

EXAMINATION REPORT OF
JCM MUTUAL INSURANCE ASSOCIATION
FAIRFIELD, IOWA
AS OF DECEMBER 31, 2019

Fairfield, Iowa
August 25, 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

JCM MUTUAL INSURANCE ASSOCIATION

FAIRFIELD, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 50 South 4th Street, Fairfield, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

JCM Mutual Insurance Association, hereinafter referred to as "Association", was last examined as of December 31, 2019. 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. The Association's assets were verified and evaluated and liabilities determined to present herein a statement of its financial condition as of December 31, 2018.

HISTORY

The Association was incorporated in 1873 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 1954. On April 1, 2014, the Association converted to an Association 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 Fairfield, Iowa on the second Saturday in February at 10:00 a.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. One more member than the number of Directors fixed by Resolution of the Board of Directors 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 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term</u>
Larry Worley	Fairfield, Iowa	2020
Brian Simmons	Fairfield, Iowa	2020
Mark Taglauer	Brighton, Iowa	2021
Katelyn Anderson/Vogel	Lockridge, Iowa	2021
Marvin Larson	Fairfield, Iowa	2021
Jim Jones	Fairfield, Iowa	2022
Barbara "Susie" Drish	Fairfield, Iowa	2022
Joseph McLarney	Fairfield, 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 \$90 for each half day meeting attended, \$100 for each full day meeting and reimbursement of travel expense. Recording secretary receives an additional \$65 per meeting.

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>
Mark Taglauer	President
Barbara (Susie) Drish	Vice President
Erin Pedrick	Secretary-Treasurer
Jim Jones	Recording Secretary

Remuneration of officers are shown on Exhibit A following this report.

COMMITTEES

Appointees to the following committees as of December 31, 2019:

Internal Affairs

Agency

Claims

Barbara (Susie) Drish
Larry Worley
Brian Simmons

Larry Worley
Jim Jones
Marvin Larson

Katie Anderson
Joe McLarney
Brian Simmons

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees.

CORPORATE RECORDS

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

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes from March 20, 2017 reflect the board discussion regarding review and acceptance of the Examination Report as of December 31, 2015.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for any one loss occurrence. The bond is written for a three year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Directors and officers liability
- Employers liability
- Building and contents
- General liability
- Auto liability
- Employment practices liability
- Cyber liability
- 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, dental and vision insurance with premiums paid by the Association. Group life and short-term disability insurance is provided by the Association.

Retirement benefit contributions made to a 401K plan based on five percent of the full-time eligible employee's salary. Contributions paid by the

Association of \$6,353, \$6,652, \$7,328 and \$8,023, in 2016, 2017, 2018 and 2019, respectively.

A profit share paid by the Association based on profitability of the Association. The contributions paid by the Association to employees was \$0, \$3,194, \$6,985 and \$11,942 for 2016, 2017, 2018, and 2019, respectively.

A bonus paid by Association for \$2,612, \$3,004, \$3,120 and \$3,455 in 2016, 2017, 2018 and 2019, respectively.

REINSURANCE

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

Property Quota Share

The Association shall cede to the reinsurer 70% of the liability on all perils (except earthquake) covered by all qualifying Home Guard policies for an amount in excess of \$600,000, but less than \$1,000,000. The Association selects which farms will participate in the Quota Share.

Excess of Loss

Property Per Risk Excess of Loss

First \$200,000 of ultimate net loss per risk retained by Association. For the first layer, the reinsurer will pay 100 percent of net loss up to \$1,000,000 in excess of Association retention. The second layer has a maximum of \$4,000,000 in excess of \$1,000,000 for each risk. The 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 \$425,000 ultimate net loss incurred per loss occurrence is retained by Association, net of all other reinsurance recoveries. Loss occurrence is the sum of all individual losses or series of losses for 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

First \$1,000,000 of ultimate net loss, net of all other reinsurance recoveries, is retained by Association. Reinsurance covers 100 percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance coverage is unlimited. 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, there was no risk identified which warranted facultative agreements.

Reinsurance - General

The Association's reinsurance coverage 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. Business is authorized to be written in the following counties: Poweshiek, Iowa, Johnson, Marion, Mahaska, Louisa, Lucas, Monroe, Des Moines, Wayne, Appanoose, Lee, Keokuk, Washington, Wapello, Jefferson, Henry, Davis and Van Buren. 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 69 licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and suburban security classes in insurance covering fire, wind, allied lines, and inland marine.

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

Adjustment of claims completed by a third-party vendor, who was paid \$38,934 in 2019, through an annual fixed fee contract up to a set limit of claims with an additional charge for claim adjusted. A second third-party vendor that completed inspections was paid \$39,600 in 2019.

Numerous claim files reviewed to determine adequacy of loss reserves and 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

A review was made of all written complaints received by the Association during the period under examination. One complaint was received. The complaint was handled according to policy provisions and in a timely manner.

GROWTH OF ASSOCIATION

The following historical data was taken from 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	\$4,962,856	\$3,846,990	\$1,115,069	\$ 472,939	\$45,759
2017	5,266,967	4,273,850	1,252,563	569,513	46,727
2018	5,623,851	4,417,552	1,380,619	531,469	56,101
2019	5,937,743	4,675,866	1,620,787	1,017,817	54,547

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	\$1,114,796	\$1,252,563	\$1,380,619	\$1,620,941	\$5,368,919
<u>Incurred Deductions</u>					
Losses	\$ 480,971	\$ 569,513	\$ 531,469	\$1,017,817	\$2,599,770
Loss adjustment expenses	91,423	90,865	89,310	113,780	385,378
Commissions	222,222	246,882	287,694	341,670	1,098,468
Salaries	118,695	117,017	121,909	155,857	513,478
Taxes, licenses and fees	4,471	26,999	30,841	35,093	97,404
Other underwriting expenses	107,209	98,685	109,122	117,008	432,024
Total deductions	\$1,024,991	\$1,149,961	\$1,170,345	\$1,781,225	\$5,126,522
Net underwriting gain (loss)	\$ 89,805	\$ 102,602	\$ 210,274	\$ (160,284)	\$ 242,397

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

Incurred Deductions

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>TOTAL</u>
Losses	43.1%	45.5%	38.5%	62.8%	48.4%
Loss adjustment expenses	8.2	7.3	6.5	7.0	7.2
Commissions	19.9	19.	20.8	21.1	20.5
Salaries	10.7	9.3	8.9	9.6	9.6
Taxes, licenses and fees	0.4	2.2	2.2	2.2	1.8
Other underwriting expenses	<u>9.6</u>	<u>7.9</u>	<u>7.9</u>	<u>7.2</u>	<u>8.0</u>
Total deductions	<u>91.9%</u>	<u>91.8%</u>	<u>84.8%</u>	<u>109.9%</u>	<u>95.5%</u>
Net underwriting gain (loss)	<u>8.1%</u>	<u>8.2%</u>	<u>15.2%</u>	<u>(9.9)%</u>	<u>4.5%</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.

Selected cash receipts recorded during the period were checked and tracked 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's cash balance was over the Federal Deposit Insurance Corporation limit of \$250,000 during five months of 2019.

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 one 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 \$561,623,911. At the Association's statutory minimum surplus level as of December 31, 2019 was \$561,624. It is noted the Association's surplus level to minimum surplus level ratio was 8.3/1. The reported surplus/statutory minimum ratio average for the chapter 518A licensed industry at December 31, 2019 was 8.5/1.

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>Assets</u>	Nonadmitted <u>Assets</u>	Admitted <u>Assets</u>
Bonds	\$3,113,733	\$ 2,832	\$3,110,901
Common stocks	1,843,962		1,843,962
Real estate properties occupied	51,693	20,923	30,770
Cash:			
Cash holdings	345,217		345,217
Short-term investments	190,591		190,591
Investment income due and accrued	26,157		26,157
Uncollected premiums	43,251		43,251
Deferred premiums	285,258		285,258
Amounts recoverable from reinsurers	37,404		37,404
Current federal income tax recoverable	2,000	2,000	
Electronic data processing equipment	70		70
Furniture and equipment	6,638	6,638	
Total Assets	<u>\$5,945,974</u>	<u>\$32,393</u>	<u>\$5,913,581</u>

LIABILITIES AND SURPLUS

Loss adjustment expenses		\$ 14,584
Commissions payable and contingent commissions		45,928
Other expenses		14,548
Taxes, licenses and fees		4,514
Unearned premiums		1,083,728
Advance premiums		46,421
Ceded reinsurance premiums payable		41,454
Amounts withheld for account of others		<u>10,699</u>
Total liabilities		<u>\$1,261,876</u>
Unassigned funds (surplus)		<u>\$4,651,705</u>
Surplus as regards policyholders		<u>\$4,651,705</u>
Total Liabilities and Surplus		<u>\$5,913,581</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$1,620,941
<u>Incurred Deductions</u>		
Losses incurred	\$1,017,817	
Loss expenses incurred	113,780	
Other underwriting expenses incurred	<u>649,628</u>	
Total underwriting deductions		<u>1,781,225</u>
Net underwriting gain (loss)		\$ (160,284)
<u>Investment Income</u>		
Net investment income earned		\$ 54,547
Net realized capital gain (loss)		67,585
<u>Other Income</u>		
Finance and service charges not included in premiums		\$ 15,482
Net premiums collected from others		<u>16,539</u>
Net income before federal income taxes		\$ 6,131)
Federal income taxes		<u>14,486</u>
Net income		<u>\$ (20,617)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$4,417,552</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (20,617)
Net unrealized capital gains (losses)		272,123
Change in non-admitted assets		<u>(17,353)</u>
Change in surplus as regards policyholders		<u>\$ 234,153</u>
Surplus as regards policyholders, December 31, 2019		<u>\$4,651,705</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$5,368,919
<u>Incurred Deductions</u>		
Losses incurred	\$2,599,770	
Loss expenses incurred	385,378	
Other underwriting expenses	<u>2,141,374</u>	
Total underwriting deductions		<u>5,126,522</u>
Net underwriting gain (loss)		\$ 242,397
<u>Investment Income</u>		
Net investment income earned		\$ 203,134
Net realized capital gain (loss)		206,777
<u>Other Income</u>		
Finance and service charges not included in premiums		\$ 56,737
Net premiums collected from others		52,265
Rural Energy for American Program Grant		<u>9,845</u>
Net income before federal income taxes		\$ 771,155
Federal income taxes		<u>\$ 55,861</u>
Net income		<u>\$ 715,294</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>		
Surplus as regards policyholders, December 31, 2015		<u>\$3,591,194</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 715,294
Net unrealized capital gains (losses)		340,113
Change in non-admitted assets		<u>5,104</u>
Change in surplus as regards policyholders		<u>\$1,060,511</u>
Surplus as regards policyholders, December 31, 2019		<u>\$4,651,705</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$1,672,786
Net investment income	82,814
Miscellaneous income	<u>32,021</u>
Total	<u>\$1,787,621</u>

Benefit and loss related payments	\$1,110,326
Commissions, expenses paid and aggregate write-ins	725,853
Federal income taxes paid (recovered) net	<u>29,186</u>
Total	<u>\$1,865,365</u>

Net cash from operations \$ (77,744)

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 773,242
Stocks	<u>81,306</u>
Total investment proceeds	<u>\$ 854,548</u>

Cost of investments acquired (long-term) only	
Bonds	\$ 360,918
Stocks	74,398
Real estate	<u>21,645</u>
Total investments acquired	<u>\$ 456,961</u>

Net cash from investments \$ 397,587

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ 6,403
Net cash from financing	<u>\$ 6,403</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 326,246
Cash and short-term investments:	
Beginning of year	<u>\$ 209,563</u>
End of year	<u>\$ 535,809</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	\$3,113,733	\$3,110,901	\$ (2,832)
Real estate	51,693	30,770	(20,923)
Uncollected Premiums	7,535	43,251	35,716
Deferred premiums	320,820	285,258	(35,562)
Electronic data processing	630	70	<u>(560)</u>
Net increase in surplus			<u>\$ (24,161)</u>
Surplus per Association			<u>\$4,675,866</u>
Surplus per examination			<u>\$4,651,705</u>

During the period under review, surplus funds increased \$1,060,511 from the amount of \$3,591,194 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 \$3,110,901

This asset was reduced by \$2,832 to non-admit the difference between book value and market value on two less than investment grade bonds.

Real estate \$ 30,770

This asset was reduced by \$20,923 to non-admit a real estate project that was not approved by the Iowa Insurance Division.

Uncollected premiums \$ 43,251

The asset increased by \$35,716 primarily due to reclassifying current unpaid premium from deferred premiums as of December 31, 2019.

Deferred premiums \$ 285,258

The asset decreased by \$35,562 primarily due to reclassify current unpaid premium to uncollected premiums as of December 31, 2019.

Electronic data processing \$ 70

This asset decreased by \$560 to reflect the proper three-year depreciation period rather than five-year period used for this type of equipment.

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