

EXAMINATION REPORT OF  
WEST SIDE MUTUAL INSURANCE ASSOCIATION  
LINN COUNTY, PALO, IOWA  
AS OF DECEMBER 31, 2020

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Palo, Iowa  
January 11, 2022

Commissioner Ommen:

In accordance with your instructions and pursuant to Iowa statutory provisions, an examination has been made of the

WEST SIDE MUTUAL INSURANCE ASSOCIATION

LINN COUNTY, PALO, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 120 Vinton Street, Palo, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

The West Side Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2016. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2016 to December 31, 2020. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa. The Association's assets were verified and evaluated and liabilities determined to present herein a statement of its financial condition as of December 31, 2020.

HISTORY

The Association was incorporated in 1874 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518, Code of Iowa. The corporate existence was made perpetual in 1968.

As of July 1, 2017, Articles were amended or substituted for a merger with Johnson County Mutual Insurance Association and The Association converted to an Association operating under the provisions of Chapter 518A of the Code of Iowa.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of those persons or organizations having insurance written by the Association which is in full force and effect.

The annual meeting of the members is held at Palo, Iowa on the second Tuesday in March at 10:00 a.m. Special meetings may be called by the Board of Directors as provided in the Articles of Incorporation. Due notice of the time and place of special meetings shall be given the membership. Each member present is entitled to one vote on any question to be decided. Voting by proxy is not permitted. One more member than the number of Directors present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five, nor more than fifteen, each elected by a majority vote at the annual meeting of the members for terms of three years. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining directors.

Directors serving at December 31, 2020 were:

<u>Name</u>	<u>Location</u>	<u>Term</u>
David W. Fleener	Coralville, Iowa	2021
Ronald Schulte	Walker, Iowa	2022
Mick Allen	Tiffin, Iowa	2023
Terry Meyer	Palo, Iowa	2022
Wayne Roush	Cedar Rapids, Iowa	2021
John Rauh	Coralville, Iowa	2023
Chad Reimers	Coralville, Iowa	2022
Jim Riggert	Cedar Rapids, Iowa	2021

The annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the President or Chairman. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$125 for each meeting attended and reimbursement of travel expense.

Remunerations of directors are shown on Exhibit A following this report.

COMMITTEES

The Board of Directors shall be empowered to constitute and appoint such committees as they deem to be in the best interests of the Association. Appointees to the nominating committee: David Fleener, Wayne Rousch and Jim Riggert.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Treasurer, and Secretary. Any office may combined other than President and Secretary by the Board.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
David W. Fleener	President
Clayton R. Schulte	Vice-President
Jamie Garringer	Secretary
Ronald Schulte	Treasurer

Remuneration of officers is shown on Exhibit A following this report.

### CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and directors. Other interests were disclosed in the forms.

### CORPORATE RECORDS

The Articles of Incorporation were amended or substituted as of July 1, 2017 with the significant changes as:

- The Association was the surviving entity of merger with Johnson County Mutual Insurance Association.
- The Association converted to an Association operating under the provisions of Chapter 518A of the Code of Iowa.
- Members meeting quorum changed from ten members and to "one more than number of the board members".
- The territory was expanded by ten counties as delineated in Market Conduct section of this Report.

The Bylaws were amended or substituted on June 20, 2019 to remove Article 2, Section 13, which stated that no member shall be eligible for election as a director upon attaining the age of 75, not including any directors currently serving at the time of the merger in 2017.

Three agents were on the Board of Directors from 2018 to 2020, yet only two agents are allowed per Article 2, Section #14 of the current Bylaws.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2016 was read and accepted at the December 7, 2017 Board meeting.

### AFFILIATED AGENCY

The Association owns its Home Office building and shares 27% of the office space with West Side Agency, Inc. (Agency).

The Agency ownership is equally shared by Clayton Schulte, the Association President, and Ronald C. Schulte, the Association Secretary-Treasurer as of the examination date. The Agency produced 44 percent of the Association's business, received commissions of \$156,185 from Association, paid \$4,800 annual rent and provided custodial service for the home office during 2020.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a financial institution bond in the amount of \$100,000 for any one loss occurrence.

Policies for other coverages are as follows:

- Workers compensation and employers liability
- Professional and officers and directors liability
- Employment practices liability
- General and umbrella liability
- Business property and business personal property
- Business auto property and liability
- Equipment breakdown
- Cyber liability
- Flood insurance

Adequate insurance is placed with authorized insurers except professional liability and officers' and directors' liability which is written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

Full-time eligible employees are provided health, dental and long-term disability insurance. These employees are also provided a Simplified Employee Pension (SEP) plan with Association contributions of 20% of their base salary. Contributions of \$33,849, \$54,341, \$49,825 and \$56,598 were respectively made annually for the years of the examination period.

Bonuses were paid by the Association of \$5,000 and \$23,761 in 2017 and 2020, respectively.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2020, with an authorized insurer which provide the following property coverages:

Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer will pay 100% of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000. Second layer has a recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has a maximum recovery of \$15,000,000 in excess of \$5,000,000. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000. Any per risk in excess of \$20,000,000 is excluded from coverage.

Catastrophe Excess of Loss

First \$700,00 of ultimate net loss caused by any one disaster, accident or loss is retained by the Association. The reinsurer will pay 100% of net loss in excess of retention per loss occurrence. An occurrence includes all the losses sustained by the company during any 96 hour consecutive period.

Aggregate Excess of Loss

First \$1,500,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100% of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. Applies to new and renewal and in-force policies of the Association effective and becoming effective at and after the effective date of the contract until expiration of the contract.

Earthquake

Losses resulting from earthquakes will not be covered by this reinsurance contract.

Facultative

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2020, there was not one risk identified which warranted a facultative agreement.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Benton, Buchanan, Cedar, Delaware, Iowa, Johnson, Jones and Linn counties as of December 31, 2016. As of July 1, 2017, the following ten counties were added to the territory: Black Hawk, Bremer, Clayton, Dubuque, Fayette, Louisa, Muscatine, Poweshiek, Tama and Washington.

It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory. Of the seventeen policies reviewed, related applications were not signed eleven times by agents and six times by policyholders.

PRODUCER LICENSING

Business is produced by thirty-four licensed agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has these property lines of business: farm, homeowners, rental, mobile home, equipment breakdown and service line covering fire, wind, allied lines, and inland marine.

Policies are written or renewed for a one-year period with premiums payable monthly, quarterly, semi-annually, or annually. The Association underwrites policies every year with the exception for farm policies, which are underwritten on a five-year basis.

ADVERTISING

The Association's advertising material was reviewed during the examination period with no violations noted under the provisions of the Iowa Administrative Code.

RATING AND STATISTICAL REPORTING

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

TREATMENT OF POLICYHOLDERS

CLAIMS

Adjustment of claims is handled by the Association's salaried home office personnel and the following third parties: NCP Group, paid \$740,640, Grinnell Mutual, paid \$40,625, and Loss Control Specialists, paid \$7,660, in 2020.

Numerous claims files were reviewed, including closed by payment, and closed without payment to determine adequacy of loss reserves and the treatment of policyholders. Of the fifteen claims reviewed, all were paid within ten days from the date sufficient information was received to pay the claim and eleven were not signed by adjusters. From a review of numerous claims, it appeared that the Association made fair settlements which were in keeping with the terms of the policy contracts.

COMPLAINT REGISTER

The Association maintains a complaint register as promulgated by rules set forth in Chapter 15, Iowa Insurance Regulations. Four complaints were received during the examination period and were resolved timely and in keeping with the Iowa laws and regulations.

CREDIT SCORES

Credit scoring is used by the Association for rating purposes. All credit scoring procedures required by the Iowa Code 515.103 should be documented by the Association.

GROWTH OF THE ASSOCIATION

The following historical data, taken from office copies of filed annual statements for the years indicated, reflects the growth of the Association:

<u>YEAR</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income</u>
2017	\$8,123,574	\$7,011,875	\$1,715,335	\$1,260,055	\$292,239
2018	7,797,157	6,647,009	1,526,599	1,132,044	226,136
2019	8,354,946	7,299,926	1,597,045	592,117	214,045
2020	7,779,151	6,757,770	1,646,529	1,482,014	163,186

UNDERWRITING EXPERIENCE

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	\$1,706,308	\$1,526,599	\$1,597,045	\$1,778,922	\$ 6,608,874
<u>Incurred Deductions</u>					
Losses	\$1,244,821	\$1,132,044	\$ 592,117	\$1,451,935	\$ 4,383,380
Loss adjustment expenses	58,660	173,502	181,841	195,872	609,875
Commissions	357,616	317,891	328,054	370,953	1,374,514
Salaries	268,493	180,119	165,124	170,791	784,527
Taxes, licenses and fees	38,494	35,558	33,028	36,129	143,209
Other underwriting expenses	<u>394,154</u>	<u>171,690</u>	<u>176,541</u>	<u>175,769</u>	<u>918,154</u>
Total deductions	<u>\$2,362,238</u>	<u>\$2,010,804</u>	<u>\$1,476,705</u>	<u>\$2,401,449</u>	<u>\$ 8,213,659</u>
Net underwriting gain (loss)	<u>\$ (655,930)</u>	<u>\$ (484,205)</u>	<u>\$ 120,340</u>	<u>\$ (622,527)</u>	<u>\$ (1,642,322)</u>

Expressed in ratios of incurred deductions to earned premiums, the percentages would be:

<u>Incurred Deductions</u>					
Losses	73.0%	74.2%	37.1%	81.6%	66.9%
Loss adjustment expenses	3.4	11.4	11.4	11.0	9.2
Commissions	21.0	20.8	20.5	20.9	20.8
Salaries	15.7	11.8	10.3	9.6	11.9
Taxes, licenses and fees	2.3	2.3	2.1	2.0	2.2
Other underwriting expenses	<u>23.1</u>	<u>11.2</u>	<u>11.1</u>	<u>9.9</u>	<u>13.9</u>
Total deductions	<u>138.4%</u>	<u>131.7%</u>	<u>92.5%</u>	<u>135.0%</u>	<u>124.9%</u>
Net underwriting gain (loss)	<u>(38.4)%</u>	<u>(31.7)%</u>	<u>7.5%</u>	<u>(35.0)%</u>	<u>(24.9)%</u>

ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were found to be in agreement with or reconciled to the general ledger balances of assets, liabilities, income and disbursements.

Selected cash receipts recorded during the period were checked and traced to the Association's depository. Checks paid during selected months were compared to the disbursement records and were scrutinized as to payees, amounts, and authorized signatures. Cash receipts and disbursements for selected months were proven by comparison and reconciliation to the monthly bank statements.



The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2020 relative to security custodial requirements.

In accordance with Section 518.25, Code of Iowa, surplus must be maintained at a level of not less than fifty thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2020, the gross risk in force for the Association was \$947,610,265. The Association's statutory minimum surplus level as December 31, 2020 was \$947,610. It is noted the Association's surplus level to minimum surplus level ratio was 7.1/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2020 was 8.4/1.

F I N A N C I A L   S T A T E M E N T S  
A N D   C O M M E N T S   T H E R E O N

NOTE:            Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2020 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$4,044,461	\$	\$4,044,461
Common stocks	2,632,610		2,632,610
Real estate properties occupied	46,685	6,723	39,962
Cash:			
Cash holdings	311,431		311,431
Cash equivalents	486,682		486,682
Investment income due and accrued	32,959		32,959
Uncollected premiums	23,070	1	23,069
Deferred premiums	109,148		109,148
Amounts recoverable from reinsurers	219,490		219,490
Current federal income tax recoverable	30,000	30,000	
Furniture and equipment	2,420	2,420	
Aggregate write-ins for assets:			
Automobiles	15,391	15,391	
 Total Assets	 \$7,954,347	 \$54,535	 \$7,899,812

LIABILITIES AND SURPLUS

Loss adjusting expenses		\$ 3,384
Commissions payable and contingent commissions		43,647
Other expenses		9,887
Taxes, licenses and fees		6,846
Unearned premiums		855,172
Advance premiums		49,644
Ceded reinsurance premiums payable		38,880
Amounts withheld for account of others		14,415
 Total liabilities		 \$1,021,875
 Surplus as regards policyholders		 6,877,937
 Total Liabilities and Surplus		 \$7,899,812

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$1,778,922
 <u>Incurred Deductions</u>	
Losses incurred	\$1,451,935
Loss expenses incurred	195,872
Other underwriting expenses incurred	<u>753,642</u>
Total underwriting deductions	<u>2,401,449</u>
 Net underwriting gain (loss)	 \$ (622,527)
 <u>Investment Income</u>	
Net investment income earned	163,186
Net realized capital gain (loss)	21,890
 <u>Other Income</u>	
Premiums collected for others	<u>47,115</u>
 Net income	 <u>\$ (390,336)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	<u>\$7,299,926</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ (390,336)
Net unrealized capital gains (losses)	(31,683)
Change in non-admitted assets	<u>30</u>
 Change in surplus as regards policyholders	 <u>\$ (421,989)</u>
 Surplus as regards policyholders, December 31, 2020	 <u>\$6,877,937</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 6,608,874
 <u>Incurred Deductions</u>		
Losses incurred	\$4,383,380	
Loss expenses incurred	609,875	
Other underwriting expenses	<u>3,220,404</u>	
Total underwriting deductions		<u>8,213,659</u>
 Net underwriting gain (loss)		 \$ (1,604,785)

Investment Income

Net investment income earned		895,606
Net realized capital gain (loss)		251,865

Other Income

Net realized capital gain (loss)		<u>127,192</u>
 Net income before federal income taxes		 \$ (330,122)
 Federal income taxes		 <u>\$ (92,822)</u>
 Net income		 <u>\$ (237,301)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 4,112,561</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ (237,301)
Net unrealized capital gains (losses)		151
Change in non-admitted assets		(35,175)
Paid in Capital		<u>3,037,701</u>
 Change in surplus as regards policyholders		 <u>\$ 2,765,376</u>
 Surplus as regards policyholders, December 31, 2020		 <u>\$ 6,877,937</u>

CASH FLOW STATEMENT

<u>Cash from Operations</u>	
Premiums collected net of reinsurance	\$1,820,256
Net investment income	190,951
Miscellaneous income	<u>62,203</u>
Total	<u>\$2,073,410</u>
Benefit and loss related payments	\$1,743,513
Commissions, expenses paid and aggregate write-ins	<u>947,936</u>
Total	<u>\$2,691,449</u>
Net cash from operations	<u>\$ (618,039)</u>
<u>Cash from Investments</u>	
Proceeds from investments sold, matured and repaid:	
Bonds	\$1,097,101
Stocks	<u>175,021</u>
Total investment proceeds	<u>\$1,272,122</u>
Cost of investments acquired (long-term) only:	
Bonds	\$ 233,520
Stocks	389,336
Real estate	<u>6,795</u>
Total investments acquired	<u>\$ 629,651</u>
Net cash from investments	<u>\$ 642,471</u>
<u>Cash from Financing and Miscellaneous Sources</u>	
Other cash provided (applied)	<u>\$ 13,488</u>
<u>Reconciliation of Cash and Short-Term Investments</u>	
Net change in cash and short-term investments	<u>\$ 37,920</u>
Cash and short-term investments:	
Beginning of year	\$ 760,193
End of year	<u>\$ 798,113</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net increase are shown in the following statement of differences:

<u>Classification</u>	<u>Association Annual Statement</u>	<u>Examination Financial Statement</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>			
Bonds	\$4,194,461	\$4,044,461	\$ (150,000)
Real estate	46,685	39,962	(6,723)
Cash	161,431	311,431	150,000
Uncollected premiums	(176)	23,069	23,245
Deferred premiums		109,148	109,148
Amounts recoverable from reinsurers	224,499	219,490	(5,009)
<u>Liabilities</u>			
Loss reserves	20,000		20,000
Commissions	25,027	43,647	(18,620)
Other expenses	8,013	9,887	(1,874)
<u>Income Statement</u>			
Miscellaneous income	52,625		(52,625)
Losses Incurred		52,625	<u>52,625</u>
Net increase in surplus			\$ 120,167
Surplus per Association			<u>\$6,757,770</u>
Surplus per examination			<u>\$6,877,937</u>

During the period under review, surplus funds increased \$2,765,376 from the amount of \$4,112,561 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

Bonds \$4,044,461

The asset was decreased by \$150,000 to reclassify a Certificate of Deposit, which matured less than twelve months from Examination date, to Cash.

Real estate \$ 39,962

The asset was decreased by \$6,723 to non-admit an unapproved Real Estate improvement.

Cash \$ 311,431

The asset was increased by \$150,000 to reclassify a Certificate of Deposit from Bonds.

Uncollected premiums \$ 23,069

The asset was increased by \$23,245 to include Current Receivables.

Deferred premiums \$ 109,148

The asset was increased by \$109,148 to account for premiums deferred as required for 518A associations.

Amounts recoverable from reinsurers \$ 219,490

This asset was decreased by \$5,009 to reflect the actual recoverable due from the reinsurer.

Losses \$ \_\_\_\_\_

Losses decreased by \$20,000 as all remaining unpaid losses incurred prior to 2021 were recoverable by reinsurance.

Commissions \$ 43,647

This liability was increased by \$18,620 to account for Current and Deferred commissions.

Other expenses \$ 9,887

The liability was increased by \$1,874 to reflect actual expenses incurred in 2020 and payable in 2021.

Income statement \$ \_\_\_\_\_

Decreased both Miscellaneous income and Losses incurred by \$52,625 to properly classify the recovery of paid losses by reinsurance.

#### CONCLUSION

The cooperation and assistance extended by the officers and personnel of the Association is hereby acknowledged.

Respectfully submitted,

/s/ Jerry P. Cihota  
JERRY P. CIHOTA, CFE  
Examiner Specialist  
Iowa Insurance Division