

EXAMINATION REPORT OF  
NORTHWEST IOWA MUTUAL INSURANCE ASSOCIATION  
PLYMOUTH COUNTY, REMSEN, IOWA  
AS OF DECEMBER 31, 2016

Remsen, Iowa  
October 6, 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

NORTHWEST IOWA MUTUAL INSURANCE ASSOCIATION

PLYMOUTH COUNTY, REMSEN, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 239 South Washington Street, Remsen, 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 1885 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 1945.

#### 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 Remsen, Iowa on the first Tuesday in February at 1:00 p.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. Nine members present constitute a quorum for any membership meeting.

##### BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of between five and nine 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>
Christopher Nielsen	Remsen, Iowa	2017
Scott D. Nielsen	Remsen, Iowa	2017
Denis Shilmoeller	Granville, Iowa	2017
Brenda Richardson	Orange City, Iowa	2018
Mark Brown	LeMars, Iowa	2018
Gregory S. McInnis	LeMars, Iowa	2018
William Schroeder	Kingsley, Iowa	2019
Craig Anderson	Merrill, Iowa	2019

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

Directors receive a fee of \$140 for each meeting attended and reimbursement of travel expense.

Salaries and remunerations of directors are shown in Exhibit A following this report.

#### 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>
Brenda Richardson	President
William Schroeder	Vice President
Scott Nielsen	Secretary/Treasurer
Christopher Nielsen	Assistant Secretary/Treasurer

Salaries and remunerations 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.

#### CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination.

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, 2011 was reviewed and accepted at the November 5, 2012 Board meeting. In reviewing Board minutes, it was observed the minutes were silent relative to recusal on an occasion whereby a Board member's participation in a vote may present the potential for appearance of conflict of interest.

#### 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 an indefinite 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
- Commercial excess liability
- Employment practices liability
- Business automobile

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.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Plymouth, Sioux, O'Brien, Woodbury, and Cherokee counties. It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

Policies are written or renewed for a one-year period with premiums payable monthly, quarterly, annually or semi-annually. The Association underwrites these policies every year.

At the present time, business is produced by fifty-four licensed agents.

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	\$1,351,130	\$1,370,960	\$1,461,202	\$1,591,333	\$1,751,612	\$7,526,237
Incurred deductions:						
Losses	704,086	740,059	667,543	1,024,051	1,384,872	4,520,611
Loss adjustment expenses	39,054	34,010	44,512	45,152	75,884	238,612
Commissions	267,883	279,852	301,465	288,642	366,877	1,504,719
Salaries	113,105	119,955	128,760	159,665	209,460	730,945
Taxes, licenses and fees	28,321	31,559	31,700	36,389	41,800	169,769
Other underwriting expenses	<u>167,480</u>	<u>177,515</u>	<u>235,674</u>	<u>183,844</u>	<u>90,292</u>	<u>854,805</u>
Total deductions	<u>\$1,319,929</u>	<u>\$1,382,950</u>	<u>\$1,409,654</u>	<u>\$1,737,743</u>	<u>\$2,169,185</u>	<u>\$8,019,461</u>
Underwriting gain or (loss)	<u>\$ 31,201</u>	<u>\$ (11,990)</u>	<u>\$ 51,548</u>	<u>\$ (146,410)</u>	<u>\$ (417,573)</u>	<u>\$ (493,224)</u>

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Incurred deductions:						
Losses	52.11 %	53.98 %	45.68 %	64.35 %	79.06 %	60.06 %
Loss adjustment expenses	2.89	2.48	3.05	2.84	4.33	3.17
Commissions	19.83	20.41	20.63	18.14	20.95	19.99
Salaries	8.37	8.75	8.81	10.03	11.95	9.72
Taxes, licenses and fees	2.10	2.30	2.17	2.29	2.39	2.26
Other underwriting expenses	<u>12.39</u>	<u>12.95</u>	<u>16.13</u>	<u>11.55</u>	<u>5.16</u>	<u>11.35</u>
Total deductions	<u>97.69 %</u>	<u>100.87 %</u>	<u>96.47 %</u>	<u>109.20 %</u>	<u>123.84 %</u>	<u>106.55 %</u>
Underwriting gain or (loss)	<u>2.31 %</u>	<u>(0.87)%</u>	<u>3.53 %</u>	<u>(9.20)%</u>	<u>(23.84)%</u>	<u>(6.55)%</u>

## CLAIMS

From a review of numerous claims, it appeared that the Association made prompt and equitable settlements which were in keeping with the terms of the policy contracts.

## 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 the 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 \$1,375,000 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 retainer. 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.

### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

## AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Nielsen-Galles Insurance Inc.

The agency is 100 percent owned by Scott Nielsen and Christopher Nielsen, who are also the Secretary/Treasurer and Assistant Secretary/Treasurer of the Association. This agency produced approximately 32 percent of the Association's business during 2016.

The agency paid \$300 monthly rent to the Association.

The expense allocation between the agency and Association does not appear to be unreasonable.

## 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, 2016 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, 2016, the gross risk in force for the Association was \$661,398,709. The Association's statutory minimum surplus level as of December 31, 2016 was \$661,399. 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, 2016 was 9.2/1.

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, 2016 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>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 25,185	\$	\$	\$ 25,185
Stocks	2,260,959	466,890		2,727,849
Bank balances:				
Subject to check	181,852			181,852
On interest	2,925,428			2,925,428
Real estate	73,514		4,144	69,370
Unpaid premiums:				
Due after November 1		4,739		4,739
Accrued interest		15,358		15,358
Automobiles	17,426		17,426	
EDP equipment	698			698
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$5,485,062</u>	<u>\$ 486,987</u>	<u>\$ 21,570</u>	<u>\$5,950,479</u>

LIABILITIES AND SURPLUS

Losses	\$	207,026
Unpaid adjusting expenses		26,504
Ceded reinsurance balances payable		33,530
Unpaid salaries and commissions		32,961
Taxes payable		2,734
Other unpaid expenses		3,807
Premiums collected for other companies - not remitted		10,035
Premiums received in advance		73,948
Unearned premium reserve		872,000
		<hr/>
Total liabilities		\$1,262,545
Surplus as regards policyholders		<hr/> 4,687,934
Total liabilities and surplus		<hr/> \$5,950,479

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015 \$5,480,421

INCOME

Net premiums and fees		\$1,820,954
Net interest received on bonds		1,625
Decrease by adjustment - bonds		(16)
Dividends received		89,403
Interest received on bank deposits		47,797
Profit on sale of investments		253
Rents received		8,400
Premiums collected for other companies		126,143
Increase in ledger liabilities		3,402
Federal income tax refund		34,100
Total income		<u>\$2,132,061</u>
Total assets and income		<u>\$7,612,482</u>

DISBURSEMENTS

Losses paid		\$1,198,473
<u>Operating Expense</u>		
Adjusting expense	\$ 49,793	
Commissions	362,917	
Advertising	15,177	
Boards, bureaus and associations	6,924	
Inspection and loss prevention	26,829	
Salaries of officers	116,160	
Officers' expenses	621	
Salaries of office employees	93,300	
Employee welfare	5,100	
Insurance	18,026	
Directors' compensation	4,200	
Directors' expenses	2,046	
Rent and rent items	4,800	
Equipment	21,348	
Printing and stationery	2,409	
Postage, telephone, telegraph and exchange	15,913	
Legal and auditing	7,845	
State insurance taxes	21,684	
Insurance Division licenses and fees	464	
Payroll taxes	20,969	
Real estate expenses	4,134	
Real estate taxes	1,966	
Miscellaneous	1,278	
Donations	2,560	
Over and short	(1,220)	
Total operating expense		<u>\$ 805,243</u>

Non-Operating Expense

Depreciation on real estate		4,329
Premium collections transmitted to other companies		100,491
Commissions paid agents for other companies		18,884
Total disbursements		<u>\$2,127,420</u>
Balance - ledger assets, December 31, 2016		<u>\$5,485,062</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>	\$1,751,612
Premiums earned	
<u>Deductions</u>	
Losses incurred	\$1,384,872
Loss expenses incurred	75,884
Other operating expenses incurred	708,429
Total underwriting deductions	2,169,185
Net underwriting gain (loss)	\$ (417,573)
<u>Investment Income</u>	
Net investment income earned	135,826
<u>Other Income</u>	
Premiums collected for other companies (net)	6,454
Miscellaneous income	(15,817)
Net income before Federal income tax	\$ (291,110)
Federal income tax incurred	(34,100)
Net income	\$ (257,010)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	\$4,613,388
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (257,010)
Change in not admitted assets	10,135
Change in net unrealized gains/losses	321,421
Change in surplus as regards policyholders for the year	\$ 74,546
Surplus as regards policyholders, December 31, 2016	\$4,687,934

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$7,526,237
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$4,520,611	
Loss expenses incurred	238,612	
Other operating expenses incurred	3,260,238	
Total underwriting deductions	<u>8,019,461</u>	
Net underwriting gain (loss)		\$ (493,224)
<u>Investment Income</u>		
Net investment income earned		744,503
<u>Other Income</u>		
Premiums collected for other companies (net)		64,110
Miscellaneous income		<u>279</u>
Net income before Federal income tax		\$ 315,668
Federal income tax incurred		<u>89,403</u>
Net income		<u>\$ 226,265</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2011		<u>\$3,898,618</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 226,265
Change in not admitted assets		12,212
Change in net unrealized gains/losses		<u>550,839</u>
Change in surplus as regards policyholders for the period		<u>\$ 789,316</u>
Surplus as regards policyholders, December 31, 2016		<u>\$4,687,934</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>Liabilities</u>			
Losses	\$ 359,268	\$ 207,026	\$ 152,242
Unpaid adjusting expenses	14,299	26,504	(12,205)
Unpaid salaries and commissions	32,225	32,961	(736)
Taxes payable	3,717	2,734	983
Other unpaid expenses	1,439	3,807	<u>(2,368)</u>
Net change to surplus			\$ 137,916
Surplus per Association			<u>4,550,018</u>
Surplus per examination			<u>\$ 4,687,934</u>

During the period under review, surplus funds increased \$789,316 from the amount of \$3,898,618 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:

Losses \$ 207,026

Losses decreased by \$152,242 to reflect actual loss development.

Unpaid adjusting expenses \$ 26,504

An analysis of paid adjusting expenses to paid losses increased the liability by \$12,205.

Unpaid salaries and commissions \$ 32,961

The liability was increased by \$736 to reflect the actual commissions paid on premiums receivable.

Taxes payable \$ 2,734

The liability was decreased by \$983 to reflect the recalculation of real estate taxes payable.

Other unpaid expenses \$ 3,807

This liability was increased by \$2,368 to reflect actual expenses paid in 2017 for 2016.

CONCLUSION

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

Respectfully submitted,

/s/ Andria Baker  
ANDRIA BAKER, CPA  
Cain Ellsworth & Co., LLP  
Representing the State of Iowa