

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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EMC INSURANCE GROUP INC

CIK: **356130** | IRS No.: **426234555** | State of Incorporation: **IA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-10956** | Film No.: **94527807**
SIC: **6331** Fire, marine & casualty insurance

Business Address
717 MULBERRY ST
DES MOINES IA 50309
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ to _____

Commission File Number: 0-10956

EMC INSURANCE GROUP INC.

(Exact name of registrant as specified in its charter)

Iowa

42-6234555

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

717 Mulberry Street, Des Moines, Iowa

50309

(Address of principal executive office)

(Zip Code)

(515) 280-2581

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes

of common stock, as of the latest practicable date.

Class -----	Outstanding at April 30, 1994 -----
Common stock, \$1.00 par value	10,389,361 -----

Total pages 14

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 1994 ----- (Unaudited)	December 31, 1993 -----
ASSETS		
Investments:		
Fixed maturities:		
Securities held-to-maturity, at amortized cost (market value \$206,025,828 and \$206,305,597)	\$201,205,044	\$191,010,623
Securities available-for-sale, at market value (cost \$118,383,097 and \$109,947,564)	119,154,774	113,081,580
Equity securities available-for-sale, at market value (cost \$0 and \$505,000)	-	475,000
	-----	-----
Total investments	320,359,818	304,567,203
Cash	1,154,304	675,203
Indebtedness of related party	-	12,291,512
Accrued investment income	4,927,282	4,835,451
Accounts receivable	890,242	415,215
Deferred policy acquisition costs	7,631,656	7,698,864
Deferred income taxes	14,198,211	13,040,693
Intangible assets, including goodwill, at cost less accumulated amortization of \$1,573,758 and \$1,540,130	1,984,062	2,017,690
Reinsurance receivables	18,168,801	18,477,406
Prepaid reinsurance premiums	3,215,294	2,832,184
Other assets	2,010,525	2,084,102

Total assets	\$374,540,195	\$368,935,523
	=====	=====

See accompanying Notes to Interim Consolidated Financial Statements.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 1994	December 31, 1993
	-----	-----
	(Unaudited)	
LIABILITIES		
Losses and settlement expenses	\$200,900,107	\$197,121,852
Unearned premiums	45,310,112	45,941,056
Other policyholders' funds	3,348,592	2,854,793
Indebtedness to related party	2,392,780	-
Income taxes payable	1,650,000	550,000
Postretirement benefits	3,677,807	3,537,449
Deferred income	1,598,960	1,717,641
Other liabilities	5,936,650	7,578,963
	-----	-----
Total liabilities	264,815,008	259,301,754
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value, authorized 20,000,000 shares; issued and outstanding, 10,397,451 shares in 1994 and 10,325,329 shares in 1993 ...	10,397,451	10,325,329
Additional paid-in capital	55,621,475	55,021,926
Unrealized holding gains on fixed maturity securities available-for-sale, net of tax.....	509,307	2,068,451
Unrealized holding losses on equity securities available-for-sale, net of tax	-	(19,800)
Retained earnings	43,278,340	42,319,249
Treasury stock, at cost (8,090 shares in 1994 and 1993)	(81,386)	(81,386)
	-----	-----
Total stockholders' equity	109,725,187	109,633,769
	-----	-----
Total liabilities and stockholders' equity	\$374,540,195	\$368,935,523
	=====	=====

EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Income
(Unaudited)

	Three months ended March 31,	
	1994	1993
REVENUES:		
Premiums earned	\$40,308,915	\$36,952,696
Investment income, net	4,925,577	5,375,769
Realized investment gains	307,204	40,926
Other income	118,681	-
	45,660,377	42,369,391
LOSSES AND EXPENSES:		
Losses and settlement expenses	30,585,898	27,202,684
Dividends to policyholders	1,030,156	583,729
Amortization of deferred policy acquisition costs	7,287,527	7,659,413
Other underwriting expenses	3,697,025	3,548,421
	42,600,606	38,994,247
Income before income taxes and cumulative effect of changes in accounting principles ...	3,059,771	3,375,144
INCOME TAXES:		
Current	1,121,750	1,120,632
Deferred	(364,523)	141,573
	757,227	1,262,205
Income before cumulative effect of changes in accounting principles	2,302,544	2,112,939
CUMMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES FOR:		
Income taxes	-	5,595,177
Postretirement benefits	-	(2,165,900)

Unearned premiums	-	(807,933)
	-----	-----
Net income	\$ 2,302,544	\$ 4,734,283
	=====	=====

See accompanying Notes to Interim Consolidated Financial Statements.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Income, Continued
(Unaudited)

	Three months ended March 31,	
	1994	1993
	-----	-----
EARNINGS PER COMMON SHARE:		
Income before cumulative effect of changes in accounting principles	\$.22	\$.21
Cumulative effect of changes in accounting principles for:		
Income taxes	-	.55
Postretirement benefits	-	(.21)
Unearned premiums	-	(.08)
	-----	-----
Net income	\$.22	\$.47
	=====	=====
Cash dividend per common share	\$.13	\$.13
	=====	=====
Average number of shares outstanding	10,336,183	10,117,185
	=====	=====

See accompanying Notes to Interim Consolidated Financial Statements.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended March 31,	
	----- 1994 -----	1993 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,302,544	\$ 4,734,283
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Cumulative effect of changes in accounting principles, net of tax	-	(2,621,344)
Losses and settlement expenses	3,778,255	(1,902,419)
Unearned premiums	(630,944)	(1,832,082)
Other policyholders' funds	493,799	(464,940)
Deferred policy acquisition costs	67,208	246,640
Indebtedness to related party	14,684,292	(5,968,027)
Accrued investment income	(91,831)	(399,138)
Accrued income taxes:		
Current	1,100,000	1,194,000
Deferred	(364,523)	141,573
Provision for amortization	2,872	(4,653)
Realized investments gains	(307,204)	(40,926)
Postretirement benefits	140,358	89,937
Reinsurance receivables	308,605	6,953,572
Prepaid reinsurance premiums	(383,110)	55,226
Amortization of deferred income	(118,681)	-
Other, net	(2,043,763)	(1,613,312)
	-----	-----
	16,635,333	(6,165,893)
Cash used in the change in the property and casualty insurance subsidiaries' pooling agreement	-	(3,848,247)
	-----	-----
Total adjustment	16,635,333	(10,014,140)
	-----	-----
Net cash provided by (used in) operating activities	\$ 18,937,877	\$ (5,279,857)
	-----	-----

EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

(Unaudited)

Three months ended
March 31,

	1994	1993
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed maturity securities held-to-maturity	\$ (19,534,553)	\$ -
Maturities of fixed maturity securities held-to-maturity	13,923,082	-
Purchases of fixed maturity securities available-for-sale	(108,420,467)	-
Maturities of fixed maturity securities available-for-sale	80,159,506	-
Sales of fixed maturity securities available-for-sale (note 3)	15,585,438	-
Sale of equity securities available-for-sale ..	500,000	-
Purchases of fixed maturities	-	(14,968,490)
Maturities of fixed maturities	-	11,120,124
Purchases of short-term investments	-	(66,558,486)
Sales of short-term investments	-	76,425,030
Net cash (used in) provided by investing activities	(17,786,994)	6,018,178
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	199,174	99,125
Dividends paid to stockholders	(870,956)	(854,454)
Purchase of treasury stock, net	-	(23,306)
Net cash used in financing activities	(671,782)	(778,635)
NET INCREASE (DECREASE) IN CASH	479,101	(40,314)
Cash at beginning of year	675,203	2,009,512
Cash at end of quarter	\$ 1,154,304	\$ 1,969,198
Income taxes paid	\$ 18,873	\$ 1,948,632

EMC INSURANCE GROUP INC. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 1994

Note 1

- - - - -

The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. The information reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods.

Note 2

- - - - -

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits". The adoption of this statement did not have a material effect on the operations of the Company.

Note 3

- - - - -

The fixed maturity securities available-for-sale classification includes short-term investments. Sales of fixed maturity securities available-for-sale for the three months ended March 31, 1994 reflects the sale of money market funds.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES

(Unaudited)

Item 2. Management's Discussion and Analysis of Financial

- - - - - Condition and Results of Operations

OVERVIEW

EMC Insurance Group Inc. (the "Company"), an approximately 67 percent owned subsidiary of Employers Mutual Casualty Company ("Employers Mutual"), is an insurance holding company with operations in property and casualty

insurance, reinsurance, nonstandard risk automobile insurance and excess and surplus lines insurance management. Property and casualty insurance is the most significant segment, representing 70.8 percent of consolidated premium income.

The three property and casualty insurance subsidiaries of the Company and two subsidiaries of Employers Mutual are parties to reinsurance pooling agreements with Employers Mutual (collectively the "pooling agreement"). Under the terms of the pooling agreement, each company cedes to Employers Mutual all of its insurance business and assumes from Employers Mutual an amount equal to its participation in the pool. All losses, settlement expenses and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by Employers Mutual from unaffiliated insurance companies, are prorated among the parties on the basis of participation in the pool. Since 1992, the property and casualty insurance subsidiaries' participation in the pool has been 22 percent. The investment programs and income tax liabilities of the pool participants are not subject to the pooling agreement.

The purpose of the pooling agreement is to reduce the risk of an exposure insured by any of the pool participants by spreading it among all the companies. The pooling agreement produces a more uniform and stable underwriting result from year to year for all companies in the pool than might be experienced individually. In addition, each company benefits from the capacity of the entire pool, rather than being limited to policy exposures of a size commensurate with its own assets, and from the wide range of policy forms and lines of insurance written and the variety of rate filings and commission plans offered by each of the companies. A single set of reinsurance treaties is maintained for the protection of all six companies in the pool.

Employers Mutual cedes 95 percent of the voluntary reinsurance business it assumes from nonaffiliated insurance companies to the Company's reinsurance subsidiary, exclusive of certain reinsurance contracts. The reinsurance subsidiary receives 95 percent of all premiums and assumes 95 percent of all related losses and settlement expenses of this business. The reinsurance subsidiary does not reinsure any of Employers Mutual's direct insurance business, nor any "involuntary" facility or pool business that Employers Mutual assumes pursuant to state law. In addition, the reinsurance subsidiary is not liable for credit risk in connection with the insolvency of any reinsurers of Employers Mutual.

The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. The information reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods.

Item 2. Management's Discussion and Analysis of Financial
- - - - - Condition and Results of Operations, Continued

RESULTS OF OPERATIONS

Operating income before income taxes decreased 9.3 percent to \$3,060,000 for the three months ended March 31, 1994 from \$3,375,000 for the same period in 1993. Operating results improved in the nonstandard risk automobile insurance subsidiary and the excess and surplus lines insurance management agency while the property and casualty insurance subsidiaries and the reinsurance subsidiary showed small declines.

Net income for the three months ended March 31, 1994 was \$2,303,000 (\$.22 per share) compared to \$4,734,000 (\$.47 per share) for the same period in 1993. Results for 1993 include \$2,621,000 (\$.26 per share) of income from the implementation of two new accounting standards and a change in accounting principle.

Premiums earned increased \$3,357,000 (9.1 percent) to \$40,309,000 for the three months ended March 31, 1994 from \$36,953,000 for the same period in 1993. This increase is primarily due to increased volume in the property and casualty insurance subsidiaries.

Net investment income decreased \$450,000 (8.2 percent) to \$4,926,000 for the three months ended March 31, 1994 from \$5,376,000 for the same period in 1993. This decrease is due to a decline in invested assets resulting from the transfer of \$24,853,000 to Employers Mutual during 1993 in connection with the change in the property and casualty insurance subsidiaries' pooling agreement relating to the voluntary assumed reinsurance business and the commutation of two reinsurance contracts under the reinsurance subsidiary's quota share agreement.

Realized investment gains totaled \$307,000 for the three months ended March 31, 1994 compared to \$40,000 for the same period in 1993. The increase is the result of calls and prepayments on fixed maturity securities.

Other income totaled \$119,000 for the three months ended March 31, 1994 compared to none for the same period in 1993. This amount represents the amortization of deferred income related to reserve discounting in connection with the commutation of a reinsurance contract under the reinsurance subsidiary's quota share agreement in 1993.

Losses and expenses increased \$3,608,000 (9.3 percent) to \$42,601,000 for the three months ended March 31, 1994 from \$38,994,000 for the same period in 1993. This increase is primarily due to losses associated with increased premium volume in the property and casualty insurance subsidiaries. Improved loss experience in the nonstandard risk automobile insurance subsidiary was offset by poor experience in the reinsurance subsidiary.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits". The adoption of this statement did not have a material effect on the operations of the Company.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Item 2. Management's Discussion and Analysis of Financial
- - - - - Condition and Results of Operations, Continued

SEGMENT RESULTS

Property and Casualty Insurance

Operating income before income taxes decreased 11.7 percent to \$2,910,000 for the three months ended March 31, 1994 from \$3,297,000 for the same period in 1993. Underwriting loss increased \$487,000 to \$594,000 in the first three months of 1994 and was compounded by a \$95,000 (2.8 percent) decline in investment income.

Premiums earned increased 11.4 percent to \$28,559,000 for the three months ended March 31, 1994 from \$25,625,000 for the same period in 1993. Marketing programs started during 1992 and 1993 have resulted in increases in commercial property business.

Underwriting results for the first three months of 1994 were impacted by unfavorable personal lines experience. Winter storms in the south and east coast had an adverse affect on homeowners results. Management is currently reviewing the marketing and underwriting of this business in order to improve future performance. Commercial auto results for the first three months of 1994 were unprofitable; however, the commercial property, commercial liability and workers' compensation lines all showed improvement. Management continues to monitor workers' compensation reform on a state by state basis and will only write this line of business in those states which show a potential for profit.

Reinsurance

Operating loss before income taxes increased to \$364,000 for the three months ended March 31, 1994 from \$6,000 for the same period in 1993. Underwriting loss increased 12.6 percent to \$1,856,000 in the first three months of 1994 and was compounded by a 20.8 percent decline in investment income resulting from the transfer of \$20,426,000 to Employers Mutual during 1993 in connection with the commutation of two reinsurance contracts under the quota share agreement. This decline in investment income was partially offset by the recognition of \$119,000 of deferred income related to reserve discounting on one of the commuted contracts.

Premiums earned increased 4.7 percent to \$8,461,000 for the three months ended March 31, 1994 from \$8,080,000 for the same period in 1993. This increase reflects additional participation in a voluntary pool and premium adjustments related to pro rata business.

Underwriting loss increased 12.6 percent to \$1,856,000 for the three months ended March 31, 1994. Results for the first three months of 1994 were adversely impacted by \$1,000,000 of losses from the Los Angeles earthquake, \$700,000 of crop hail losses and lower investment income. Results for the first three months of 1993 were impacted by severe east coast storms, the world trade center explosion and development on a reinsurance contract involving a casualty pool that was commuted under the quota share agreement on June 30, 1993.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Item 2. Management's Discussion and Analysis of Financial
- - - - - Condition and Results of Operations, Continued

Nonstandard Risk Automobile Insurance

Operating income before income taxes increased 315.3 percent to \$417,000 for the three months ended March 31, 1994 from \$100,000 for the same period in 1993. Underwriting gain improved 163.7 percent to \$121,000 for the three months ended March 31, 1994 while net investment income increased 3.9 percent to \$291,000.

Premiums earned increased 1.3 percent to \$3,289,000 for the three months ended March 31, 1994 from \$3,247,000 for the same period in 1993. Rate increases were implemented in all states during the later part of 1993 and the first part of 1994, which resulted in a slight decrease in the number of policies issued. These rate increases are not expected to have a significant effect on market share during 1994.

The improvement in underwriting results for the first three months of 1994 reflects the rate increases implemented, a more seasoned book of business and more normal winter driving conditions.

Excess and Surplus Lines Insurance Management

Operating income before income taxes increased to \$124,000 for the three months ended March 31, 1994 from \$6,000 for the same period in 1993. This increase is the result of a new management plan put into effect which places more emphasis on writing excess and surplus lines business through Employers Mutual's agency force.

Parent Company

Operating loss before income taxes increased to \$27,000 for the three months ended March 31, 1994 from \$22,000 for the same period in 1993. This increase reflects a \$5,000 realized loss on the call of preferred stock.

OTHER INFORMATION

The majority of the Company's assets are invested in fixed maturities. These investments provide a substantial amount of income which offsets underwriting losses and contributes to net earnings. As these investments mature the proceeds will be reinvested at current rates, which are significantly lower than those now being earned; therefore, less investment income will be available to contribute to net earnings.

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EMC INSURANCE GROUP INC. AND SUBSIDIARIES (Unaudited)

Item 2. Management's Discussion and Analysis of Financial - - - - - Condition and Results of Operations, Continued

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a portion of the investment portfolio in relatively short-term and highly liquid investments to ensure the availability of funds to meet claims and expenses. The remainder of the investment portfolio is invested in securities with maturities that approximate the anticipated liabilities of the insurance issued. Unrealized holding gains on fixed maturity securities available-for-sale decreased \$1,559,000 to \$509,000 at March 31, 1994 from \$2,068,000 at December 31, 1993. This decrease is primarily due to higher interest rates imposed by the Federal Reserve Board during the first three months of 1994, which caused bond values to decline. Since the Company does not actively trade in the bond market, such fluctuations in the market value of available-for-sale securities are not expected to have a material impact on the operations of the Company as forced liquidation of investments are not anticipated. The Company closely monitors the bond market and makes appropriate adjustments in investment policy as changing conditions warrant.

The major ongoing sources of the Company's liquidity are insurance premium income, investment income and cash provided from maturing or liquidated investments. The principal outflows of cash are payments of claims, commissions, premium taxes, operating expenses, income taxes, dividends and investment purchases.

As of March 31, 1994, the Company had no material commitments for capital expenditures.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) None.
- (b) No Form 8-K was filed by the registrant during the quarter ended March 31, 1994.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMC INSURANCE GROUP INC.
Registrant

/s/ E. H. Creese

E. H. Creese
Senior Vice President & Treasurer
(Chief Financial Officer)

Date: May 13, 1994

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