

EXAMINATION REPORT OF
FARMERS MUTUAL INSURANCE ASSOCIATION
OSCEOLA COUNTY, SIBLEY, IOWA
AS OF DECEMBER 31, 2019

Sibley, Iowa
August 10, 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

FARMERS MUTUAL INSURANCE ASSOCIATION

OSCEOLA COUNTY, SIBLEY, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 726 Fourth Avenue, Sibley, Iowa. The report, containing applicable comments and financial data, is presented herein.

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 1889 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 1947.

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 Sibley, Iowa on the third Wednesday in February at 1:30 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. Ten members present 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 nine or 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Neil Schutte	Sibley, Iowa	2020
Donald Bremer	Ocheyedan, Iowa	2020
Thomas Platt	Ashton, Iowa	2020
Scott Gaarder	Sibley, Iowa	2021
Leroy Eggink	Sibley, Iowa	2021
Lonny Siemers	Ocheyedan, Iowa	2022
Joseph Roth	Ashton, Iowa	2022
Todd Ackerman	Ocheyedan, 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 Secretary. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$125 for each meeting attended and reimbursement of travel expense.

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, 2019 were:

<u>Name</u>	<u>Office</u>
Leroy Eggink	President
Todd Ackerman	Vice President
Scott Gaarder	Secretary-Treasurer-Manager

Remuneration of officers are shown on Exhibit A immediately following the signature page of 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, 2015 was reviewed and accepted at the November 2, 2016 board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$75,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is noncumulative. The current bond amount of \$75,000 does not meet National Association of Insurance Commissioners (NAIC) guidelines for coverage.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Business property and business personal property
- Business 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 regular employees are entitled to participate in a group hospital and surgical expense insurance program made available through the Association. The Association pays a portion of the cost of the employee's family plan premium for this coverage, and the employee pays the balance through a payroll deduction on a monthly basis. The allocation of this payment may be changed from year to year at the Association's discretion. The Secretary-Treasurer-Manager receives \$500 quarterly pre-tax to offset medical premium and deductible.

A pension trust retirement plan is provided to eligible employees on a non-contributory basis. Contributions were made to Principal Life Insurance Company based on five percent of the full-time eligible employee's salary paid by the Association for 2016, 2017, 2018, and 2019. The Association contributed \$6,824, \$6,948, \$6,892, and \$5,194, respectively, to the pension trust.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a county mutual insurance association under the provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in six counties in the State of Iowa. The permitted writing territory is composed of the following counties: Osceola, Lyon, Sioux, O'Brien, Clay, and Dickinson 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 annually, semi-annually, quarterly, and monthly. The Association underwrites these policies every five years.

At the present time, business is produced by 71 licensed agents.

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$1,284,743	\$1,161,923	\$1,139,903	\$1,343,161	\$4,929,730
Incurred deductions:					
Losses	571,626	1,144,121	970,148	993,160	3,679,055
Loss adjustment expense	100,951	100,247	97,795	106,178	405,171
Commissions	403,559	230,109	252,011	269,203	1,154,882
Salaries	138,050	140,626	139,482	119,840	537,998
Taxes, licenses and fees	35,599	35,776	33,037	33,646	138,058
Other underwriting expenses	55,389	205,246	190,050	191,256	641,941
Total deductions	\$1,305,174	\$1,856,125	\$1,682,523	\$1,713,283	\$ 6,557,105
Underwriting gain or (loss)	\$ (20,431)	\$ (694,202)	\$ (542,620)	\$ (370,122)	\$ (1,627,375)

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Incurred deductions:					
Losses	44.49%	98.47%	85.11%	73.94%	74.63%
Loss adjustment expense	7.86	8.63	8.58	7.91	8.22
Commissions	31.41	19.80	22.11	20.04	23.43
Salaries	10.75	12.10	12.24	8.92	10.91
Taxes, licenses and fees	2.77	3.08	2.90	2.50	2.80
Other underwriting expenses	4.31	17.66	16.67	14.24	13.02
Total deductions	101.59%	159.74%	147.61%	127.55%	133.01%
Underwriting gain or (loss)	(1.59%)	(59.74%)	(47.61%)	(27.55%)	(33.01%)

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 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 percent of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000. Second layer has recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has 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 \$1,200,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. One-hundred percent 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

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2019, there were no risks identified which warranted a facultative agreement.

Reinsurance - General

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

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.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Gaarder Insurance Agency. The agency is 100 percent owned by Mr. Scott Gaarder, who is also the Secretary-Treasurer-Manager of the Association. This agency produced approximately 19 percent of the Association's business during 2019.

The monthly rent paid by the agency to the Association is \$125 per month. Gaarder Insurance Agency continues to maintain the outside grounds, mows the lawn, and shovels the snow in off hours. (The Association pays for snow removal during business hours). The agency provides its own supplies, most of its own office equipment, provides the copier paper which the Association utilizes, furnishes printout of pictures utilized by the Association, and provides the internet service which is also used by the Association. The Board of Directors has approved this arrangement as an equitable allocation of expenses between the agency and the Association and reviews the arrangement on an annual basis. The rent has been \$125 since 2000.

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 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, 2019, the gross risk in force for the Association was \$662,550,745. The Association's statutory minimum surplus level as of December 31, 2019 was \$662,551. It is noted the Association's surplus level to minimum surplus level ratio was 6.1/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

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, 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

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$4,736,979	\$	\$ 1,863	\$4,735,116
Stocks	135,531	6,683		142,214
Bank balances:				
Subject to check	42,520			42,520
On interest	182,933			182,933
Real Estate	78,079			78,079
Cash in office	50			50
Unpaid Premiums:				
Due before November 1		57	57	
Due after November 1		5,257		5,257
Accrued interest		30,466		30,466
Equipment and furniture	3,506		3,506	
Electronic data process equipment	1,565			1,565
Contingency receivable		31,100		31,100
Total	<u>\$5,181,163</u>	<u>\$ 73,563</u>	<u>\$ 5,426</u>	<u>\$5,249,300</u>

LIABILITIES AND SURPLUS

Losses	\$ 46,357
Unpaid adjusting expenses	8,438
Ceded reinsurance balances payable	86,528
Unpaid salaries and commissions	21,624
Amounts withheld for the account of others	1,966
Taxes payable	4,426
Other unpaid expenses	8,703
Premiums collected for other companies - not remitted	9,776
Premiums received in advance	32,787
Employee benefits payable	7,479
Unearned premium reserve	<u>964,000</u>
Total liabilities	\$ 1,192,084
Surplus as regards policyholders	<u>4,057,216</u>
Total liabilities and surplus	<u>\$ 5,249,300</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$	<u>5,331,665</u>
<u>INCOME</u>			
Net premiums and fees		\$	1,398,358
Net interest received on bonds			117,824
Increase (Decrease) by adjustment - bonds			46,433
Dividends received			596
Interest received on bank deposits			1,633
Profit on sale of investment			12,023
Rents received			6,900
Premiums collected for other companies			154,647
Increase in ledger liabilities			8,103
Federal income tax refund			30,000
Total income		\$	<u>1,776,517</u>
Total assets and income		\$	<u>7,108,182</u>
<u>DISBURSEMENTS</u>			
Losses paid		\$	1,009,603
<u>Operating Expense</u>			
Adjusting expense	\$	107,040	
Commissions		267,377	
Advertising		53,225	
Boards, bureaus and associations		8,076	
Inspection and loss prevention		14,448	
Salaries of officers		61,420	
Salaries of office employees		58,420	
Employee welfare		40,308	
Insurance		11,357	
Directors' compensation		3,500	
Directors' expenses		290	
Rent and rent items		8,109	
Equipment		18,163	
Printing and stationary		9,914	
Postage, telephone, telegraph and exchange		10,977	
Legal and auditing		17,883	
State insurance taxes		23,156	
Insurance Division licenses and fees		460	
Payroll taxes		9,933	
All other taxes		591	
Real estate expenses		7,772	
Real estate taxes		1,886	
Interest on borrowed money		272	
Miscellaneous		265	
Annual and agent meeting expense		3,288	
Donations		419	
Total operating expense			738,549
<u>Non-Operating Expense</u>			
Borrowed money repaid			30,000
Depreciation on real estate			4,314
Federal income tax			35
Premium collections transmitted to other companies			123,709
Commissions paid agents for other companies			20,809
Total disbursements		\$	<u>1,927,019</u>
Balance - ledger assets, December 31, 2019		\$	<u>5,181,163</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 1,343,161
<u>Deductions</u>		
Losses incurred	\$ 993,160	
Loss expenses incurred	106,178	
Other operating expenses incurred	613,945	
Total underwriting deductions		<u>1,713,283</u>
Net underwriting gain (loss)		\$ (370,122)
<u>Investment Income</u>		
Net investment income earned		171,163
<u>Other Income</u>		
Premiums collected for other companies (net)		9,284
Miscellaneous income		<u>8,374</u>
Net loss before Federal income tax		\$ (181,301)
Federal income tax incurred		<u>(30,000)</u>
Net loss		<u>\$ (151,301)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$ 4,209,266</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (151,301)
Change in not admitted assets		781
Change in net unrealized gains/losses		<u>(1,530)</u>
Change in surplus as regards policyholders for the year		<u>\$ (152,050)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 4,057,216</u>

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

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 4,929,730
<u>Deductions</u>		
Losses incurred	\$ 3,679,055	
Loss expenses incurred	405,171	
Other operating expenses incurred	2,472,879	
Total underwriting deductions		<u>6,557,105</u>
Net underwriting gain (loss)		\$ (1,627,375)
<u>Investment Income</u>		
Net investment income earned		751,049
<u>Other Income</u>		
Premiums collected for other companies (net)		46,830
Miscellaneous income		<u>(18,515)</u>
Net loss before Federal income tax		\$ (848,011)
Federal income tax incurred		<u>(95,336)</u>
Net loss		<u>\$ (752,675)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$ 4,815,118</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (752,675)
Change in not admitted assets		(3,506)
Change in net unrealized gains/losses		<u>(1,721)</u>
Change in surplus as regards policyholders for the period		<u>\$ (757,902)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 4,057,216</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>			
Bonds	\$ 4,736,979	\$ 4,735,116	\$ (1,863)
Unpaid premiums due after November 1	4,475	5,257	782
<u>Liabilities</u>			
Losses	34,000	46,357	(12,357)
Unpaid adjusting expenses	9,100	8,438	662
Other unpaid expenses	6,439	8,702	(2,263)
Taxes payable	4,189	4,426	(237)
Net change to surplus			\$ (15,276)
Surplus per Association			<u>4,072,492</u>
Surplus per examination			<u>\$ 4,057,216</u>

During the period under review, surplus funds decreased \$757,902 from the amount of \$4,815,118 as shown in the last previous examination report. An operating statement reflecting that change is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

Bonds \$4,735,116

The asset was decreased by \$1,863. The decrease was due to the recalculation of amortization.

Unpaid premiums due after November 1 \$ 5,257

The asset was increased by \$782 to reflect the actual amount of premiums received in 2020.

Losses \$ 46,357

Losses increased by \$12,357 to reflect actual loss development.

Unpaid adjusting expenses \$ 8,438

The liability was decreased by \$662 to reflect the actual amount paid in 2020.

Other unpaid expenses \$ 8,702

The liability was increased by \$2,263 to reflect actual expense paid in 2020 for 2019.

Taxes payable

\$ 4,426

The liability was increased by \$237 due to an adjustment to payroll tax withholding.

CONCLUSION

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

Respectfully submitted,

/s/ Abby De Zeeuw
Abby De Zeeuw, CPA
Cain Ellsworth & Co., LLP
Representing the State of Iowa