

EXAMINATION REPORT OF
FARMERS MUTUAL INSURANCE ASSOCIATION
PALO ALTO COUNTY, EMMETSBURG, IOWA
AS OF DECEMBER 31, 2019

Emmetsburg, Iowa
September 21, 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

PALO ALTO COUNTY, EMMETSBURG, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 915 Broadway, Emmetsburg, 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 procedures established by the Iowa Insurance Division 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 1886 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 1946.

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 Emmetsburg, Iowa on the second Thursday 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. Ten members present results in a quorum for the annual membership meeting. The Annual Membership meeting for 2019 had eight members present. The Association should ensure that a quorum is reached and meetings follow all requirements as stated in the Articles of Incorporation and Bylaws.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of 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. Eight directors were reported on the 2016 annual statement submitted to the Iowa Insurance Division.

Directors serving at December 31, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Norma Beaver	Estherville, Iowa	2020
Doug Merrill	Emmetsburg, Iowa	2020
Norlyn Stowell	Emmetsburg, Iowa	2020
David Garrelts	Emmetsburg, Iowa	2021
Jim Miller	Ringsted, Iowa	2021
Richard Stillman	Emmetsburg, Iowa	2021
Ron Hersom	Emmetsburg, Iowa	2022
Thad Louwagie	Emmetsburg, Iowa	2022
Nancy Nesheim	Mallard, Iowa	2022

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

The Reorganizational 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 \$250 for each meeting attended and are reimbursed for 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 a Treasurer and such additional officers as it deems necessary.

Officers serving at December 31, 2019 were:

<u>Name</u>	<u>Office</u>
Norlyn Stowell	President
Nancy Nesheim	Vice President
Richard Stillman	Secretary/Treasurer

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. Greater care should be taken in order to ensure all proper interests and affiliations are disclosed.

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 April 7, 2017 Board meeting.

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 an annual 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 umbrella
- Business liability
- Business automobile

It appears 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

Regular full-time eligible employees are provided health, life and disability insurance. Any health insurance premiums above \$125 per month are paid by the employer. Life insurance of \$10,000 is fully paid by Association.

A retirement benefit contribution to a Simplified Employee Pension Plan (SEP) fund was also provided to full-time eligible employees whereby the Association contributed five percent of the employee's gross salary or wage to the employee selected retirement fund. Contributions made for the SEP by the Association were \$9,699, \$10,042, \$9,913 and \$9,703 for 2016, 2017, 2018 and 2019, respectively.

A profit share program is in place for full-time employees. Three and one-half percent of the Association Net Profit with an annual maximum of \$12,000 goes to the program. Contributions by the Association were \$12,000, \$11,803, \$0 and \$12,000 for 2016, 2017, 2018 and 2019, respectively. Fifty percent of profit share goes to the Secretary Manager with employees sharing in the difference. Employees share in the in the remaining fifty percent based on factors including longevity.

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 eight counties in the State of Iowa. The permitted writing territory is composed of the following counties: Palo Alto, Emmet, Kossuth, Humboldt, Pocahontas, Buena Vista, Clay and Dickinson. 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, or monthly. The Association underwrites these policies every three years.

At the present time, business is produced by 87 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	<u>\$1,635,510</u>	<u>\$1,720,075</u>	<u>\$1,834,984</u>	<u>\$1,909,792</u>	<u>\$7,100,361</u>
Incurred deductions:					
Losses	\$ 770,736	\$ 897,608	\$1,350,868	\$ 641,759	\$3,660,971
Loss adjustment expense	74,772	91,527	93,910	145,963	406,172
Commissions	299,556	327,933	282,431	372,106	1,282,026
Salaries	141,228	146,239	144,756	147,793	580,016
Taxes, licenses and fees	36,001	42,049	41,543	45,506	165,099
Other underwriting expenses	<u>182,803</u>	<u>189,072</u>	<u>95,564</u>	<u>277,211</u>	<u>744,650</u>
Total deductions	<u>\$1,505,096</u>	<u>\$1,694,428</u>	<u>\$2,009,072</u>	<u>\$1,630,338</u>	<u>\$6,838,934</u>
Underwriting gain (loss)	<u>\$ 130,414</u>	<u>\$ 25,647</u>	<u>\$ (174,088)</u>	<u>\$ 279,454</u>	<u>\$ 261,427</u>

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	47.13%	52.18%	73.62%	33.60%	51.56%
Loss adjustment expense	4.57	5.32	5.12	7.64	5.72
Commissions	18.32	19.07	15.39	19.48	18.06
Salaries	8.64	8.50	7.89	7.74	8.17
Taxes, licenses and fees	2.20	2.44	2.26	2.38	2.33
Other underwriting expenses	<u>11.17</u>	<u>11.00</u>	<u>5.21</u>	<u>14.53</u>	<u>10.48</u>
Total deductions	<u>92.03%</u>	<u>98.51%</u>	<u>109.49%</u>	<u>85.37%</u>	<u>96.32%</u>
Underwriting gain (loss)	<u>7.97%</u>	<u>1.49%</u>	<u>(9.49%)</u>	<u>14.63%</u>	<u>3.68%</u>

REINSURANCE

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

Per Risk Excess of Loss

First \$150,000 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 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. The 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 \$1,500,000 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 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 facultative agreements.

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 settlements which were in keeping with the terms of the policy contracts.

AFFILIATED AGENCY

Farmers Mutual Insurance Agency is a fully-owned subsidiary of the Association. The purpose of this agency is to be able to sell liability insurance on behalf of the Association's agents that do not have contracts with a liability insurer. Currently, a portion of liability commission is split with the agency for liability only policies written through the agency.

On January 3, 2018 the agency bought a book of business. The agency now employs one full-time employee. This employee is on the Association's health insurance and life insurance. The agency reimburses the Association for that expense in the amounts of \$8,845 and \$12,132 for 2018 and 2019, respectively. This book of business is currently located in Mallard, Iowa and will move to Emmetsburg gradually within the next couple of years. The agency produces 8% of the Association's business.

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.

Five outstanding checks were written more than two years before the examination date. State escheat laws require timely submission of unclaimed remuneration to the State of Iowa Treasurer.

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 \$638,961,928. The Association's statutory minimum surplus level as December 31, 2019 was \$638,962. It is noted the Association's surplus level to minimum surplus level ratio was 9.6/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

As of January 1, 2020 Richard Stillman retired as Secretary/Treasurer/Manager and Duane McGregor took over.

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	\$3,726,985	\$	\$	\$3,726,985
Stocks	2,217,939	477,780		2,695,719
Bank balances:				
Subject to check	211,998			211,998
On interest	310,768			310,768
Real estate	141,170			141,170
Cash in office	50			50
Unpaid premiums:				
Due before November 1	66		66	
Due after November 1	374,048		371,872	2,176
Reinsurance receivable				
on paid losses		4,926		4,926
Accrued interest		30,354		30,354
Equipment and furniture	135		135	
Automobiles	37,054		37,054	
Other receivable	(1,216)			(1,216)
Prepaid reinsurance	<u>400,000</u>	<u> </u>	<u> </u>	<u>400,000</u>
Total	<u>\$7,418,997</u>	<u>\$513,060</u>	<u>\$409,127</u>	<u>\$7,522,930</u>

LIABILITIES AND SURPLUS

Losses			\$ 234,672
Unpaid adjusting expenses			10,421
Ceded reinsurance balances payable			35,063
Unpaid salaries and commissions			133,853
Amounts withheld for the account of others			2,940
Taxes payable			51,335
Other unpaid expenses			5,093
Premiums collected for other companies - not remitted			12,911
Premiums received in advance			55,735
Unearned premium reserve			<u>840,086</u>
Total liabilities			\$1,382,109
Surplus as regards policyholders			<u>6,140,821</u>
Total liabilities and surplus			<u>\$7,522,930</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$6,386,476
	<u>INCOME</u>	
Net premiums and fees		\$2,013,059
Net interest received on bonds		113,877
Increase (Decrease) by adjustment - bonds		(9,001)
Dividends received		115,545
Interest received on bank deposits		7,957
Profit on sale of investments		143,947
Rents received		1,200
Underwriting expense reimbursement		14,158
Total income		<u>\$2,400,742</u>
Total assets and income		<u>\$8,787,218</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 417,956
<u>Operating Expense</u>		
Loss adjusting expenses	\$140,125	
Commissions	307,501	
Advertising	1,456	
Boards, bureaus and associations	8,011	
Salaries of officers	77,000	
Salaries of office employees	70,793	
Employee welfare	38,275	
Insurance	19,043	
Directors' compensation	11,722	
Rent and rent items	5,071	
Equipment	25,210	
Printing and stationery	1,636	
Postage and telephone	10,625	
Legal and auditing	19,051	
State insurance taxes	23,580	
Insurance Division licenses and fees	719	
Payroll taxes	20,318	
All other taxes	447	
Real estate expenses	1,880	
Real estate taxes	3,506	
Interest on borrowed money	2,058	
Miscellaneous	8,776	
Data processing	17,095	
Meals and entertainment	2,008	
Education	3,684	
Investment expense	<u>19,221</u>	
Total operating expense		\$ 838,811
<u>Non-Operating Expense</u>		
Depreciation on real estate		4,418
Loss on sale of investments		2,343
Federal income tax		15,428
Decrease in ledger liabilities		89,265
Total disbursements		<u>\$1,368,221</u>
Balance - ledger assets, December 31, 2019		<u>\$7,418,997</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,909,792

Deductions

Losses incurred \$641,759

Loss expenses incurred 145,963

Other operating expenses incurred 842,616

Total underwriting deductions 1,630,338

Net underwriting gain (loss) \$ 279,454

Investment Income

Net investment income earned 465,039

Other Income

Premiums collected for other companies (net) 16,974

Net income before Federal income tax \$ 761,467

Federal income tax incurred 60,688

Net income \$ 700,779

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018 \$5,191,086

Gains and (Losses) in Surplus

Net income \$ 700,779

Change in not admitted assets (4,228)

Change in net unrealized gains/losses 253,184

Change in surplus as regards policyholders for the year \$ 949,735

Surplus as regards policyholders, December 31, 2019 \$6,140,821

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

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$7,100,361
 <u>Deductions</u>	
Losses incurred	\$3,660,971
Loss expenses incurred	406,172
Other operating expenses incurred	<u>2,771,791</u>
 Total underwriting deductions	 <u>6,838,934</u>
 Net underwriting gain (loss)	 \$ 261,427
 <u>Investment Income</u>	
Net investment income earned	971,596
 <u>Other Income</u>	
Premiums collected for other companies (net)	51,335
Miscellaneous income	<u>11,324</u>
 Net income before Federal income tax	 \$1,295,682
 Federal income tax incurred	 <u>99,273</u>
 Net income	 <u>\$1,196,409</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$4,619,362</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$1,196,409
Change in not admitted assets	(3,440)
Change in net unrealized gains/losses	<u>328,490</u>
 Change in surplus as regards policyholders for the period	 <u>\$1,521,459</u>
 Surplus as regards policyholders, December 31, 2019	 <u>\$6,140,821</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>			
Unpaid premiums	\$ 3,357	\$ 2,176	\$ (1,181)
<u>Liabilities</u>			
Losses	289,058	234,672	54,386
Unpaid adjusting expenses	5,000	10,421	(5,421)
Taxes payable	54,375	51,335	3,040
Premiums collected for others - not remitted	18,736	12,911	<u>5,825</u>
<u>Net change in surplus</u>			<u>\$ 56,649</u>
<u>Surplus per Association</u>			<u>\$6,084,172</u>
<u>Surplus per examination</u>			<u>\$6,140,821</u>

During the period under review, surplus funds increased \$1,521,459 from the amount of \$4,619,362 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:

Unpaid premiums \$ 2,176

This asset was decreased by \$1,181 to reflect the actual amount of premiums received in 2020.

Losses \$234,672

Losses decreased by \$54,386 to reflect actual loss development.

Unpaid adjusting expenses \$ 10,421

An analysis of paid adjusting expenses to paid losses increased this liability by \$5,421.

Taxes payable \$ 51,335

This liability was decreased by \$3,040 to reflect the actual amount paid in 2020.

Premiums collected for others - not remitted

\$ 12,911

This liability was decreased by \$5,825 to reflect the amount paid in 2020 for 2019.

CONCLUSION

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

Respectfully submitted,

/s/ Abby Kramer

Abby Kramer

Cain Ellsworth & Co., LLP

Representing the State of Iowa