

EXAMINATION REPORT OF  
TAMA COUNTY MUTUAL INSURANCE ASSOCIATION  
TAMA COUNTY, TRAER, IOWA  
AS OF DECEMBER 31, 2018

Traer, Iowa  
August 12, 2019

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your instructions and pursuant to Iowa statutory provisions, an examination has been made of the

TAMA COUNTY MUTUAL INSURANCE ASSOCIATION

TAMA COUNTY, TRAER, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 622 Second Street, Traer, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Tama County Mutual Insurance Association, hereinafter referred to as "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 January 1, 2016 to December 31, 2018. 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 the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2018.

HISTORY

The Association was incorporated in 1874 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 1953.

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 Toledo, Iowa on the first Tuesday in April at 10:00am. 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. Seven members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of six 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, 2018 were:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Wallace Stensland	Reinbeck, Iowa	2019
Richard Hopper	Toledo, Iowa	2019
Sam Kvidera	Dysart, Iowa	2020
Todd Hennings	Elberon, Iowa	2020
Richard Rickert	Traer, Iowa	2021
Nicholas Podhajsky	Traer, Iowa	2021

Directors receive an annual fee of \$1,395, except the President and Chairman of the Board who receive an annual salary of \$1,895 each.

An Executive Committee, consisting of the Chairman, President, Vice-President and Secretary-Treasurer, is available in case an urgent situation might arise. A majority shall constitute a quorum.

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.

OFFICERS

At its annual board 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, 2018 were:

<u>Name</u>	<u>Office</u>
Richard Rickert	Chairman of the Board
Wallace Stensland	President
Todd Hennings	Vice-President
James Owens	Secretary/Treasurer
Mary Boldt	Assistant Secretary/Treasurer

The salaries of the officers are shown in Exhibit A immediately following the signature page of the report.

CONFLICT OF INTEREST

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

### 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 read and accepted at the April 4, 2017 Board meeting.

### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for a three year period on any one loss occurrence with indemnity not aggregated. It was noted that the coverage exceeds the \$75,000 National Association of Insurance Commissioners suggested amount of fidelity insurance for the Company.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property
- Commercial general liability
- Commercial umbrella
- Commercial auto
- 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

The Association directly employs the Secretary/Treasurer and Assistant Secretary/Treasurer. No benefits are provided. The Association has an agreement with the affiliated agency to provide additional staffing. The Assistant Secretary/Treasurer receives additional income under this agreement. See the Affiliated Agency section within this report for additional details.

### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Tama County and contiguous 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 continuous period with premiums payable quarterly, semi-annually or annually. The Association underwrites these policies every five years.

A sample of fifteen policies was selected to review. Fourteen of the policies reviewed did not have pictures of properties. Five applications or inspections of the fifteen policies tested were signed not by policyholders.

As of December 31, 2018, business is produced by thirty licensed agents through five agencies.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

<u>Classification</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Premiums earned	\$1,030,317	\$1,247,247	\$1,207,253	\$3,484,817
<u>Incurred deductions:</u>				
Losses	\$ 345,152	\$1,027,008	\$ 818,653	\$2,190,813
Loss adjustment expense	26,318	51,166	38,886	116,370
Commissions	311,275	295,710	304,949	911,934
Salaries	71,940	75,940	75,940	223,820
Taxes, licenses and fees	29,990	27,237	24,708	81,935
Other underwriting expenses	<u>189,354</u>	<u>181,890</u>	<u>133,397</u>	<u>504,641</u>
Total deductions	\$ <u>974,029</u>	\$ <u>1,658,951</u>	\$ <u>1,396,533</u>	\$ <u>4,029,513</u>
Underwriting gain or (loss)	\$ <u>56,288</u>	\$ <u>(411,704)</u>	\$ <u>(189,280)</u>	\$ <u>(544,696)</u>

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
<u>Incurred deductions:</u>				
Losses	33.50%	82.34%	67.81%	62.87%
Loss adjustment expense	2.55	4.10	3.22	3.34
Commissions	30.21	23.71	25.26	26.17
Salaries	6.98	6.09	6.29	6.42
Taxes, licenses and fees	2.92	2.19	2.05	2.35
Other underwriting expenses	<u>18.38</u>	<u>14.58</u>	<u>11.05</u>	<u>14.48</u>
Total deductions	<u>94.54%</u>	<u>133.01%</u>	<u>115.68%</u>	<u>115.63%</u>
Underwriting gain or (loss)	<u>5.46%</u>	<u>(33.01)%</u>	<u>(15.68)%</u>	<u>(15.63)%</u>

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with authorized insurers which provide the following:

### Assumed

#### Quota Share

The Association assumes twenty percent of homeowners property risks on policies written by agents of the Association placed with an outside insurer. Eighty percent of the business written is retained by the reinsurer.

### Ceded

#### First, Second and Third Per Risk Excess of Loss

For the first layer, reinsurer shall be liable in respect of any one loss occurrence for the ultimate net loss of \$150,000 in excess of a retention of \$125,000. For the second layer, reinsurer shall be liable for \$250,000 in excess of \$250,000. For the third layer, reinsurer shall be liable for \$500,000 in excess of \$500,000. The reinsurer limit of liability shall be \$1,000,000 per risk of loss. In addition to the retention set out above, the Association shall retain an annual deductible of \$50,000 on the first risk of loss. Reinsurer will pay for three hours of legal claims advice with attorney approved by the reinsurer for an entire year.

#### First, Second and Third Aggregate Property Excess of Loss

For the first layer, reinsurer shall be liable in the aggregate of 35 percent of gross net written premium income in any one annual period which exceeds 70 percent of gross net written premium income. For the second layer, reinsurer shall be liable in the aggregate of 100 percent of gross net written premium income which exceeds 105 percent of gross net written premium income. For the third layer, reinsurer liability in the aggregate shall be unlimited for period of reinsurance contract.

### Facultative reinsurance

The Association has secured seven facultative policies for exposures greater than \$1,500,000. The reinsurer is liable for \$2,500,000 in excess of the Association retention of \$1,500,000.

## CLAIMS

The Association has subcontracted with Eastern Iowa Claims to do larger claims adjusting. Affiliated agency, L.L. Owens & G.W. Rottler, Inc. and IMT Insurance also complete adjusting services for the Association.

Of ten claims reviewed, no proof of loss forms were signed by claimants. One claim did not have adequate supporting documentation. Another claim did not apply the proper deductible.

#### AFFILIATED AGENCY

The Association owns its Home Office building, shares a portion of the space with L.L. Owens & Rottler, Inc. (Agency). The Association rents out an upstairs apartment and garage.

The Association receives \$200 monthly rent from the Agency, \$500 per month for the apartment and \$60 per month for the garage rental. The Agency maintains the premises and pays fifty percent of the home office telephone and utilities.

The Agency is fifty percent owned by Jay Owens and fifty percent owned by James Owens, who is also the Secretary/Treasurer of the Association. The Agency was paid \$83,499 in commissions, \$5,505 for adjusting fees and \$63,752 for management fees in 2018. The Association did not pay contingencies in 2018. The Agency produced approximately thirty percent of the Association's business during 2018. Secretary/Treasurer adjusts some claims for Agency.

The Association has contracted with the Agency to perform day to day operations for the Association. The Association compensates the Agency for a portion of employee(s) salaries for the work performed for the Association. Currently, the Agency and the Association each pay fifty percent of both the Assistant Secretary/Treasurer of the Association and one additional staff member's salary. Total payments to the Agency for reimbursement of employees' services were \$64,615, \$70,970, and \$63,752 for 2016, 2017, and 2018, respectively.

#### 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, 2018 relative to security custodial requirements. In addition to the requirements in this bulletin, the current custodial agreement did not fulfill these additional requirements according to the Iowa Code.

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, 2018, the gross risk in force for the Association was \$423,329,048. The Association's statutory minimum surplus level at December 31, 2018 was \$423,329. It is noted the Association's surplus level to minimum surplus level ratio was 4.2/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2015 was 7.9/1.

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, 2018 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	\$1,588,140	\$	\$ 2	\$1,588,138
Stocks	866,956	72,475		939,431
Bank balances:				
Subject to check	(68,392)			(68,392)
On interest	193,038			193,038
Real estate	94,991			94,991
Unpaid premiums:				
Due before November 1	(255)		(255)	
Due after November 1	236,800		223,377	13,423
Accrued interest		16,055		16,055
Equipment and furniture	569		569	
Cash surrender value of life insurance	9,143			9,143
Other insurance receivable		4,455		4,455
Prepaid insurance	<u>10,819</u>			<u>10,819</u>
Total	<u>\$2,931,809</u>	<u>\$ 92,985</u>	<u>\$223,693</u>	<u>2,801,101</u>

LIABILITIES AND SURPLUS

Unpaid claims	\$ 47,876
Unpaid adjusting expenses	2,203
Ceded reinsurance balances payable	17,750
Unpaid salaries and commissions	47,291
Amounts withheld for others	318
Taxes payable	1,461
Other unpaid expenses	2,640
Premiums collected for other companies - not remitted	9,461
Premiums received in advance	57,093
Unearned premium reserve	<u>852,314</u>
Total liabilities	\$1,038,407
Surplus as regards policyholders	<u>1,762,694</u>
Total liabilities and surplus	<u>\$2,801,101</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		\$2,982,738
	<u>INCOME</u>	
Net premiums and fees		\$1,272,302
Net interest received on bonds		63,329
Increase (Decrease) by adjustment - bonds		(7,611)
Dividends received		58,322
Interest received on bank deposits		1,719
Profit on sale of investments		1,818
Rents received		11,520
Premiums collected for other companies		136,783
Increase in ledger liabilities		39,830
Underwriting expense reimbursement		9,538
Total income		<u>\$1,587,550</u>
Total assets and income		<u>\$4,570,288</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 861,239
<u>Operating Expenses</u>		
Loss adjustment expenses	\$ 37,683	
Commissions	311,919	
Advertising	5,266	
Boards, bureaus and associations	7,992	
Salaries of officers	75,940	
Insurance	12,477	
Directors' compensation	5,580	
Rent and rent items	2,492	
Equipment	2,994	
Printing, stationery and supplies	3,067	
Postage, telephone, and exchange	4,922	
Legal and auditing	22,950	
State insurance taxes	17,828	
Insurance Division licenses and fees	255	
Payroll taxes	5,934	
All other taxes	140	
Real estate expenses	2,908	
Real estate taxes	2,172	
Miscellaneous	7,002	
Service fees - fire reports	86,789	
Management fee	13,545	
Travel	<u>5,286</u>	
Total operating expense		635,141
<u>Non-Operating Expense</u>		
Depreciation on real estate		3,327
Loss on sale of investment		2,176
Premium collections transmitted to other companies		116,090
Commissions paid agents for other companies		20,506
Total disbursements		<u>\$1,638,479</u>
Balance - ledger assets, December 31, 2018		<u>\$2,931,809</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,207,253
<u>Deductions</u>		
Losses incurred	\$818,653	
Loss expenses incurred	38,886	
Other operating expenses incurred	<u>538,994</u>	
Total underwriting deductions		<u>1,396,533</u>
Net underwriting gain (loss)		(189,280)
<u>Investment Income</u>		
Net investment income earned		117,478
<u>Other Income</u>		
Premiums collected for other companies		<u>(82)</u>
Net income before Federal income tax		\$ (71,884)
Federal income tax incurred		<u>—</u>
Net income		<u>\$ (71,884)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$2,009,559</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (71,884)
Change in not admitted assets		341
Unrealized capital change		<u>(175,322)</u>
Change in surplus as regards policyholders for the year		<u>\$ (246,865)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$1,762,694</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$3,484,817
 <u>Deductions</u>	
Losses incurred	\$2,190,813
Loss expenses incurred	116,370
Other operating expenses incurred	<u>1,722,330</u>
 Total underwriting deductions	 <u>4,029,513</u>
 Net underwriting gain (loss)	 \$ (544,696)
 <u>Investment Income</u>	
Net investment income earned	371,402
 <u>Other Income</u>	
Premiums collected for other companies	<u>(8,524)</u>
 Net income before Federal income tax	 \$ (181,818)
 Federal income tax incurred	 <u>—</u>
 Net income	 <u>\$ (181,818)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$1,975,904</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ (181,818)
Change in not admitted assets	1,458
Unrealized capital change	<u>(32,850)</u>
 Change in surplus as regards policyholders for the year	 <u>\$ (213,210)</u>
 Surplus as regards policyholders, December 31, 2018	 <u>\$1,762,694</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease in surplus 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>			
Prepaid insurance	\$	\$10,819	\$ 10,819
<u>Liabilities</u>			
Unpaid claims	23,507	47,876	(24,369)
Unpaid adjusting expenses	4,000	2,203	1,797
Other unpaid expenses	<u>4,073</u>	<u>2,640</u>	<u>1,433</u>
Net change in surplus			\$ (10,320)
Surplus per Association			<u>\$1,773,014</u>
Surplus per examination			<u>\$1,762,694</u>

During the period under review, surplus funds decreased \$213,210 from the amount of \$1,975,904 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

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

Prepaid insurance \$ 10,819

This asset increased \$10,819 to account for prepaid commercial insurance paid prior to 2019.

Unpaid claims \$ 47,876

This liability was increased \$24,369 to reflect current loss development of claims incurred prior to 2019.

Unpaid adjustment expenses \$ 2,203

An analysis of paid adjusting expenses to paid losses decreased this liability by \$1,797.

Other unpaid expenses \$ 2,640

This liability was decreased \$1,433 to account for expenses incurred prior to 2019 yet paid after 2018.

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