

EXAMINATION REPORT OF
HEART OF IOWA MUTUAL INSURANCE ASSOCIATION
STUART, IOWA
AS OF DECEMBER 31, 2020

Stuart, Iowa
December 23, 2021

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

Commissioner Ommen:

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

HEART OF IOWA MUTUAL INSURANCE ASSOCIATION

STUART, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 200 Northeast Second Street, Stuart, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Heart of Iowa Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2016.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2017 to December 31, 2020. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards. The Association's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2020.

HISTORY

The Association was incorporated in 1875 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 1954. In April 1997, the Association converted to an Association operating under the provisions of Chapter 518A of the Code of Iowa.

Effective January 1, 2019, the Farmers Mutual Fire Insurance Association of Guthrie County and Patrons Mutual Insurance Association merged through an assumption and reinsurance agreement. In conjunction with the merger, six Farmers Mutual Fire board members were elected to serve as directors on the Association's board.

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 shall be held in Stuart, Iowa on the third Tuesday in March at 7:00 p.m. Special meetings of the members shall be called by the President upon the request of the majority of the members of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of the time and place of special meetings shall be given to the members as specified in the Bylaws. Each member present is entitled to one vote on any matter to be decided at any regular or special meeting. Voting by proxy is not permitted. A quorum shall be one or more members than the number of directors authorized by the Articles of Incorporation or Bylaws.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five, nor more than fifteen directors, 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 as of December 31, 2020 were:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Pat Summerson	Dawson, Iowa	Farmer	2021
Mark Earhart	Stuart, Iowa	Farmer	2021
Lori Brocka	Adel, Iowa	Agent	2022
Scott McClellan	Bayard, Iowa	Farmer	2022
David Don Carlos	Greenfield, Iowa	Agent	2022
James C. Loynachan	Adel, Iowa	Retired Agent	2023
Steve L. Tucker	Gowrie, Iowa	Banker	2023
Forrest Schnobrich	Casey, Iowa	Agent	2023

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

Directors receive a \$250 fee for each meeting attended and reimbursement of travel expenses.

Salaries and remuneration of directors are shown on Exhibit A following this report.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a Chairman, Vice Chairman, President, Treasurer and Secretary, who, when so designated by the Board, may also serve as Treasurer and such additional offices as it deems necessary.

Officers serving as of December 31, 2020 were:

<u>Name</u>	<u>Office</u>
James C. Loynachan	Chairman of the Board
David Don Carlos	Vice Chairman of the Board
Alan Mahaffey	President
Jim Chambers	Secretary/Treasurer

Salaries and remuneration of officers are shown on Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors, and key employees. Greater care should be taken to ensure all proper interests and affiliations are disclosed.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended during the period covered by this examination. Effective January 1, 2019, they were amended and substituted to merge Farmers Mutual Fire Insurance Association of Guthrie County and Patrons Mutual Insurance Association to form Heart of Iowa Mutual Insurance Association. This also changed the date of the annual meeting from the third Tuesday in August to the third Tuesday in March.

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 reviewed and approved at the March 20, 2018 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Officers' and directors' liability
- Professional liability
- Workers' compensation and employers' liability
- Commercial property
- Business liability
- Business personal property
- Employment practice liability
- Business auto
- Cyber liability

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

The Association pays 100% of premiums for eligible full-time employees for the following benefits: group health insurance, dental insurance, vision insurance, life insurance, AD&D, and short-term and long-term disability.

Full-time eligible employees are also provided a Simplified Employee Pension Plan whereby the Association will contribute five percent of each employee's annual salary to a fund selected by the employee. In 2017 and 2018, contributions to

Farmers Mutual of Guthrie County employees were 15 percent and 10 percent, respectively. Contributions were paid by the Association of \$23,937, \$18,566, \$11,852, and \$12,511 for 2017, 2018, 2019 and 2020, respectively.

REINSURANCE

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

Per Risk Excess of Loss

First \$225,000 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.

Catastrophe Excess of Loss

First \$600,000 of ultimate net loss per catastrophe, which is any period of 96 consecutive hours arising out of and directly occasioned by the same event, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

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.

Facultative

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATIONS

The Association is authorized to transact business in the State of Iowa as a state mutual insurance association under the provisions of Chapter 518A, Code of Iowa. Business is authorized to be written in the following counties: Adair, Adams, Audubon, Boone, Calhoun, Carroll, Cass, Clarke, Dallas, Greene, Guthrie, Hamilton, Lucas, Madison, Ringgold, Polk, Story, Union, Warren, and Webster. It was noted from a review of numerous applications of policies in force that risks appeared to be located within the authorized territory.

PRODUCER LICENSING

Business is produced by 110 licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and home owners classes of insurance covering fire, allied lines, and inland marine.

ADVERTISING

The Association's advertising was reviewed and found to be in compliance with statutory requirements.

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 primarily by the Association's salaried personnel and an outside adjustor.

Numerous claim files were reviewed, including closed by payment, closed without payment, and open files to determine adequacy of loss reserves and the treatment of policyholders. Of the claims reviewed, 76 percent were paid within twelve days from the date sufficient information was received to pay the claim.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination. The one formal insurance division complaint was handled in a fair and timely manner.

GROWTH OF ASSOCIATION

The following historical data was taken from office copies of filed annual statements for the years indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2017	4,978,045	4,208,838	915,902	750,220	78,337
2018	5,295,837	4,478,875	1,084,644	377,797	77,970
2019	8,922,732	7,602,222	1,739,399	788,846	122,614
2020	8,846,616	7,448,007	1,791,877	1,446,406	135,194

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the four-year period ended December 31, 2020 was as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	<u>\$ 916,609</u>	<u>\$1,084,644</u>	<u>\$1,739,399</u>	<u>\$1,792,384</u>	<u>\$5,533,036</u>
Deductions					
Losses	758,584	377,797	788,846	1,468,958	3,394,185
Loss adjustment expenses	90,120	56,181	112,035	104,487	362,823
Commissions	155,889	190,824	313,079	308,748	968,540
Salaries	153,102	154,665	283,967	276,900	868,634
Taxes, licenses and fees	22,011	14,570	22,069	23,414	82,064
Other underwriting expenses	59,771	60,439	86,257	83,750	290,217
Total deductions	<u>\$1,239,477</u>	<u>\$ 854,476</u>	<u>\$1,606,253</u>	<u>\$2,266,257</u>	<u>\$5,966,463</u>
Net underwriting gain (loss)	<u>\$ (322,868)</u>	<u>\$ 230,168</u>	<u>\$ 133,146</u>	<u>\$ (473,873)</u>	<u>\$ (433,427)</u>

Expressed in percentages of incurred deductions to premiums earned the ratios are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Deductions					
Losses	82.8%	34.8%	45.4%	82.0%	61.3%
Loss adjustment expenses	9.8	5.2	6.4	5.8	6.6
Commissions	17.0	17.6	18.0	17.2	17.5
Salaries	16.7	14.3	16.3	15.4	15.7
Taxes, licenses and fees	2.4	1.3	1.3	1.3	1.5
Other underwriting expenses	6.5	5.6	4.9	4.7	5.2
Total deductions	<u>135.2%</u>	<u>78.8%</u>	<u>92.3%</u>	<u>126.4%</u>	<u>107.8%</u>
Net underwriting gain (loss)	<u>(35.2%)</u>	<u>21.2%</u>	<u>7.7%</u>	<u>(26.4%)</u>	<u>(7.8%)</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 518A.37, Code of Iowa, surplus must be maintained at a level of not less than one hundred 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 \$709,934,235. The Association's statutory minimum surplus level at December 31, 2020 was \$709,934. It is noted the Association's surplus level to minimum surplus level ratio was 10.4/1. The reported

surplus/statutory minimum ratio average for the Chapter 518A 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>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$5,483,788	\$ 1,117	\$5,482,671
Preferred stocks	243,700		243,700
Common stocks	2,146,426		2,146,426
Real estate	121,273		121,273
Cash and short-term investments	617,511		617,511
Investment income due & accrued	52,889		52,889
Premiums and considerations:			
Uncollected premiums	32,894	(507)	33,401
Deferred premiums	137,362		137,362
Amounts recoverable from reinsurers	9,885		9,885
Furniture and equipment	26,812	26,812	
Overwrite fee receivable	304		304
Miscellaneous accounts receivable	1,700		1,700
	<hr/>	<hr/>	<hr/>
Total assets	\$8,874,544	\$ 27,421	\$8,847,123

LIABILITIES AND SURPLUS

Losses	\$ 216,114
Loss adjustment expenses	15,454
Commissions payable	63,868
Other expenses	7,162
Taxes, licenses and fees	8,990
Federal taxes	7,300
Unearned premiums	1,011,031
Advance premiums	60,034
Ceded reinsurance premiums payable	30,011
Amounts withheld or retained by company for account of others	13,154
Accrued vacation payable	7,588
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Total liabilities	\$1,440,706
Surplus as regards policyholders	7,406,417
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Total liabilities and surplus	\$8,847,123

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,792,384
<u>Deductions</u>		
Losses incurred	\$1,468,958	
Loss adjusting expense	104,487	
Other underwriting expenses	692,812	
Total underwriting deductions		<u>2,266,257</u>
Net underwriting gain (loss)		\$ (473,873)
<u>Investment Income</u>		
Net investment income earned	135,193	
Net realized capital gain (loss)	36,880	
Total Investment income		\$ 172,073
<u>Other Income</u>		
Finance and service charges	10,435	
Net premiums collected for others	9,009	
Overwrite fee	4,966	
Total other income		<u>\$ 24,410</u>
Net loss before Federal income tax		\$ (277,390)
Federal income tax incurred		<u>20,333</u>
Net loss		<u>\$ (297,723)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019		<u>\$7,602,222</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (297,723)
Change in net unrealized gains/losses		100,651
Change in non-admitted assets		<u>1,267</u>
Change in surplus as regards policyholders for the year		<u>\$ (195,805)</u>
Surplus as regards policyholders, December 31, 2020		<u>\$7,406,417</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$5,533,036
<u>Deductions</u>		
Losses incurred	\$3,394,185	
Loss expenses incurred	362,823	
Other underwriting expenses	2,209,456	
Total underwriting deductions		<u>5,966,464</u>
Net underwriting gain (loss)		\$ (433,427)
<u>Investment Income</u>		
Net investment income earned	414,114	
Net realized capital gain (loss)	66,952	
Total Investment income		\$ 481,066
<u>Other Income</u>		
Finance and service charges	101,198	
Net premiums collected for others	27,259	
Miscellaneous income	50	
Overwrite fee	11,978	
Total other income		<u>\$ 140,485</u>
Net income before Federal income taxes		\$ 188,124
Federal income tax incurred		<u>45,764</u>
Net income		<u>\$ 142,360</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$4,328,758</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 142,360
Change in net unrealized gains/losses		458,845
Change in non-admitted assets		12,257
Assumption of Farmers Mutual Fire Insurance Association		<u>2,464,197</u>
Change in surplus as regards policyholders for the year		<u>\$3,077,659</u>
Surplus as regards policyholders, December 31, 2020		<u>\$7,406,417</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease 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>			
Uncollected premiums	\$ 32,894	\$ 33,401	\$ 507
<u>Liabilities</u>			
Losses	193,562	216,114	(22,552)
Unpaid adjustment expenses	5,637	15,454	(9,817)
Other expenses	5,548	7,162	(1,614)
Accrued vacation payable	0	7,588	(7,588)
Taxes, licenses and fees	8,464	8,990	(526)
Net change to surplus			\$ (41,590)
Surplus per Association			<u>7,448,007</u>
Surplus per examination			<u>\$ 7,406,417</u>

During the period under review, surplus funds increased \$3,077,659 from the amount of \$4,328,758 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:

<u>Uncollected premiums</u>	<u>\$ 33,401</u>
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This asset was increased by \$507 to reflect the actual amount of premiums received in 2021.

<u>Losses</u>	<u>\$ 216,114</u>
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Losses increased by \$22,552 to reflect actual loss development.

<u>Unpaid adjustment expenses</u>	<u>\$ 15,454</u>
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An analysis of paid adjusting expenses to paid losses increased this liability by \$9,817.

<u>Other expenses</u>	<u>\$ 7,162</u>
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This liability was increased by \$1,614 to reflect actual expenses paid in 2021 for 2020.

	<u>\$ 7,588</u>
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Accrued vacation payable

This liability of \$7,588 was established to reflect unused vacation pay carried over to 2021.

Taxes, licenses and fees \$ 8,990

This liability was increased by \$526 due to an adjustment to payroll tax withholding.

CONCLUSION

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

Respectfully submitted,

/s/Abby Kramer
ABBY KRAMER
Cain Ellsworth & Company, LLP
Representing the State of Iowa