

REPORT ON EXAMINATION
OF
MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY
1100 WALNUT STREET, SUITE 3010
KANSAS CITY, MISSOURI 64106
AS OF
DECEMBER 31, 2019

FILED

DEC 08 2020

VICKI SCHMIDT
Commissioner of Insurance

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Kansas City, Missouri
October 20, 2020

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of

MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY

with its statutory home office at:

**2900 SOUTHWEST WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614**

and its main administrative office at:

**1100 WALNUT STREET, SUITE 3010
KANSAS CITY, MISSOURI 64106**

hereinafter referred to as the "Company" or "MWBC". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners performed a multi-state financial examination of MWBC, a Kansas domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. The Kansas Insurance Department ("Department") performed concurrent four-year examinations on the Company's wholly-owned, capital-stock property and casualty

subsidiaries, Bearing Midwest Casualty Company (“BMCC”) and Horizon Midwest Casualty Company (“HMCC”).

The examination was conducted in accordance with the rules, regulations, and directives of the Department and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners 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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. The Department may have identified other items during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

Independent Audit Reports

The consolidated financial statements of the Company were audited by BKD, LLP for the years ending December 31, 2016, through December 31, 2019. In each of the years under examination, the auditors concluded that the consolidated financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

Actuarial Review

The Department retained the services of Madison Consulting Group, Inc. ("MCG"), in order to perform a review of the Company's actuarial practices and reserves held as of December 31, 2019. MCG's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of this examination.

COMPANY HISTORY

General

Builders' Mutual Casualty Company was incorporated in Kansas on January 9, 2008, as a mutual property and casualty insurance company under the provisions of K.S.A. 40-1201 *et seq.* The Company was formed by the management of the Builders' Association Self-Insurers' Fund of Kansas and the Builders' Association Self-Insurers'

Fund of Missouri (“Pools”) by assuming the assets and liabilities of both pools. The Company filed a certificate of amendment on November 20, 2008, and changed its name to Midwest Builders’ Casualty Mutual Company, effective November 21, 2008.

The Company incorporated BMCC and HMCC on January 19, 2012, and each company commenced business on July 1, 2012.

The Company’s third amended and restated bylaws were approved by the Board on December 22, 2011, and subsequently approved by the Department on October 2, 2012. The amendment established Series M and Series S membership, with each membership requiring members to be in good standing with the designated trade association. Series M members are individuals or entities who are policyholders, other than reinsurance contract, of the Company, while Series S members are individuals or entities with unexpired policies, not reinsurance, issued by a wholly-owned subsidiary of the Company.

Surplus Note

On June 30, 2017, the Company issued a surplus note at an interest rate equal to the greater of 8% or the 10-year US Treasury Bond rate plus 5.50%. As of December 31, 2019, the surplus note’s outstanding value was \$7,000,000. The surplus note matures on June 30, 2029, and the Department approved the issuance of the surplus note and all interest payments during the period under examination.

Dividends and Capital Contributions

The Company has not received any dividends from BMCC or HMCC during the examination period. In August 2018, the Company made a capital contribution of \$2,500,000 to HMCC. In May 2019, the Company made a capital contribution of \$300,000

to BMCC. Both capital contributions were made so BMCC and HMCC would meet the statutory surplus requirement in expansion states.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. The articles of incorporation were amended in 2016 and 2018 to change the registered agent's name and address. The bylaws were amended on June 22, 2016, to eliminate the mandatory sponsoring trade association membership requirement to be eligible to become a member of the Company. The amendments were properly filed with the Department.

MANAGEMENT AND CONTROL

Members

Article V, Section 1 of the Company's bylaws provides that: "The annual meeting of Members shall be held at the principal office of the Corporation or at such other place within or outside of the State of Kansas as the Board of Directors shall determine during the month of September of each year, commencing with the year 2008."

Article V, Section 4 of the Company's bylaws provides that: "Each Member is entitled to as many votes for directors as there are directors to be elected except for the director positions to be held by the President and Vice President of the Corporation, who shall be elected by the Board of Directors, and who are automatically members of the Board of Directors pursuant to Article VIII, Section 3. Series M Members shall be entitled to one (1) vote on each other matter voted on at meetings of the Members that is not related to the election of directors. Both Series M and Series S Members shall have the right to vote on any resolution calling for the dissolution of the Corporation. Each Member shall have the right to cast as many votes in the aggregate as shall equal the number of directors to be regularly elected, except for the director positions to be held by the

President and the Vice President of the Corporation, who shall be elected by the Board of Directors, and who are automatically members of the Board of Directors pursuant to Article VIII, Section 3, and each Member entitled to cast a vote may cast the whole number of votes for one (1) candidate or may divide such votes among two (2) or more candidates. Such right to vote may be exercised in person or pursuant to written proxy.”

Board of Directors

Article VI, Section 1 of the Company’s bylaws provides that: “The Corporation’s affairs shall be governed and conducted by the Board of Directors, which shall consist of at least five (5) members but not more than twenty five (25) members, who may or may not be Series M or Series S members, except for the President and the Vice President who shall be elected by the Board and who are automatically members of the Board of Directors pursuant to Article VIII, Section 3.”

Article VI, Section 2 of the Company’s bylaws provides that: “Each director shall hold office until a successor is appointed or elected and begins service on the Board of Directors.”

Article VI, Section 4 of the Company’s bylaws provides that: “In order to provide for staggered terms of office, the initial directors will be equally divided, as evenly as possible; into three (3) classes with respect to the time they will hold office and stand for election. The term of the directors in the first class shall expire at the 2009 annual meeting of the Members. The term of the directors in the second class shall expire at the 2010 annual meeting of the Members. The term of the directors in the third class shall expire at the 2011 annual meeting of the Members. At the expiration of the term of any member of the Board of Directors, the Corporation’s Members shall elect a new director in accordance with provisions determined by the Board of Directors. Each director elected

by the Members following the term of an initial director shall serve a three (3) year term, except for the director positions held by the President and the Vice President of the Corporation, the terms of which shall expire when they are no longer elected by the Board of Directors to the offices of President and/or Vice President of the Corporation.”

Article VI, Section 5 of the Company’s bylaws provides that: “The Board of Directors shall elect a Chairman, a First Vice Chairman and a Second Vice Chairman from among the Board members and any other officers it deems necessary for the performance of its duties. Board committees and subcommittees may also be formed.”

The following is a listing of directors and their position(s) held as of December 31, 2019:

<u>Director</u>	<u>Position(s) Held</u>
Charles W. Haren III Chairman	President Haren & Laughlin Construction Co., Inc.
Robert P. Daly Jr.	President Kaw Roofing & Sheet Metal, Inc.
Joseph T. Fahey 2 nd Vice Chairman	Chief Executive Officer (Retired) J. M. Fahey Construction Company
Walker R. Gray	President Gray & Company, Inc.
Leon J. Keller	Vice President Meyer Electric Company Inc.
Mark R. Teahan 1 st Vice Chairman	Chief Financial Officer and Vice President George J. Shaw Construction Company
James L. Wilkinson	Partner and Senior Vice President (Retired) Cretcher Lynch & Cretcher Heartland

Committees

Article VI, Section 5 of the Company’s bylaws provides that: “The Board shall form an executive committee consisting of the Chairman, First Vice Chairman and Second

Vice Chairman and to also include other Board members or officers of the Corporation, provided such officers shall be non-voting members of the executive committee. The executive committee shall also be used to review and nominate individual candidates to serve on the Board of Directors.

With respect to the formation of such committees and subcommittees, the Board of Directors, by resolution adopted by a majority of the directors in office, may designate and appoint one (1) or more committees, each of which shall consist of one (1) or more directors, which committees, to the extent provided in such resolution, in the Articles, or in these Bylaws, shall have and exercise all the authority of the Board of Directors, except that no such committee shall have the authority of the Board of Directors in reference to amending, altering, or repealing the Bylaws; electing, appointing or removing any member of any such committee or any officer or director of the Corporation; amending the Articles of Incorporation, restating the Articles of Incorporation; adopting a plan of merger or adopting a plan of consolidation with another corporation; authorizing the sale, lease, exchange, or mortgage of all or substantially all of the property and assets of the Corporation; authorizing the voluntary dissolution of the Corporation or revoking proceedings therefore; adopting a plan for the distribution of the assets of the Corporation; or amending, altering, or repealing any resolution of the Board of Directors which, by its terms, provides that it shall not be amended, altered, or repealed by such committee; and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any individual director, of any responsibility imposed upon it or him by law.”

As of December 31, 2019, the committees established by the Board are as follows:

1) Audit and Investment and 2) Executive.

Officers

Article VIII, Section 1 of the Company's bylaws provides that: "The officers of the Corporation shall consist of a President, Vice President, Treasurer and Secretary and the Corporation may also have a Chief Executive Officer and a Chief Operating Officer, and such assistants to the Secretary or Treasurer as the Board of Directors may elect."

Article VIII, Section 2 of the Company's bylaws provides that: "The term of office of each officer shall expire one (1) year following his or her election, or upon the death, resignation, or removal of the officer, whichever occurs first. The officer shall serve until a successor officer takes office. Two or more offices may be held by the same person, except the offices of President and Secretary which may not be held by the same person."

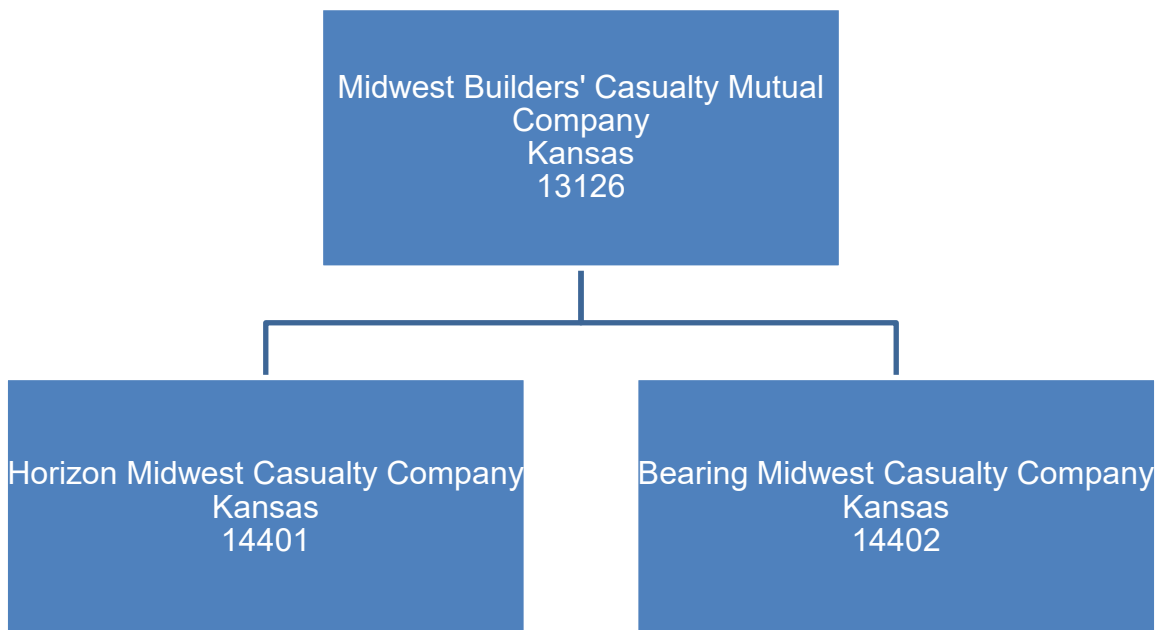
The following is a listing of officers and their position(s) held as of December 31, 2019:

<u>Officer</u>	<u>Position(s) Held</u>
Johnny D. Crowley Jr.	President
Melinda L. Yancey	Secretary and Vice President
Shannon L. Burns	Treasurer

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company submitted Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The following is an organizational chart showing the direct line of ownership as of December 31, 2019. All subsidiaries listed below are wholly-owned unless otherwise noted.



MWBC and its wholly-owned subsidiaries share a common Board and senior management. BMCC and HMCC are mono-line insurers writing workers' compensation coverage.

Intercompany/Cost Sharing Agreements

The Company entered into an Administrative Services Agreement, effective August 22, 2012, with BMCC and HMCC. In accordance with this agreement the Company provides producer management, reinsurance, legal, facilities management, tax and audit services, accounting, and supplies, as well as other services for the successful operation of the subsidiaries. The Company submits quarterly billings and is reimbursed its allocated costs for providing these services.

The Company entered into a Tax Allocation Agreement, effective October 12, 2015, with BMCC and HMCC. Each member of the group agrees to file consolidated tax returns for any year, as determined by the Company. Each member's federal income tax liability is limited to their federal income tax liability as if the member had filed separately from the group. Losses of any member may be carried backward or forward for the benefit of any member of the group, as allowed by the Internal Revenue Service or Treasury Regulation. State tax returns are handled on a basis that is consistent with the federal tax filings.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company is authorized to transact business in the following states:

Alabama	Indiana	Mississippi	North Carolina	Utah
Arizona	Iowa	Missouri	Oklahoma	West Virginia
Arkansas	Kansas	Montana	South Carolina	Wisconsin
Colorado	Kentucky	Nebraska	South Dakota	
Georgia	Louisiana	Nevada	Tennessee	
Illinois	Minnesota	New Mexico	Texas	

The NAIC Schedule T Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

The Company is a mono-line writer that writes workers' compensation coverage.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<i>(in thousands)</i>					
Admitted Assets	82,667	84,581	103,294	113,341	128,306
Liabilities	38,411	39,840	48,781	56,876	69,397
Capital and Surplus	44,256	44,741	54,513	56,465	58,909
Net Underwriting Gain/(Loss)	1,751	(246)	3,465	3,154	664
Net Income	1,825	869	2,333	1,809	1,652
Net Premiums Written	24,595	27,345	34,565	38,024	40,811

REINSURANCE

The Company, through a 100% quota share reinsurance agreement, assumes all the liabilities from losses and loss adjustment expenses for policies issued, renewed or assumed by BMCC and HMCC. This quota share reinsurance agreement was effective June 14, 2012, and terminates upon mutual agreement of all parties.

The Company assumes reinsurance from those states it is licensed and in which the state's workers' compensation reinsurance pool is managed by the National Council of Compensation Insurance.

The Company has two (2) excess of loss agreements in place which provide coverage for losses which exceed the Company's retention of \$1,000,000. The working layer excess of loss agreement provides coverage up to \$9,000,000 in excess of the Company's retention through a single reinsurer. The excess layer excess of loss agreement provides an additional \$15,000,000 in coverage above the working layer through several reinsurers who each accept an assigned portion of any losses which reach the excess layer.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. Any 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.

MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY
ASSETS
AS OF DECEMBER 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 73,293,490	\$ -	\$ 73,293,490
Common stocks	16,560,841	-	16,560,841
Cash and short-term investments	12,302,110	-	12,302,110
Investment income due & accrued	475,982	-	475,982
Uncollected premiums and agents' balances in the course of collection	495,665	-	495,665
Deferred premiums and agents' balances and installments booked but deferred and not yet due	15,796,759	59,346	15,737,413
Amounts recoverable from reinsurers	89,190	-	89,190
Net deferred tax asset	1,570,285	-	1,570,285
Electronic data processing equipment and software	29,165	-	29,165
Furniture and equipment	345,135	345,135	-
Receivables from parent, subsidiaries and affiliates	2,219,275	-	2,219,275
Healthcare and other amounts receivable	124,686	-	124,686
Aggregate write-ins for other than invested assets	5,594,773	187,103	5,407,670
Totals	<u>\$ 128,897,356</u>	<u>\$ 591,584</u>	<u>\$ 128,305,772</u>

MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2019

Losses	\$ 39,214,627
Loss adjustment expenses	6,119,151
Commissions payable, contingent commissions and other similar charges	444,176
Other expenses	487,386
Taxes, licenses and fees	184,362
Current federal and foreign income taxes	389,031
Borrowed money	140,000
Unearned premiums	12,270,773
Advance premiums	3,313,379
Ceded reinsurance premiums payable	(64,170)
Amounts withheld or retained by Company for account of others	3,848,064
Payable for securities	1,915,022
Aggregate write-ins for liabilities	1,134,857
Total liabilities	<u>\$ 69,396,658</u>
Surplus notes	\$ 7,000,000
Unassigned funds (surplus)	51,909,124
Surplus as regards policyholders	<u>\$ 58,909,124</u>
Total liabilities, capital and surplus	<u><u>\$ 128,305,782</u></u>

MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

UNDERWRITING INCOME

Premiums earned	\$ 37,823,239
DEDUCTIONS:	
Losses incurred	23,082,216
Loss adjustment expenses incurred	4,136,293
Other underwriting expenses incurred	9,940,564
Total underwriting deductions	\$ 37,159,073
Net underwriting gain	\$ 664,166

INVESTMENT INCOME

Net investment income earned	\$ 1,391,967
Net realized capital gains	1,460,685
Net investment gain	\$ 2,852,652

OTHER INCOME

Aggregate write-ins for miscellaneous income	\$ 12,061
Total other income	\$ 12,061

Net income before dividends and federal income taxes	\$ 3,528,879
Dividends to policyholders	1,250,000
Net income after dividends and before federal income taxes	\$ 2,278,879
Federal income taxes incurred	626,934
Net Income	\$ 1,651,945

MIDWEST BUILDERS' CASUALTY MUTUAL COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2015			<u>\$ 44,255,658</u>
Net income	2016	868,689	
	2017	2,333,212	
	2018	1,808,542	
	2019	<u>1,651,945</u>	6,662,388
Change in net unrealized capital gains or (losses)	2016	(236,588)	
	2017	291,001	
	2018	(524,699)	
	2019	<u>349,337</u>	(120,949)
Change in net deferred income tax	2016	(80,026)	
	2017	82,629	
	2018	609,898	
	2019	<u>523,042</u>	1,135,543
Change in nonadmitted assets	2016	(66,566)	
	2017	65,215	
	2018	(15,122)	
	2019	<u>(80,623)</u>	(97,096)
Change in surplus notes	2016	-	
	2017	7,000,000	
	2018	-	
	2019	<u>-</u>	<u>7,000,000</u>
Aggregate write-ins for gains or (losses) in surplus	2016	-	
	2017	-	
	2018	73,601	
	2019	<u>-</u>	<u>73,601</u>
Surplus as regards policyholders, December 31, 2019			<u><u>\$ 58,909,145</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2019, was \$58,909,124, which was the same amount reported by the Company in its 2019 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

No significant or material subsequent events were identified that warranted inclusion in this Report on Examination.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner, Ms. Tamara House, CFE, a Senior Insurance Examiner, and Mr. Tony Florez, CFE, a Senior Insurance Examiner, all representing the Department, participated in this examination.

Respectfully submitted,



Christopher W. Buchanan, CPA, CFE
Examiner-in-Charge
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Christopher W. Buchanan, being duly sworn, states as follows:

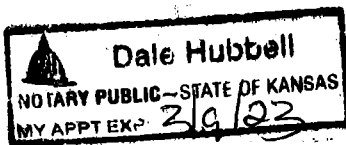
1. I have authority to represent the Kansas Insurance Department in the examination of Midwest Builders' Casualty Mutual Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Midwest Builders' Casualty Mutual Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

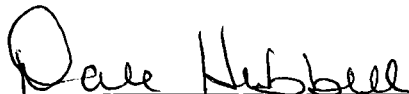


Examiner's Signature

Subscribed and sworn before me by Christopher W. Buchanan on this 4 day of December, 2020.



(SEAL)



Notary Public

My commission expires 3/9/23
(date)