

EXAMINATION REPORT OF
PATRONS MUTUAL INSURANCE ASSOCIATION
STUART, IOWA
AS OF DECEMBER 31, 2016

Stuart, Iowa
December 4, 2017

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

Commissioner Ommen:

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

PATRONS MUTUAL INSURANCE ASSOCIATION

STUART, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 200 Northeast Second Street, Stuart, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2012 to December 31, 2016. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

The examination was conducted in accordance with the procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. A detailed audit was not made of all transactions, but accounting procedures and records were examined and tested to the extent deemed essential. The Association's assets were verified and evaluated and liabilities determined to present herein a statement of its financial condition as of December 31, 2016.

HISTORY

The Association was incorporated in 1875 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. In April 1997, the Association converted to a state mutual insurance 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 shall be held in Stuart, Iowa on the third Tuesday in August at 7:00 p.m. Special meetings of the members shall be called by the President upon the request of the majority of the members of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of the time and place of special meetings shall be given to the members as specified in the Bylaws. Each member present is entitled to one vote on any

matter to be decided at any regular or special meeting. Voting by proxy is not permitted. A quorum shall be one or more members than the number of directors authorized by the Bylaws.

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 as of December 31, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>	<u>Term Expires</u>
James C. Loynachan	Adel, Iowa	Retired	2017
Steve L. Tucker	Gowrie, Iowa	Vice President Heartland Bank	2017
Pat Summerson	Dawson, Iowa	Farmer	2018
Kerry Van Gundy	Panora, Iowa	Farmer	2018
George S. Sperry	Van Meter, Iowa	Retired	2019
Lori Brocka	Adel, Iowa	Agent	2019

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 \$125 fee for each meeting attended and reimbursement of travel expenses.

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

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 offices as it deems necessary.

Officers serving as of December 31, 2016 were:

<u>Name</u>	<u>Office</u>
James C. Loynachan	President
George S. Sperry	Vice President
Jim Chambers	Secretary/Treasurer/Manager

On July 31, 2016, Kari Schneider resigned as manager, and Jim Chambers took her place.

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

CONFLICT OF INTEREST

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

CORPORATE RECORDS

The Articles of Incorporation and 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 of the Board of Directors meeting reflected that the Examination Report as of December 31, 2012 was reviewed and approved at the October 23, 2013 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 indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Officers' and directors' liability and professional liability
- Workers' compensation and employers' liability
- Commercial property and business personal property
- Business liability and employment practice 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

The Association contributes 75% toward each full-time eligible employee's personal medical insurance. The Association also pays the yearly administration fee for the group medical plan. The remaining balances for the individual's specific coverage are withheld from the employee payroll checks.

Full-time eligible employees are also provided a Simplified Employee Pension Plan whereby the Association will contribute five percent of each employee's annual salary to a fund selected by the employee. Contributions were paid by the Association of \$6,577, \$5,871, \$5,270, and \$3,765 for 2013, 2014, 2015, and 2016, respectively.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$250,000 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 \$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.

Aggregate Excess of Loss

First \$1,035,000 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

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATIONS

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: Adair, Audubon, Boone, Carroll, Cass, Clarke, Dallas, Greene, Guthrie, Lucas, Madison, Ringgold, Polk, Story, Union, Warren, and Webster. 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 produced by 58 licensed and appointed agents.

POLICY FORMS

The Association has policies in force on farm personal property and home owners classes of insurance covering fire, 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 is handled primarily by the Association's salaried personnel.

Numerous claim files were reviewed, including closed by payment, closed without payment, and open files to determine adequacy of loss reserves and the treatment of policyholders. Of the claims reviewed, 93 percent were paid within twelve days from the date sufficient information was received to pay the claim.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination, including two filed with the Iowa Insurance Division. The complaints were handled in a fair and timely manner.

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>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2013	5,232,011	4,587,547	828,893	450,178	116,355
2014	5,004,802	4,319,169	861,214	856,810	100,840
2015	5,075,458	4,295,653	836,727	604,650	76,145
2016	4,996,130	4,336,773	841,662	518,306	70,111

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the four-year period ended December 31, 2016 was as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Premiums earned	\$828,893	\$ 861,214	\$ 836,727	\$ 840,955	\$3,367,789
Deductions					
Losses	450,178	856,810	604,650	509,942	2,421,580
Loss adjustment expenses	83,950	117,437	29,389	65,405	296,181
Commissions	159,227	169,263	155,711	143,089	627,290
Salaries	135,612	135,734	140,847	168,160	580,353
Taxes, licenses and fees	18,611	11,257	11,711	11,720	53,299
Other underwriting expenses	26,834	51,671	60,876	66,055	205,436
Total deductions	\$874,412	\$1,342,172	\$1,003,184	\$ 964,371	\$4,184,139
Net underwriting gain (loss)	\$(45,519)	\$ (480,958)	\$ (166,457)	\$ (123,416)	\$ (816,350)

Expressed in percentages of incurred deductions to premiums earned the ratios are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Deductions					
Losses	54.3%	99.5%	72.3%	60.6%	71.9%
Loss adjustment expenses	10.1	13.6	3.5	7.8	8.8
Commissions	19.2	19.7	18.6	17.0	18.6
Salaries	16.4	15.8	16.8	20.0	17.2
Taxes, licenses and fees	2.2	1.3	1.4	1.4	1.6
Other underwriting expenses	3.3	6.0	7.3	7.9	6.1
Total deductions	105.5%	155.9%	119.9%	114.7%	124.2%
Net underwriting gain (loss)	(5.5%)	(55.9%)	(19.9%)	(14.7%)	(24.2%)

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, 2016 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, 2016, the gross risk in force for the Association was \$431,834,496. The Association's statutory minimum surplus level at December 31, 2016 was \$431,835. It is noted the Association's surplus level to minimum surplus level ratio was 10.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2016 was 8.50/1.

Investment purchase transactions do not appear to be properly reported. It is suggested that greater care be exercised to report investment securities according to their proper trade dates.

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, 2016 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>Not Admitted</u>	<u>Admitted</u>
Bonds	\$3,715,532	\$	\$3,715,532
Common stocks	776,714		776,714
Real estate occupied by company	142,755		142,755
Cash and short-term investments	225,641		225,641
Investment income due & accrued	28,152		28,152
Premiums and considerations:			
Uncollected premiums	1,042	707	335
Deferred premiums	105,071		105,071
EDP equipment	7,604	6,381	1,223
Furniture and equipment	890	890	
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Total assets	\$5,003,401	\$ 7,978	\$4,995,423

LIABILITIES AND SURPLUS

Losses	\$ 36,599
Loss adjustment expenses	1,609
Commissions payable	23,493
Other expenses	2,934
Taxes, licenses and fees	4,525
Federal taxes	500
Unearned premiums	548,552
Advance premiums	15,683
Ceded reinsurance premiums payable	19,310
Amounts withheld or retained by company for account of others	6,076
Suspense	53
Accrued vacation	7,331
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Total liabilities	\$ 666,665
Surplus as regards policyholders	4,328,758
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Total liabilities and surplus	\$4,995,423

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 840,955
<u>Deductions</u>		
Losses incurred	\$509,942	
Loss adjusting expense	65,405	
Other underwriting expenses	389,024	
Total underwriting deductions	<u>964,371</u>	
Net underwriting gain (loss)		\$ (123,416)
<u>Investment Income</u>		
Net investment income earned	70,111	
Net realized capital gain (loss)	8,348	
Total Investment income	<u>78,459</u>	\$ 78,459
<u>Other Income</u>		
Finance and service charges	33,456	
Net premiums collected for others	5,756	
Total other income	<u>39,212</u>	\$ 39,212
Net income before Federal income tax		\$ (5,745)
Federal income tax incurred		<u>2,390</u>
Net income		<u>\$ (8,135)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$4,295,653</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (8,135)
Change in net unrealized gains/losses		33,698
Change in non-admitted assets		<u>7,542</u>
Change in surplus as regards policyholders for the year		<u>\$ 33,105</u>
Surplus as regards policyholders, December 31, 2016		<u>\$4,328,758</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,367,789
<u>Deductions</u>		
Losses incurred	\$2,421,580	
Loss expenses incurred	296,181	
Other underwriting expenses	1,466,378	
Total underwriting deductions	<u>4,184,139</u>	
Net underwriting gain (loss)		\$ (816,350)
<u>Investment Income</u>		
Net investment income earned	363,451	
Net realized capital gain (loss)	21,732	
Total Investment income	<u>385,183</u>	
<u>Other Income</u>		
Finance and service charges	132,906	
Net premiums collected for others	46,799	
Total other income	<u>179,705</u>	
Net income before Federal income taxes		\$ (251,462)
Federal income tax incurred		<u>10,804</u>
Net income		<u>\$ (262,266)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012		<u>\$4,356,895</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (262,266)
Change in net unrealized gains/losses		233,393
Change in non-admitted assets		<u>736</u>
Change in surplus as regards policyholders for the period		<u>\$ (28,137)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$4,328,758</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>			
Uncollected premiums	1,042	335	(707)
<u>Liabilities</u>			
Losses	44,963	36,599	8,364
Unpaid adjusting expenses	7,266	1,609	5,657
Commissions payable	11,023	23,493	(12,470)
Other expenses	1,406	2,934	(1,528)
Accrued vacation	0	7,331	(7,331)
Net change to surplus			\$ (8,015)
Surplus per Association			<u>4,336,773</u>
Surplus per examination			<u>\$4,328,758</u>

During the period under review, surplus funds decreased \$28,137 from the amount of \$4,356,895 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

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

Uncollected \$ 335

The asset was decreased by \$707 to reflect the actual amount of premiums received in 2016.

Losses \$ 36,599

Losses decreased by \$8,364 to reflect actual loss development.

Unpaid adjusting expenses \$ 1,609

The liability was decreased by \$5,657 to reflect the actual amount paid in 2017.

Commissions payable \$ 23,493

The liability was increased by \$12,470 to reflect the actual commissions paid on premiums receivable.

Other expenses \$ 2,934

The liability was increased by \$1,528 to reflect actual expenses paid in 2017 for 2016.

Accrued vacation

\$ 7,331

This liability of \$7,331 was established to reflect unused vacation carried over to 2017.

CONCLUSION

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

Respectfully submitted,

/s/ Abby Kramer
ABBY KRAMER
Cain Ellsworth & Company, LLP
Representing the State of Iowa