

EXAMINATION REPORT OF
BENTON COUNTY MUTUAL INSURANCE ASSOCIATION
BENTON COUNTY, KEYSTONE, IOWA
AS OF DECEMBER 31, 2019

Keystone, Iowa
October 24, 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

BENTON MUTUAL INSURANCE ASSOCIATION

BENTON COUNTY, KEYSTONE, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 101 Main Street, Keystone, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

The Benton Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2015. The examination report 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 1872 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 1957. On June 1, 2017, the Association converted to 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 Keystone, Iowa on the fourth Friday in March at 1:30 p.m., starting in 2018. Special meetings may be called by the Board of directors or upon written 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. A quorum shall be one more member than the number of directors.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five and not 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Jim Krug	Newhall, Iowa	2020
Ed McKinley	Vinton, Iowa	2020
Tom Danker	Belle Plaine, Iowa	2021
Dave Gahring	Keystone, Iowa	2021
Allen Stueck	Atkins, Iowa	2022
Tim Kapucian	Keystone, Iowa	2022

The annual meeting of the Board is held immediately after the annual meeting of the members. A majority present constitutes a quorum for the transaction of business.

Directors receive \$250 for each meeting attended plus a \$100 annual stipend.

Remuneration to directors is reflected in Exhibit A.

OFFICERS

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

Officers serving at December 31, 2019 were:

<u>Name</u>	<u>Office</u>
Jim Buch	President/Treasurer
Stephanie Schallau	Vice-President/Secretary

Salaries and remuneration of officers are shown on Exhibit A.

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 amended and substituted, effective as of June 1, 2017.

Amendments to the Articles included:

- Operate as authorized by Iowa Code 518A per Article II.
- The annual meeting of the members shall be held on the fourth Friday in March of each year commencing at 1:30 p.m. CST per Article V.
- Special meetings of the members can be called upon written request of one-fourth of the members of the Association per Article V.
- Quorum shall be one more member than the number of Directors per Article V.
- The number of directors shall be not less than five, nor more than fifteen per Article VIII.

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 review or approval of the Examination Report as of December 31, 2015 by the Board.

AFFILIATED AGENCY

The Association owns its Home Office building and receives monthly rent of \$225 for an accountant's office and \$200 for a chiropractic office for a portion of its office space rented to non-insurance businesses.

The wholly-owned subsidiary of the Association, Benton Mutual Insurance Services (BMIS), occupies only file space in the Association's office and pays no rent. BMIS's officers and directors are the same as those for the Association. BMIS does not write business for and receives no commissions from the Association. BMIS's income tax return is consolidated with the Association's return.

FIDELITY BONDS AND OTHER INSURANCE

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

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 and equipment breakdown

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 insurance with premiums paid mostly by the Association and partly by the employees. Employees pay \$45 each month. One part-time employee receives a single health plan.

Life insurance benefits are provided by the Association. Employees may also participate in the Flexible Benefit Plan for health care and dependent care.

Retirement benefit contributions were made by the Association as part of the Simple IRA based on three percent of the full-time eligible employee's salary. Contributions of \$6,157, \$5,655, \$5,590 and \$6,876 were paid annually by the Association for 2016 through 2019.

The Association pays an annual profit share to employees based on net income. Full-time employees are entitled to one percent of net income after taxes. Contributions of \$20,153, \$6,169, \$19,336 and \$13,023 were paid annually by the Association for 2016 through 2019.

REINSURANCE

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

Property Per Risk Excess of Loss

The first \$175,000 of ultimate net loss per risk is retained by the Association. First layer is reinsurer will pay 100 percent 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 \$5,000,000 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 \$750,000 ultimate net loss incurred per loss occurrence is retained by the Association. Loss occurrence is the sum of all individual losses or series of losses related to one event. One-hundred 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 \$1,550,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance coverage 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 Quota Share

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2019, no facultative agreements were 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 Bremer, Grundy, Black Hawk, Buchanan, Delaware, Dubuque, Tama, Benton, Linn, Jones, Jackson, Clinton, Poweshiek, Iowa, Johnson, Cedar, Scott, Muscatine, and Washington counties as of December 31, 2019. Five counties were added to the territory in 2017 and six counties in 2019. 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

At the present time, business is produced by 119 licensed agents.

UNDERWRITING PRACTICES

Policies are written or renewed for a continuous period with premiums payable monthly, semi-annually, quarterly or annually. The Association underwrites these policies on an annual basis.

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

Numerous claim files were reviewed to determine the treatment of policyholders. From the claims reviewed, it appeared that the Association made prompt and equitable settlements which were in keeping with the terms of the contracts.

COMPLAINT REGISTER

The Association had no complaints during the examination period.

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>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Net Investment Income Earned</u>
2016	\$6,467,287	\$5,242,358	\$1,848,224	\$402,375	\$224,105
2017	6,932,900	5,467,911	1,843,044	914,246	228,703
2018	7,512,431	6,022,302	1,941,743	384,028	214,804
2019	8,112,725	6,695,327	2,045,784	671,650	224,106

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's 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	\$1,767,940	\$1,843,044	\$1,941,743	\$2,045,794	\$7,598,521
<u>Incurred Deductions</u>					
Losses	\$ 419,473	\$ 914,246	\$ 384,028	\$ 659,318	\$2,377,065
Loss adjustment expenses	69,282	163,583	171,786	179,553	584,204
Commissions	406,517	400,124	436,701	437,537	1,680,879
Salaries	179,676	201,509	217,068	231,792	830,045
Taxes, licenses and fees	67,798	51,576	51,646	53,865	224,885
Other underwriting expenses	<u>280,979</u>	<u>150,585</u>	<u>151,460</u>	<u>154,520</u>	<u>737,544</u>
Total deductions	\$1,423,725	\$1,881,623	\$1,412,689	\$1,716,585	\$6,434,622
Net underwriting gain (loss)	\$ 344,215	\$ (38,579)	\$ 529,054	\$ 329,209	\$1,163,899

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

<u>Incurred Deductions</u>					
Losses	23.7%	49.6%	19.8%	32.2%	31.3%
Loss adjustment expenses	3.9	8.9	8.8	8.8	7.7
Commissions	23.0	21.7	22.5	21.4	22.1
Salaries	10.2	10.9	11.2	11.3	10.9
Taxes, licenses and fees	3.8	2.8	2.7	2.6	3.0
Other underwriting expenses	<u>15.9</u>	<u>8.2</u>	<u>7.8</u>	<u>7.6</u>	<u>9.7</u>
Total deductions	<u>80.5%</u>	<u>102.1%</u>	<u>72.8%</u>	<u>83.9%</u>	<u>84.7%</u>
Net underwriting gain (loss)	<u>19.5%</u>	<u>(2.1)%</u>	<u>27.2%</u>	<u>16.1%</u>	<u>15.3%</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.

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.

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 two hundred 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 \$770,761,239. The Association's statutory minimum surplus level as of December 31, 2019 was \$770,761. It is noted the Association's surplus level to minimum surplus level ratio was 8.7/1. The reported surplus/statutory minimum ratio for Chapter 518A licensed industry at December 31, 2019 was 8.5/1.

SUBSEQUENT EVENT

Stephanie Schallau became manager of the Association on January 1, 2020.

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. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$5,517,403	\$	\$5,517,403
Preferred stocks	123,612		123,612
Common stocks	1,490,156	40,902	1,449,254
Real estate properties occupied	149,628		149,628
Cash:			
Cash holdings	280,468		280,468
Short-term investments	40,724		40,724
Receivables for securities	765		765
Aggregate write-ins for invested assets:			
Promissory notes	30,000	30,000	
Investment income due and accrued	48,544		48,544
Premiums and considerations:			
Uncollected premiums	28,323	(1,669)	29,992
Deferred premiums	198,125		198,125
Other amounts receivables under re contracts	30,721		30,721
Current federal income tax recoverable	24,982	24,982	
Aggregate write-ins for assets:			
Prepaid reinsurance	202,588		202,588
Automobiles	45,602	45,602	
Supplies	150	150	
Total Assets	<u>\$8,211,791</u>	<u>\$139,967</u>	<u>\$8,071,824</u>

LIABILITIES AND SURPLUS

Losses	\$ 146,168
Loss adjusting expenses	573
Commissions payable	120,934
Other expenses	6,427
Taxes, licenses and fees	1,973
Unearned premiums	1,011,705
Advance premiums	51,191
Ceded reinsurance premiums payable	51,203
Amounts withheld for account of others	9,498
Aggregate write-ins for liabilities:	
Medical flex spending arranged	1,796
Total liabilities	<u>\$1,401,468</u>
Surplus as regards policyholders	<u>\$6,670,356</u>
Total Liabilities and Surplus	<u>\$8,071,824</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$2,045,794
 <u>Incurred Deductions</u>	
Losses incurred	\$659,318
Loss expenses incurred	179,553
Other underwriting expenses incurred	<u>877,714</u>
Total underwriting deductions	<u>1,716,585</u>
 Net underwriting gain (loss)	 \$ 329,209
 <u>Investment Income</u>	
Net investment income earned	224,105
Net realized capital gain (loss)	9,550
 <u>Other Income</u>	
Miscellaneous income	<u>104</u>
 Net income before federal income taxes	 \$ 562,968
 Federal income taxes	 <u>103,154</u>
 Net income	 <u>\$ 459,814</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$6,022,302</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 459,814
Net unrealized capital gains (losses)	228,492
Change in non-admitted assets	<u>(40,252)</u>
	<u>\$ 648,054</u>
 Change in surplus as regards policyholders	
 Surplus as regards policyholders, December 31, 2019	 <u>\$6,670,356</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$7,598,521
 <u>Incurred Deductions</u>	
Losses incurred	\$2,377,065
Loss expenses incurred	584,204
Other operating expenses	<u>3,473,353</u>
Total underwriting deductions	<u>6,434,622</u>
 Net underwriting gain (loss)	 \$1,163,899
 <u>Investment Income</u>	
Net investment income earned	873,880
Net realized capital gain (loss)	148,651
 <u>Other Income</u>	
Premiums collected for others	5,078
Miscellaneous income	<u>31,171</u>
 Net income before federal income taxes	 <u>\$2,222,679</u>
 Federal income taxes	 <u>\$ 478,000</u>
 Net income	 <u>\$1,744,679</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$4,787,891</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$1,744,679
Net unrealized capital gains (losses)	158,465
Change in non-admitted assets	<u>(20,679)</u>
 Change in surplus as regards policyholders	 <u>\$1,882,465</u>
 Surplus as regards policyholders, December 31, 2019	 <u>\$6,6570,356</u>

CASH FLOW STATEMENT
DECEMBER 31, 2019

Cash from Operations

Premiums collected net of reinsurance:	\$2,054,534
Net investment income	228,987
Miscellaneous income	<u>411</u>
Total	<u>\$2,283,932</u>

Benefit and loss related payments:	\$ 598,256
Commissions, expenses paid and aggregate write-ins	1,070,042
Federal income taxes paid (recovered) net	<u>160,154</u>
Total	<u>\$1,828,452</u>
Net cash from operations	<u>\$ 455,480</u>

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 415,000
Stocks	<u>133,887</u>
Total investment proceeds	<u>\$ 548,887</u>

Cost of investments acquired (long-term) only:	
Bonds	\$ 827,199
Stocks	283,627
Real estate	73,301
Miscellaneous applications	<u>384</u>
Total investments acquired	<u>\$1,184,511</u>
Net cash from investments	<u>\$ (635,624)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>73,955</u>
Net cash from financing	<u>\$ 73,955</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (106,189)
Cash and short-term investments:	
Beginning of year	<u>\$ 427,381</u>
End of year	<u>\$ 321,192</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	\$5,454,043	\$5,517,403	\$ 63,360
Preferred stock	186,972	123,612	(63,360)
Common stock	1,490,156	1,449,254	(40,902)
<u>Liabilities</u>			
Losses	\$ 158,500	\$ 146,168	\$ 12,332
Loss adjustment expenses	6,581	573	6,008
Other expenses	4,847	6,427	(1,580)
Taxes, licenses and fees	1,144	1,973	<u>(829)</u>
Net increase in surplus			<u>\$ (24,971)</u>
Surplus per Association			<u>\$6,695,327</u>
Surplus per examination			<u>\$6,670,356</u>

During the period under review, surplus funds increased \$1,882,465 from the amount of \$4,787,891 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 \$5,517,403

This asset increased \$63,360 to reclassify two investments from Preferred stocks.

Preferred stock \$ 123,612

This asset decreased \$63,360 to reclassify two investments to Bonds.

Common stock \$1,449,254

This asset decreased \$40,902 to account for actual value of a common stock.

Losses \$ 146,168

This liability decreased by \$12,332 to reflect loss development in 2020 on losses incurred prior to 2020.

Loss adjustment expenses \$ 573

This liability decreased by \$6,008 to report loss adjustment expenses due to third party provider of the services as of December 31, 2019.

Other expenses \$ 6,427

This liability increased \$1,580 to account for other expenses incurred in 2019 and later paid in 2020.

Taxes, licenses and fees \$ 1,973

This liability increased \$829 to account for taxes due as of 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
Insurance Division
State of Iowa