

EXAMINATION REPORT OF  
ALLIANCE MUTUAL INSURANCE ASSOCIATION  
DELAWARE COUNTY, DYERSVILLE, IOWA  
AS OF DECEMBER 31, 2019

Dyersville, Iowa  
September 23, 2020

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

ALLIANCE MUTUAL INSURANCE ASSOCIATION

DELAWARE COUNTY, DYERSVILLE, IOWA

AS OF DECEMBER 31, 2019

at its newly constructed Home Office, 830 12th Avenue, Dyersville, Iowa as of 2016. The Home Office had previously been located in Garnavillo, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Alliance Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2015. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2015 to December 31, 2019. 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, 2019.

HISTORY

The Association was incorporated in 1896 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 1958.

Effective July 1, 2016:

- Farmers Mutual Insurance Association of Garnavillo (FMG) amended its Articles of Incorporation to become a state mutual insurance association under Chapter 518A, Code of Iowa.
- Delaware County Mutual Insurance Association and Dubuque County Mutual Insurance Association merged into FMG.
- The Association changed its name from FMG to Alliance Mutual Insurance Association.

A new home office was constructed in November, 2016. Existing home offices in Manchester, Garnavillo, and Dubuque owned prior to the merger were sold in October, 2016.

#### 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 Dyersville, Iowa on the last Monday in February at 1:00 p.m. Special meetings may be called by the Board of Directors or request of one-fourth of the members 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 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 directors, each elected by a majority vote at the annual meeting of the members for terms of three years. The Board of Directors may, as provided in the Bylaws, be divided into not more than three classes with the members of one class being elected at each annual meeting. 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Brent Bruns	Monona, Iowa	2020
Harlan Backhaus	Garnavillo, Iowa	2020
Nicolas Wagner	Bernard, Iowa	2020
Mike Gudenkauf	Masonville, Iowa	2021
Tracy Werges	Garnavillo, Iowa	2021
Marvin Heims	Edgewood, Iowa	2021
Michael Callahan	Cascade, Iowa	2022
Jeffrey Lucas	New Vienna, Iowa	2022
William Brown	Peosta, Iowa	2022

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 of the Board. A majority present constitutes a quorum for the transaction of business.

Directors receive a flat fee of \$300 for each meeting attended.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year, a President, a Secretary, and a Treasurer, and may elect such other officers as specified in the Bylaws or as it may deem advisable. Any offices may be combined except that of President and Secretary.

Officers serving at December 31, 2019 were:

<u>Name</u>	<u>Office</u>
Michael Callahan	President
Brent Bruns	Vice President
Brian Ernst	Secretary-Treasurer

Renumeration is reflected in 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 Association filed Amended and Substituted Articles of Incorporation during the period covered by this examination. The Amended and Substituted Articles of Incorporation converted the Association to a state mutual insurance association under Chapter 518A, Code of Iowa.

Delaware County Mutual Insurance Association and Dubuque County Mutual Insurance Association merged into the Association. The Association later changed its name to Alliance Mutual Insurance Association.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors did not document the review and acceptance of the Examination Report as of December 31, 2015 by the Board.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by an employee dishonesty blanket bond in the amount of \$100,000. NAIC guidelines, based on the size and operations of the Association, the coverage is \$50,000 less than what is recommended. The bond 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
- Commercial property and contents
- General liability
- Auto and umbrella liability
- Employers liability
- Employment practices liability
- Equipment breakdown and 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

Full-time employees are provided single coverage health insurance. Employees can purchase the additional family coverage. Disability and life insurance is not provided by the Association.

The Association makes a ten percent of salary contribution match annually to an eligible employee's personal IRA account. Employee must provide evidence that the employee contribution was made. Contributions paid by the Association of \$12,340, \$14,817, \$15,782 and \$17,569 for 2016, 2017, 2018 and 2019, respectively.

A profit share plan was started by the Association in 2016 for eligible full-time employees. To become eligible, employees must work at least 32 hours per week and be employed on the last calendar year day. For every two percent of underwriting profit, the employee could be eligible for one percent of annual salary up to five percent. Half of the profit share is based on performance of employee and half is based on underwriting gain for the year. Contributions paid by the Association were \$0, \$0, \$0 and \$20,331 for 2016, 2017, 2018 and 2019, respectively.

#### REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 with an authorized insurer which provides the following:

##### Property Per Risk Excess of Loss

The first \$200,000 of ultimate net loss per risk is retained by Association. Reinsurer will pay 100 percent of net loss in excess of retention up \$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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

##### Property Catastrophe Excess of Loss

The first \$1,000,000 ultimate net loss incurred per loss occurrence is retained by Association. Loss occurrence is the sum of all individual losses or series of losses related to one event. 100 percent of ultimate net loss per loss occurrence in excess of retention is covered by the reinsurer. Reinsurance 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.

##### Property Aggregate Excess of Loss

The first \$2,750,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. 100 percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. This reinsurance 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

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2019, no facultative coverage was in place.

### Reinsurance - General

The Association complies with current statutory standards relative to surplus exposure and reinsurance coverage.

## MARKET CONDUCT

### TERRITORY AND PLAN OF OPERATION

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. Prior to December, 2016, business was authorized to be written in the following counties: Allamakee, Buchanan, Clayton, Delaware, Dubuque, Fayette, Jackson, Jones, Linn, and Winneshiek. As of December 16, 2016, approval was given to write in the additional counties: Howard, Muscatine, and Scott. As of August 10, 2018, approval was given to write in the additional counties: Butler, Floyd, Grundy, Mitchell, Poweshiek, and Tama.

It was noted, from a review of numerous policies in force, that risks appeared to be located within the authorized territory.

As of the exam date, business is produced by 68 licensed agents. Farm and mobile home policies are underwritten every three years and home policies are underwritten every five years.

### ADVERTISING

The Association's advertising material was reviewed during the examination period and found to be in compliance with statutes and regulations.

### POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm, homeowners, rental, mobile, and home classes in insurance covering 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.

### 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

The Association contracts with a third-party vendor to adjust property claims through a fixed fee contract up to a set limit of claims. Claims in excess of this limit are to be billed on a fixed fee per claim basis.

Numerous claims files were reviewed to determine adequacy of loss reserves and the treatment of policyholders. From a review of numerous claims, it appeared that the Association made prompt settlements which were in keeping with the terms of the policy contracts.

COMPLAINT REGISTER

The Association maintains a complaint register as required by Iowa Administrative Rules. The Association did not have any complaints received during the examination period.

CREDIT SCORES

Credit scoring is used by the Association for rating purposes. The Association's documented procedures met Iowa Code requirements.

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>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Net Investment Income Earned</u>
2016	\$13,276,855	\$10,447,408	\$2,398,203	\$ 451,785	\$190,070
2017	13,661,786	11,027,838	3,275,094	2,337,460	308,193
2018	14,355,358	11,570,696	3,434,191	1,176,211	348,047
2019	16,109,822	13,040,143	3,835,201	2,396,091	366,275

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's filed annual statements for the four-year period ended December 31, 2019 was as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$ <u>2,403,040</u>	\$ <u>3,275,094</u>	\$ <u>3,434,191</u>	\$ <u>3,835,201</u>	\$ <u>12,947,526</u>
<u>Incurred Deductions</u>					
Losses	\$ 425,094	\$2,337,460	\$1,176,211	\$2,533,822	\$ 6,472,587
Loss adjustment expenses	83,209	347,005	335,315	333,235	1,098,764
Commissions	538,566	753,021	851,481	770,913	2,913,981
Salaries	238,783	141,836	140,881	135,823	657,323
Taxes, licenses and fees	73,161	47,362	43,481	52,570	216,574
Other underwriting expenses	<u>207,278</u>	<u>146,747</u>	<u>133,448</u>	<u>123,617</u>	<u>611,090</u>
Total deductions	<u>\$1,566,091</u>	<u>\$3,773,431</u>	<u>\$2,680,817</u>	<u>\$3,949,980</u>	<u>\$11,970,319</u>
Net underwriting gain (loss)	<u>\$ 836,949</u>	<u>\$ (498,337)</u>	<u>\$ 753,374</u>	<u>\$ (114,779)</u>	<u>\$ 977,207</u>

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>TOTAL</u>
<u>Incurred Deductions</u>					
Losses	17.7%	71.4%	34.3%	66.1%	50.0%
Loss adjustment expenses	3.5	10.6	9.8	8.7	8.5
Commissions	22.4	23.0	24.8	20.1	22.5
Salaries	9.9	4.3	4.0	3.5	5.1
Taxes, licenses and fees	3.1	1.4	1.3	1.4	1.7
Other underwriting expenses	<u>8.6</u>	<u>4.5</u>	<u>3.9</u>	<u>3.2</u>	<u>4.7</u>
Total deductions	<u>65.2%</u>	<u>115.2%</u>	<u>78.1%</u>	<u>103.0%</u>	<u>92.5%</u>
Net underwriting gain (loss)	<u>34.8%</u>	<u>(15.2)%</u>	<u>21.9%</u>	<u>(3.0)%</u>	<u>7.5%</u>



#### AFFILIATED AGENCY

The Association owns its Home Office building, which it occupies. There are no affiliated agencies or other rental entities utilizing space in the building. The Association does not own an affiliated agency.

#### 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, 2019 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 fifty thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2019, the gross risk in force for the Association was \$1,765,628,104. The Association's statutory minimum surplus level as of December 31, 2019 was \$1,765,628. The Association's surplus level to minimum surplus level ratio was 7.4/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2019 was 8.5/1.

#### SUBSEQUENT EVENTS

Lenox Mutual Insurance Association merged into the Association, effective as of January 1, 2020. As of March 3, 2020, The Iowa Insurance Division approved expansion into the following counties: Cerro Gordo, Franklin, Hardin, Jasper, Marshall, Polk, Story, Worth, Hancock, Hamilton, Winnebago, and Wright.

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, 2019 and the assets and liabilities as of this date. Scheduling 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	\$9,702,787	\$	\$ 9,702,787
Preferred stocks	55,929		55,929
Common stocks	4,888,779		4,888,779
Real estate properties occupied	417,462		417,462
Cash:			
Cash holdings	255,459		255,459
Cash equivalents	9,856		9,856
Investment income due and accrued	99,184		99,184
Premiums and considerations:			
Uncollected premiums	122,049		122,049
Deferred premiums	545,577		545,577
Amounts recoverable from reinsurers	5,422		5,422
Current federal income tax recoverable	38,000	27,250	10,750
Electronic data processing equipment	7,281		7,281
Furniture and equipment	4,829	4,829	
Aggregate write-ins for assets:			
Automobiles	34,323	34,323	
Suspense	37		37
Total Assets	\$16,186,974	\$66,402	\$16,120,572

LIABILITIES AND SURPLUS

Losses		\$ 362,948
Loss adjusting expenses		8,742
Commissions payable and contingent commissions		165,419
Other expenses		3,596
Taxes, licenses and fees		9,883
Unearned premiums		2,432,265
Advance premiums		86,640
Ceded reinsurance premiums payable		94,263
Amounts withheld for account of others		24,851
Total liabilities		\$ 3,188,607
Surplus as regards policyholders		\$12,931,965
Total Liabilities and Surplus		\$16,120,572

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE-YEAR PERIOD ENDED DECEMBER 31, 2019  
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 3,835,201
 <u>Incurred Deductions</u>		
Losses incurred	\$2,533,822	
Loss expenses incurred	333,235	
Commissions	770,913	
Salaries	135,823	
Taxes, licenses and fees	52,570	
Other underwriting expenses incurred	<u>123,617</u>	
Total underwriting deductions		<u>3,949,980</u>
 Net underwriting gain (loss)		 \$ (114,779)
 <u>Investment Income</u>		
Net investment income earned		366,275
Net realized capital gain (loss)		2,877
 <u>Other Income</u>		
Net premiums collected for others		23,205
Miscellaneous income		<u>321</u>
 Net income before federal income taxes		 \$ 277,899
 Federal income taxes		 <u>13,930</u>
 Net income		 <u>\$ 263,969</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$11,570,696</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 263,969
Net unrealized capital gains (losses)		1,077,351
Change in non-admitted assets		<u>19,949</u>
 Change in surplus as regards policyholders		 <u>\$ 1,361,269</u>
 Surplus as regards policyholders, December 31, 2019		 <u>\$12,931,965</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FOUR-YEAR PERIOD ENDED DECEMBER 31, 2019  
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$12,947,526
<u>Incurred Deductions</u>		
Losses incurred	\$6,472,587	
Loss expenses incurred	1,098,764	
Commissions	2,913,981	
Salaries	657,323	
Taxes, licenses and fees	216,574	
Other underwriting expenses	<u>611,090</u>	
Total underwriting deductions		<u>11,970,319</u>
Net underwriting gain (loss)		\$ 977,207
<u>Investment Income</u>		
Net investment income earned		1,212,585
Net realized capital gain (loss)		372,925
<u>Other Income</u>		
Net premiums collected for others		65,252
Miscellaneous income		<u>5,892</u>
Net income before federal income taxes		\$ 2,633,861
Federal income taxes		<u>444,848</u>
Net income		<u>\$ 2,189,013</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$ 4,758,815</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$2,189,013
Net unrealized capital gains (losses)		1,264,162
Change in non-admitted assets		(17,352)
Merger with Dubuque Mutual and Delaware Mutual		<u>4,737,327</u>
Change in surplus as regards policyholders		<u>\$ 8,173,150</u>
Surplus as regards policyholders, December 31, 2019		<u>\$12,931,965</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$4,046,257
Net investment income	399,518
Miscellaneous income	<u>23,526</u>
Total	<u>\$4,469,301</u>

Benefit and loss related payments	\$2,323,694
Commissions, expenses paid and aggregate write-ins	1,434,831
Federal income taxes paid (recovered) net	<u>29,680</u>
Total	<u>\$3,788,205</u>

Net cash from operations	<u>\$ 681,096</u>
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Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 266,000
Stocks	<u>637,528</u>
Total investment proceeds	<u>\$ 903,528</u>

Cost of investments acquired (long-term) only:	
Bonds	\$1,108,626
Stocks	<u>521,354</u>
Total investments acquired	<u>\$1,629,980</u>

Net cash from investments	<u>\$ (726,452)</u>
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Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ 9,049</u>
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Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (36,307)
Cash and short-term investments:	
Beginning of year	<u>\$ 301,622</u>
End of year	<u>\$ 265,315</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>			
Current federal tax recoverable	\$	\$ 10,750	\$ 10,750
<u>Liabilities</u>			
Losses	225,217	362,948	(137,731)
Commissions payable	185,391	165,419	19,972
Taxes, licenses and fees	8,714	9,883	<u>(1,169)</u>
Net increase in surplus			<u>\$ (108,178)</u>
Surplus per Association			<u>\$13,040,143</u>
Surplus per examination			<u>\$12,931,965</u>

During the period under review, surplus funds increased \$4,758,815 from the amount of \$8,173,150 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:

Current federal income tax recoverable \$ 10,750

Asset increased \$10,750 to account for the actual federal income tax refund received in 2020 for taxes incurred in 2019.

Losses \$ 362,948

Losses increased \$137,731 to reflect current loss development of losses incurred prior 2020.

Commissions payable \$ 165,419

Liability decreased \$19,972 primarily due to excluding "Future Billed" component of commissions.

Taxes, licenses and fees

\$ 9,883

Liability increased \$1,169 to report the actual amount of taxes that were due on December 31, 2019.

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, CPA, CFE  
Examiner Specialist  
Iowa Insurance Division