

EXAMINATION REPORT OF
PEOPLES MUTUAL INSURANCE ASSOCIATION
LEE COUNTY, DONNELSON, IOWA
AS OF DECEMBER 31, 2016

Donnellson, Iowa
May 9, 2017

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

Commissioner Ommen:

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

PEOPLES MUTUAL INSURANCE ASSOCIATION

LEE COUNTY, DONNELLSON, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 619 Madison Avenue, Donnellson, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2011 to December 31, 2016. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

HISTORY

The Association was incorporated in 1892 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 1953. Effective January 1, 2013, the Association amended its Articles of Incorporation to become a state mutual insurance association under Chapter 518A, 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 Donnellson, Iowa on the second Thursday in February at 1:00 p.m. Special meetings may be called by the President upon request of the majority of the members of 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. A quorum shall be one more member than the number of Directors fixed by Resolution of the Board of Directors.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of at least 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 at December 31, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Brad Vandenberg	Donnellson, Iowa	2017
Dwight Nelson	Keokuk, Iowa	2017
Nancy Eads	West Point, Iowa	2017
Kevin Holh	Farmington, Iowa	2018
Kenneth Koller	Donnellson, Iowa	2018
J. Kevin Overton	West Point, Iowa	2018
Gordon Brown	Montrose, Iowa	2019
Daniel Fraise	Ft. Madison, Iowa	2019
Douglas Vogel	Donnellson, Iowa	2019

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 fee of \$125 for each meeting attended and with the exception of the President who receives \$200 annually. No reimbursement for mileage is provided.

COMMITTEES

The Board of Directors annually appoints board members to Executive, Claims, Underwriting and Finance committees. As of December 31, 2016, the appointments are:

EXECUTIVE:

Daniel Fraise
Kevin Overton
Paula Pohren

UNDERWRITING:

Kevin Holh
Gordon Brown
Doug Vogel

CLAIMS:

Kenneth Koller
J. Kevin Overton
Dwight Nelson

FINANCE:

Brad Vandenberg
Daniel Fraise
Nancy Eads

OFFICERS

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

Officers serving at December 31, 2016 were:

<u>Name</u>	<u>Office</u>
Daniel B. Fraise	President
J. Kevin Overton	Vice President
Paula Pohren	Secretary/Treasurer

Salaries and remunerations of officers are shown on Schedule A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. A director, officer and employee did not sign conflict of interest forms for 2016. An officer's interest as an agent for the Association was not disclosed on the form.

CORPORATE RECORDS

The Articles of Incorporation were amended on October 25, 2012 to change the Association to a state mutual insurance association under Chapter 518A, Code of Iowa. Iowa Insurance Division approved amendment on January 1, 2013.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors meeting reflected that the Examination Report as of December 31, 2011 was reviewed and accepted at the October 25, 2012 Board meeting.

NON AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Philp Insurance Agency, Inc. (Agency).

Paula Pohren, the Secretary/Treasurer of the Association, owns 28% of Agency. Agency produced forty-four percent of the Association's business during 2016.

The Agency does not pay rent. Agency pays full amount of water, snow removal, internet access, fax expenses and toll free telephone number. Agency provides fax and copy machines. The Agency equally shares with Association the following: postage meter rental, office supplies and postage. Association pays Agency \$595 annually for office cleaning expenses. Agency pays \$1,750 annually for office cleaning. A written document for allocation of expenses between the Association and Agency has been adopted. Annual approval of the agreement was documented in Board Minutes.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$100,000 for any one loss occurrence. The bond is written for a one year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Business Auto
- Cyber liability
- Equipment breakdown coverage

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, after six months employment, that work a minimum of 32 hours per week are provided hospital and medical insurance with premiums up to a maximum of \$300 per month paid by the Association. Employee has to show evidence of the health insurance premiums to be paid.

A Simplified Employee Pension-Individual Retirement Account is provided by the Association after three years employment. The Association contributes 5% of an employee's annual salary. The amount is paid to employee's IRA trustee, custodian or insurance company. Contributions of \$4,477, \$4,870, \$5,427, \$4,260 and \$4,570 were made in 2012, 2013, 2014, 2015 and 2016.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$200,000 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.

Aggregate Excess of Loss

First \$1,450,000 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.

Facultative Quota Share

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

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Lee, Van Buren, Des Moines, Henry, Davis, Jefferson, Washington, Wapello, Johnson, Louisa and Muscatine counties.

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 written by 23 appointed agents from five insurance agencies. Association does not own an agency.

Association offers agencies a contingent commission in years in which the surplus grows \$100,000. Agents must write at least \$20,000 in premium to qualify. Once qualified, then they remain eligible regardless of how much they write. Contingent commission paid to agents were \$16,322, \$24,357, \$7,475, \$0 and \$0 in 2014 through 2016.

ADVERTISING

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

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property, homeowners and country homeowners' classes in insurance covering wind, fire, allied lines and inland marine. Policy and endorsement forms have been filed and approved. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

Policies are written or renewed for a one-year period with premiums payable semi-annually, quarterly, annually or monthly using electronic fund transfers. Association underwrites these policies every three years.

TREATMENT OF POLICYHOLDERS

CLAIMS

Reviewed complaints during the examination period. All appeared to be properly completed.

GROWTH OF ORGANIZATION

<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>
2012	6,345,835	5,836,853	747,009	249,823	311,333
2013	6,842,338	6,147,340	838,725	604,382	249,391
2014	6,976,005	6,208,527	881,682	934,872	246,737
2015	6,285,650	5,385,538	1,004,727	1,425,140	222,118
2016	6,033,065	5,015,351	1,174,447	1,435,567	189,353

UNDERWRITING EXPERIENCE

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2016

<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Premiums earned	\$747,009	\$ 838,725	\$ 881,682	\$1,004,727	\$1,174,447	\$ 4,646,590
Incurred Deductions:						
Losses	\$249,823	\$ 604,382	\$ 934,872	\$1,425,140	\$1,435,567	\$ 4,649,784
Loss adjustment expenses	27,180	57,715	73,313	65,299	84,098	307,605
Commissions	171,421	184,579	172,925	202,225	224,750	955,900
Salaries	77,030	66,029	65,885	76,059	90,618	375,621
Taxes, licenses and fees	21,691	22,833	23,792	26,531	27,952	122,799
Other underwriting expenses	<u>86,537</u>	<u>53,865</u>	<u>63,721</u>	<u>82,361</u>	<u>87,147</u>	<u>373,631</u>
Total deductions	\$633,682	\$ 989,403	\$1,334,508	\$1,877,615	\$1,950,132	\$ 6,785,340
Underwriting gain (loss)	\$113,327	\$(150,678)	\$ (452,826)	\$ (872,888)	\$ (775,685)	\$(2,138,750)

Expressed in comparison of expenses incurred to premiums earned, the percentages would be:

<u>Incurred Deductions</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Losses	33.44%	72.06%	106.03%	141.84%	122.23%	100.07%
Losses adjustment expenses	3.64%	6.88%	8.32%	6.50%	7.16%	6.62%
Commissions	22.95%	22.01%	19.61%	20.13%	19.14%	20.57%
Salaries	10.31%	7.87%	7.47%	7.57%	7.72%	8.08%
Taxes, licenses and fees	2.91%	2.72%	2.70%	2.64%	2.38%	2.65%
Other underwriting expenses	<u>11.58%</u>	<u>6.42%</u>	<u>7.23%</u>	<u>8.20%</u>	<u>7.42%</u>	<u>8.04%</u>
Total deductions	84.83%	117.97%	151.36%	186.88%	166.05%	146.03%
Net underwriting gain (loss)	15.17%	(17.97)%	(51.36)%	(86.88)%	(66.05)%	(46.03)%

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.

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, authorized signatures and proper endorsements. Cash receipts and disbursements were proven by comparison and reconciliation to the monthly bank statements.

Salaries for 2016 were approved at the October 20, 2015 Board meeting. President of Association salary approved yet did not recuse himself from the vote.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2016 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 \$100,000 or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2016, the gross risk in force for the Association was \$550,395,004. The Association's statutory minimum surplus level as December 31, 2016 was \$550,395. The Association's surplus level to minimum surplus level ratio was 9.1/1. The ratio average for the Chapter 518A licensed industry at December 31, 2016 was 9.2/1. Ratio for Association has decreased from 15.4/1 in 2010.

SUBSEQUENT EVENT

Paula Pohren, Secretary/Treasurer, notified the Board of her intention to retire on April 1, 2018. Terra Pohren is currently being trained to assume the responsibilities of Paula Pohren.

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, 2016 and the assets and liabilities as of this date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Not</u> <u>Admitted</u>	<u>Admitted</u>
Bonds	\$2,710,931	\$	\$2,710,931
Stocks:			
Preferred stocks	899,193		899,193
Common stocks	1,798,623		1,798,623
Real estate:			
Properties occupied by the association	34,666		34,666
Cash:			
Cash holdings	155,205		155,205
Short-term investments	170,842		170,842
Investment income due and accrued	33,824		33,824
Uncollected premiums and agents' balances in the course of collection	34,859	2,615	32,244
Deferred premiums, agents' balances and installments booked but deferred and not yet due	202,585	26,748	175,837
Reinsurance			
Other amounts receivable relating to uninsured plans	12,421		12,421
Electronic data processing equipment and software	892		892
Furniture and equipment	1,698	1,698	
Aggregate write-ins for other than invested assets:			
Cash value of life insurance policy	8,387		8,387
Vehicle	6,689	6,689	—
 Total Assets	 \$6,070,815	 \$37,750	 \$6,033,065

LIABILITIES AND SURPLUS

Losses		\$	161,336
Loss adjusting expenses			10,699
Other expenses			2,333
Taxes, licenses and fees			2,790
Unearned premiums			766,731
Advance premiums			39,396
Ceded reinsurance premiums payable			25,921
Amounts withheld or retained by company for account of others			8,456
Premium suspense			52
Total liabilities			\$1,017,714
 Surplus as regards policyholders			 5,015,351
Total Liabilities and Surplus			\$6,033,065

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2016
STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,174,447

Deductions

Losses incurred	\$1,435,567	
Loss expenses incurred	84,098	
Commissions	224,750	
Salaries	90,618	
Taxes, licenses and fees	27,952	
Other underwriting expenses incurred	<u>87,147</u>	
Total underwriting deductions		<u>1,950,132</u>
Net underwriting gain (loss)		(775,685)

Investment Income

Net investment income earned	\$ 189,353	
Net realized capital gain (loss)	<u>21,608</u>	
Net investment gain (loss)		\$ 210,961

Other Income

Aggregate write-ins for miscellaneous income		
Change in cash value of life insurance policy	\$ 636	
Premiums collected for others	<u>4,803</u>	
Other income		<u>\$ 5,439</u>

Net income before federal and foreign income taxes		\$ (559,285)
Federal and foreign income taxes incurred		<u>26,748</u>
Net income		<u>\$ (586,033)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$5,385,538</u>
Gains and (Losses) in Surplus:		
Net income		\$ (586,033)
Net unrealized capital gains (losses)		140,928
Change in non-admitted assets		5,324
Aggregate write-ins:		
Prior year error - ceded losses		<u>69,594</u>
Change in surplus as regards policyholders for the period		<u>\$ (370,187)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$5,015,351</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE-YEAR PERIOD ENDED DECEMBER 31, 2016
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 4,646,590
<u>Deductions</u>		
Losses incurred	\$4,649,784	
Loss expenses incurred	307,605	
Commissions	955,900	
Salaries	375,621	
Taxes, licenses and fees	122,799	
Other underwriting expenses incurred	<u>373,631</u>	
Total underwriting deductions		<u>6,785,340</u>
Net underwriting gain (loss)		(2,138,750)
<u>Investment Income</u>		
Net investment income earned	\$1,232,044	
Net realized capital gain (loss)	<u>172,794</u>	
Net investment gain (loss)		\$ 1,404,838
<u>Other Income</u>		
Aggregate write-ins for miscellaneous income		
Miscellaneous	\$ 275	
Change in cash value of life insurance policy	1,431	
Premiums collected for others	<u>26,361</u>	
Other income		<u>\$ 28,067</u>
Net income before federal and foreign income taxes		\$ (705,845)
Federal and foreign income taxes incurred		<u>79,695</u>
Net income		<u>\$ (785,540)</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>		
Surplus as regards policyholders, December 31, 2011		\$ 5,425,626
Gains and (Losses) in Surplus:		
Net income		\$ (785,540)
Net unrealized capital gains (losses)		293,004
Change in non-admitted assets		12,667
Aggregate write-ins:		
Prior year error - ceded losses		<u>69,594</u>
Change in surplus as regards policyholders for the period		<u>\$ (410,275)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$ 5,015,351</u>

CASH FLOW STATEMENT
ONE YEAR PERIOD ENDED DECEMBER 31, 2016

Cash from Operations

Premiums collected net of reinsurance	\$1,199,846
Net investment income	192,860
Miscellaneous income	<u>5,439</u>
Total	<u>\$1,398,145</u>

Benefit and loss related payments	\$1,410,183
Commissions, expenses paid and aggregate write-ins	<u>515,510</u>
Total	<u>\$1,925,693</u>

Net cash from operations \$ (527,548)

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 697,556
Stocks	<u>335,235</u>
Total investment proceeds	<u>\$1,032,791</u>

Cost of investments acquired (long-term) only:	
Bonds	\$ 365,829
Stocks	<u>194,369</u>
Total investments acquired	<u>\$ 560,198</u>

Net cash from investments \$ 472,593

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	<u>\$ 75,300</u>
Net cash from financing and miscellaneous sources	<u>\$ 75,300</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 20,347
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>\$ 305,702</u>
End of year	<u>\$ 326,047</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>			
Investment income due and accrued	\$ 32,324	\$ 33,824	\$ 1,500
Uncollected premiums and agents' balances in the course of collection	5,487	32,244	26,757
Deferred premiums and agents' balances and installments booked and not yet due	202,585	175,837	(26,748)
Electronic data processing equipment and software		892	892
<u>Liabilities</u>			
Losses	158,532	161,336	(2,804)
Loss adjustment expenses	11,841	10,699	1,142
Other expenses	2,293	2,333	(40)
Net increase in surplus			<u>\$ 699</u>
Surplus per Association			<u>\$5,014,652</u>
Surplus per examination			<u>\$5,015,351</u>

During the period under review, surplus funds decreased \$410,275 from the amount of \$5,425,626 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:

Investment income due and accrued \$ 33,824

This asset was increased \$1,500 to reflect the actual amount of interest accrued at the end of 2016.

Uncollected premiums and agent's balances in the course of collection \$ 32,244

This asset was increased \$26,757 primarily due to classification of current accounts receivable.

Deferred premiums and agents' balances and installments booked and not yet due \$ 175,837

This asset decreased \$26,748 primarily due to classification of current accounts receivable.

Electronic data processing equipment and software \$ 892

This asset increased \$892 to properly include unamortized cost of computer software.

Losses \$ 161,336

This liability was increased \$2,804 to reflect the actual loss reserves at the end of 2016.

Loss adjustment expense \$ 10,699

This liability was decreased \$1,142 based on the ratio of the reported paid loss adjusting expenses to the paid claims for the Examination period.

Other expenses \$ 2,333

This liability increased \$40 to properly report expenses incurred in 2016 but paid until 2017.

CONCLUSION

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

Respectfully submitted,

_/s/ Jerry Cihota
Jerry P. Cihota, CPA, CFE
Examiner Specialist
Insurance Division
State of Iowa