,620 | 0.9% |
| Earthquake | 182,172 | 1.4% |
| Other liability – occurrence | 299,044 | 2.2% |
| Private passenger auto liability | 5,798,935 | 43.2% |
| Auto physical damage | 2,757,414 | 20.6% |
| Totals | $ 13,417,544 | 100.0% |

## GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

| Year | Assets | Liabilities | Capital and Surplus | Net Income (Loss) |
|---|---|---|---|---|
| 2014 | $ 12,126,369 | $ 4,849,625 | $ 7,276,743 | $ 233,611 |
| 2015 | 12,182,024 | 4,629,996 | 7,552,028 | 280,527 |
| 2016 | 12,581,500 | 4,824,723 | 7,756,777 | 255,661 |
| 2017 | 12,317,861 | 4,324,361 | 7,993,500 | 260,181 |
| 2018* | 11,927,948 | 3,541,689 | 8,386,259 | 298,465 |

*Per examination

## REINSURANCE

Under an amended and restated 100% quota share reinsurance agreement effective January 1, 2009, restating the 100% quota share agreement effective June 1, 1999, the Company cedes, net of third party reinsurance, 100% of premiums, losses and loss adjustment expenses for prior period business and current in-force business to Trinity. The Company cedes all of the risks associated with policies written in exchange for the entire premium written. Under the terms of the agreements, Trinity is authorized to collect premiums directly from policyholders and to administer policies for the ceding companies. The Company and Trinity then entered into assignment and consent agreements to assign the administration authority to Merastar.

The Company is included in the group of companies named as ceding insurers on the following reinsurance treaties in effect as of December 31, 2018.

Effective January 1, 2018, the subsidiaries of Kemper Corporation entered into a one-year Aggregate Excess Property Catastrophe agreement with various authorized and unauthorized reinsurers. Under the terms of the agreement, the subsidiaries retain the first $60 million in the aggregate of the ultimate net loss arising out of loss occurrences commencing during the term of the contract for Kemper Preferred Homeowners (property only) business underwritten by the Kemper Property and Casualty Group of Kemper Corporation. The reinsurers are then liable for amounts exceeding the aggregate retention up to $50 million. All gross losses are ceded up to Trinity per the above Quota Share Agreement and the cessions to external reinsurers takes place at the Trinity level.

Effective January 1, 2018, the subsidiaries of Kemper Corporation entered into a one-year two-layered Casualty Excess of Loss agreement with various authorized and unauthorized reinsurers for casualty business underwritten by the Kemper Property and Casualty Group of Kemper Corporation. Under the terms of the agreement, the subsidiaries retain $2,000,000 per loss occurrence for the first excess layer and $7,500,000 per loss occurrence for the second excess layer. The reinsurers are then liable for up to $5,500,000 per loss occurrence for the first excess layer and up to $7,500,000 per loss occurrence for the second excess layer. The reinsurers liability for all loss occurrences during the contract term (one year) is $27,500,000 for the first excess layer, and $15,000,000 for the second excess layer. The reinsurers liability for all loss occurrences during the contract term and the runoff period combined is $38,500,000 for the first excess layer, and $15,000,000 for the second excess layer. All gross losses are ceded up to Trinity per the above Quota Share Agreement and the cessions to external reinsurers takes place at the Trinity level.

Effective January 1, 2018, the subsidiaries of Kemper Corporation entered into a three-year Property Catastrophe Excess of Loss agreement with various authorized and unauthorized reinsurers for property business underwritten by the Kemper Property and Casualty Group of

Kemper Corporation. Under the terms of the agreement, the subsidiaries retain $50,000,000 of the ultimate net loss arising out of loss occurrences. The reinsurers are then liable up to 95% of $33,333,333 for each occurrences in excess of $50 million and up to 95% of $66,666,666 for all losses arising out of loss occurrences in excess of $150 million for each contract year. All gross losses are ceded up to Trinity per the above Quota Share Agreement and the cessions to external reinsurers takes place at the Trinity level. Similar three-year Property Catastrophe Excess of Loss agreements effective January 1, 2016 and 2017 were also in place covering losses in 2018. Accordingly, the Property Catastrophe Excess of Loss agreements collectively provided 95% of $100 million of losses in excess of $50 million and 95% of $200 million of losses in excess of $150 million for losses occurring in 2018.

Trinity and its affiliates utilized Aon Benfield, Inc., as its reinsurance intermediary.

Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

## ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2018, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

## STATUTORY DEPOSIT

As of December 31, 2018, the Company maintained a $125,000 par value security deposit (US Treasury Note) with the Oregon Division of Financial Regulation for the purposes of complying with workers' compensation deposit requirements pursuant to ORS 731.628.

## COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no comments or recommendations made in the prior examination.

## SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on the Company cannot be fully addressed within this examination report.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on 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. These statements include:

Statement of Assets
Statement of Liabilities, Surplus, and Other Funds
Statement of Income
Reconciliation of Capital and Surplus Since the last Examination

# VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
## ASSETS
### As of December 31, 2018

| Assets | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|---|---|---|---|
| Bonds | $ 8,209,112 | $ - | $ 8,209,112 | 1 |
| Cash, cash equivalents and short-term investments | 492,131 | | 492,131 | 1 |
| Aggregate write-ins for invested assets | - | - | - | |
| Subtotal, cash and invested assets | 8,701,243 | $ - | 8,701,243 | |
| Investment income due and accrued | 45,453 | - | 45,453 | |
| Premiums and considerations | | | | |
| Uncollected premiums, agents' balances in course of collection | 405,031 | - | 405,031 | |
| Deferred premiums, agents' balances and installments not yet due | 2,615,385 | - | 2,615,385 | |
| Reinsurance | | | | |
| Amounts recoverable from reinsurers | | - | | |
| Current FIT recoverable | | | | |
| Net deferred tax assets | 138,256 | - | 138,256 | |
| Receivable from parent, subsidiaries and affiliates | 15,004 | | 15,004 | |
| Aggregate write-ins for other than invested assets | 7,577 | - | 7,577 | |
| Total Assets | $ 11,927,948 | $ - | $ 11,927,948 | |

# VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
# LIABILITIES, SURPLUS AND OTHER FUNDS
# As of December 31, 2018

| | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|---|---|---|---|
| Losses | $ - | $ - | $ - | 2 |
| Loss adjustment expenses | - | - | - | 2 |
| Commissions payable, contingent commissions and other similar charges | 222,485 | | 222,485 | |
| Other expenses | - | - | - | |
| Taxes, licenses and fees (excl. FIT) | 54,907 | - | 54,907 | |
| Unearned premiums | - | - | - | |
| Advance premium | 127,806 | - | 127,806 | |
| Ceded reinsurance premium payable | 3,021,488 | - | 3,021,488 | |
| Payable to parent, subsidiaries and affiliates | 115,003 | - | 115,003 | |
| Aggregate write-ins for liabilities | - | - | - | |
| Total Liabilities | $ 3,541,689 | $ - | $ 3,541,689 | |
| | | | | |
| Common capital stock | $ 3,514,000 | $ - | $ 3,514,000 | |
| Gross paid-in and contributed capital | 4,225,00 | - | 4,225,00 | |
| Unassigned funds (surplus) | 647,259 | - | 647,259 | |
| Surplus as regards policyholders | 8,386,259 | - | 8,386,259 | |
| Total Liabilities, Surplus and other Funds | $ 11,927,948 | $ - | $ 11,927,948 | |

## VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
## STATEMENT OF INCOME
### For the Year Ended December 31, 2018

| | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|---|---|---|---|
| **Underwriting income** | | | | |
| Premium earned | $ - | $ - | $ - | |
| **Deductions** | | | | |
| Losses incurred | - | - | - | |
| Loss adjustment expenses incurred | - | - | - | |
| Other underwriting expenses | - | - | - | |
| Aggregate write-ins for underwriting deductions | - | - | - | |
| Total underwriting deductions | - | - | - | |
| Net underwriting gain or (loss) | - | - | - | |
| **Investment income** | | | | |
| Net investment income earned | 264,326 | - | 264,326 | |
| Net realized gains or (losses) | 26,879 | - | 26,879 | |
| Net investment gain or (loss) | 291,205 | - | 291,205 | |
| **Other income** | | | | |
| Net gain or (loss) from agents' or premium balances charges off | - | - | - | |
| Finance and service charges not included in premiums | - | - | - | |
| Aggregate write-ins for miscellaneous income | - | - | - | |
| Total other income | - | - | - | |
| Net income before dividends to policyholders and income taxes | 291,205 | - | 291,205 | |
| Dividends to policyholders | - | - | - | |
| Federal income taxes incurred | (7,260) | - | (7,260) | |
| Net income | $ 298,465 | $ - | $ 298,465 | |

# VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
## RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
### For the Year Ended December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Surplus as regards policyholders, December 31, previous year | $ 7,993,500 | $ 7,756,777 | $ 7,552,024 | $ 7,276,743 | $ 6,981,464 |
| Net income (loss) | 298,465 | 260,181 | 255,661 | 280,527 | 233,611 |
| Change in net unrealized capital gains or (losses) | - | - | - | - | - |
| Change in net deferred income tax | 10,493 | (106,045) | (102,145) | (91,825) | 2,851 |
| Change in non-admitted assets | 83,802 | 82,587 | 51,233 | 86,583 | 58,817 |
| Change in provision for reinsurance | - | - | - | - | - |
| Change in surplus notes | - | - | - | - | - |
| Cumulative effects of changes in accounting principles | - | - | - | - | - |
| Capital changes: | | | | | |
| Paid in | - | - | - | - | - |
| Transferred from surplus (Stock Dividend) | - | - | - | - | - |
| Transferred to surplus | - | - | - | - | - |
| Surplus adjustments: | | | | | |
| Paid in | - | - | - | - | - |
| Transferred to capital (Stock Dividend) | - | - | - | - | - |
| Transferred from capital | - | - | - | - | - |
| Distributions to parent (cash) | - | - | - | - | - |
| Change in treasury stock | - | - | - | - | - |
| Examination adjustment | - | - | - | - | - |
| Aggregate write-ins for gains and losses in surplus | - | - | - | - | - |
| Change in surplus as regards policyholders for the year | 392,760 | 236,723 | 204,749 | ,275,285 | 295,280 |
| Surplus as regards policyholders, December 31, current year | $ 8,386,259 | $ 7,993,500 | $ 7,756,777 | $ 7,552,024 | $ 7,276,743 |

## NOTES TO FINANCIAL STATEMENTS

### *Note 1 – Invested Assets*

The Company's long-term bond investments were diversified in US government issuer obligations, US states, territories and possessions issuer obligations, US political subdivisions obligations, US special revenue bonds, and one corporate issue. The Company had a moderate exposure to residential mortgage-backed securities. All MBS issues were investment rated at year-end 2018, and the book carrying value of $3,808,538 comprised 46.4% percent of the total long-term bond portfolio, and 43.8% of all invested assets.

Cash and short-term deposits consisted of cash on deposit and a US Treasury Bill.

A comparison of the major investments over the past five years shows the following:

| Year | A<br>Bonds | B<br>Cash and<br>Short-term | Ratio<br>A/<br>Total Assets | Ratio<br>B/<br>Total Assets |
|---|---|---|---|---|
| 2014 * | $ 7,466,622 | $ 303,704 | 61.5% | 2.5% |
| 2015 | 7,531,066 | 288,900 | 61.8% | 2.4% |
| 2016 | 7,804,068 | 275,840 | 62.0% | 2.2% |
| 2017 | 8,152,836 | 268,319 | 66.2% | 2.2% |
| 2018 * | 8,209,112 | 492,131 | 68.8% | 4.1% |

* Balance per examination

The Board of Directors approved the investment transactions, pursuant to ORS 733.730. As of December 31, 2018, sufficient invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, as required by ORS 733.580.

Effective October 11, 1999, the Company entered into a custodial agreement with BNY Midwest Trust Company. The agreement did not contain all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

**I recommend the Company revise its custodial agreement to include all of the relevant protections pursuant to the provisions of OAR 836-027-0200(4)(a) through (l).**

### *Note 2 – Actuarial Reserves*

David Dahl, FCAS, MAAA, Oregon Division of Financial Regulation P&C actuary, reviewed the Company's loss reserves at December 31, 2018. His findings and scope of review are contained in a memorandum. He reviewed the actuarial examination summary for Trinity Universal Insurance Company (TUIC) and the 2018 Statements of Actuarial Opinion for Valley Property &

Casualty Insurance Company (VPCIC) and TUIC. TUIC is the lead company in an intercompany pooling arrangement between several affiliate companies in the Kemper Property and Casualty group of companies, which includes VPCIC. The purpose of this review was to determine in general if the company's liabilities were reasonably stated and identify any areas where there may be significant risks.

His conclusion was that there do not appear to be any material risks to Valley Property & Casualty Insurance Company's liabilities for Loss and Loss Adjustment Expense as of December 31, 2018 arising from their intercompany pooling arrangement. There do not appear to be any significant pricing, underwriting or liquidity risks that need to be investigated in greater detail.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments to the Company's surplus; however, the following is a summary of the recommendations made in this report of examination.

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22 I recommend the Company revise its custodial agreement to include all of the relevant protections pursuant to the provisions of OAR 836-027-0200(4)(a) through (l).

## CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from $6,981,464, as presented in the December 31, 2013, report of examination, to $8,386,259, as shown in this report. The comparative assets and liabilities are:

| | December 31, 2018 | December 31, 2013 | Change |
|---|---|---|---|
| Assets | $ 11,927,948 | $ 12,262,065 | $ (334,117) |
| Liabilities | 3,541,689 | 5,280,601 | 1,738,912 |
| Surplus | $ 8,386,259 | $ 6,981,464 | $ 1,404,795 |

## ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Tho Le, AFE, and David Dahl, FCAS, MAAA, Property & Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

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Respectfully submitted,

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