

EXAMINATION REPORT OF
LOUISA MUTUAL INSURANCE ASSOCIATION
LOUISA COUNTY, WAPELLO, IOWA
AS OF DECEMBER 31, 2018

Wapello, Iowa
September 30, 2019

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

LOUISA MUTUAL INSURANCE ASSOCIATION

LOUISA COUNTY, WAPELLO, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 336 North Second, Wapello, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2016 to December 31, 2018. The examination was conducted in accordance with procedures established by the Iowa Insurance Division. 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 1962.

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 Wapello, Iowa on the third 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. Ten members present constitute a quorum for any membership meeting, but at least one member present shall not be a director.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of twelve 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>Address</u>	<u>Term Expires</u>
Douglas Harris	Morning Sun, Iowa	2019
Roger Wyss	Morning Sun, Iowa	2019
Brian Hayes	Columbus Junction, Iowa	2019
Randy Hoeg	Wapello, Iowa	2019
Fred E. Bartenhagen	Muscatine, Iowa	2020
Virgil Chapman	Conesville, Iowa	2020
James Rees	Columbus Junction, Iowa	2020
Reed Dowell	Wapello, Iowa	2020
Richard Wilson	Columbus Junction, Iowa	2021
J. Riley Padgett	Letts, Iowa	2021
Mike Jamison	Columbus Junction, Iowa	2021
Donald Williams	Wapello, Iowa	2021

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 \$75 for each meeting attended.

Remuneration of directors are shown on 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 officers as it deems necessary.

Officers serving at December 31, 2018 were:

<u>Name</u>	<u>Office</u>
James Rees	President
Roger Wyss	Vice President
Trina Durham	Secretary-Treasurer
Steven J. Earnest	Asst Secretary-Treasurer

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

Effective January 1, 2018 Trina Durham assumed the role of Secretary-Treasurer. Steven J. Earnest resigned his position as Secretary-Treasurer but was appointed Assistant Secretary-Treasurer.

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 were amended effective December 29, 2017 to update Article VII (7) Section 2 to add the following language, "subject to the prior approval of the Iowa Insurance Commissioner, in the event of the dissolution of the Association...".

The Bylaws were amended to change the Annual Meeting to the 3rd Saturday in February, instead of March.

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 approved at the March 18, 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 a three-year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and business personal property
- Business liability and medical expenses
- Cyber liability and data breach response

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

Beginning in 2018 all employees received fully paid health insurance.

A retirement benefit to a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE IRA) fund was also provided to the full-time eligible employees whereby the Association will match the employee's contribution up to three percent of the employee's salary to the selected retirement fund.

The contribution percentage was approved yearly by the Board of Directors. Contributions were paid by the Association for 2016, 2017, and 2018 of \$2,190, \$2,340 and \$2,960, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Louisa, Des Moines, Henry, Washington, Muscatine, and Johnson 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 monthly, quarterly, annually or semi-annually. The Association underwrites farm policies every three years and home policies every five years.

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

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	\$ 791,049	\$ 797,505	\$ 822,419	\$2,410,973
Incurred deductions:				
Losses	\$ 797,456	\$ 716,945	\$ 119,577	\$1,633,978
Loss adjustment expenses	32,519	33,636	31,008	97,163
Commissions	154,495	156,830	152,095	463,420
Salaries	93,568	94,799	103,030	291,397
Taxes, licenses and fees	20,110	20,165	23,203	63,478
Other underwriting expenses	65,026	90,184	94,704	249,914
Total deductions	\$1,163,174	\$1,112,559	\$ 523,617	\$2,799,350
Underwriting gain (loss)	\$ (372,125)	\$ (315,054)	\$ 298,802	\$ (388,377)

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>
Incurred deductions:				
Losses	100.81%	89.90%	14.54%	67.77%
Loss adjustment expenses	4.11	4.22	3.77	4.03
Commissions	19.53	19.67	18.49	19.22
Salaries	11.83	11.89	12.53	12.09
Taxes, licenses and fees	2.54	2.53	2.82	2.63
Other underwriting expenses	8.22	11.31	11.52	10.37
Total deductions	147.04%	139.52%	63.67%	116.11%
Underwriting gain (loss)	(47.04%)	(39.52%)	36.33%	(16.11%)

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 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 reinsurer will pay 100 percent of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000 for each risk. 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.

Aggregate Excess of Loss

First \$800,000 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 may be ceded on a facultative basis. As of December 31, 2018, no risks were identified which warranted a facultative agreement.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

CLAIMS

Adjustment of property claims is primarily handled by a third party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for overage. 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

The Association owns its Home Office building and shares a portion of the space with Earnest Insurance Agency, LLC.

The agency was previously owned by Steven J. Earnest, who was also the Secretary-Treasurer-Manager of the Association and James H. Earnest who was the Assistant Secretary-Treasurer-Manager. Effective January 1, 2018 the Agency was purchased by Danville State Savings Bank in an Asset purchase agreement. At that time Steven became an employee of the Agency.

The agency paid \$750 monthly rent to the Association. The expense allocation between the agency and the Association does not appear to be unreasonable.

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, 2018 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, 2018, the gross risk in force for the Association was \$313,026,878. The Association's statutory minimum surplus level at December 31, 2018 was \$313,027. It is noted the Association's surplus level to minimum surplus level ratio was 12.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2018 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	\$2,031,333	\$	\$ 704	\$2,030,629
Stocks	1,107,866		149,963	957,903
Bank balances:				
Subject to check	354,758			354,758
On interest	1,089,160			1,089,160
Real estate	40,518			40,518
Unpaid premiums:				
Due after November 1		824		824
Accrued interest		18,659		18,659
Equipment and furniture	<u>6,102</u>	<u> </u>	<u>6,102</u>	<u> </u>
Total	<u>\$4,629,737</u>	<u>\$ 19,483</u>	<u>\$156,769</u>	<u>\$4,492,451</u>

LIABILITIES AND SURPLUS

Losses	\$ 66,043
Unpaid adjusting expenses	2,812
Ceded reinsurance balances payable	24,392
Unpaid salaries and commissions	8,784
Amounts withheld for the account for others	1,289
Taxes payable	8,292
Other unpaid expenses	4,335
Premiums collected for other companies - not remitted	4,519
Premiums received in advance	3,824
Unearned premium reserve	439,833
Service fee and employee benefits payable	<u>20,050</u>
Total liabilities	\$ 584,173
Surplus as regards policyholders	<u>3,908,278</u>
Total liabilities and surplus	<u>\$4,492,451</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017			\$4,239,242
	<u>INCOME</u>		
Net premiums and fees		\$	840,815
Net interest received on bonds			73,015
Increase (Decrease) by adjustment - bonds			(5,307)
Dividends received			23,878
Interest received on bank deposits			7,810
Profit on sale of investment			53,223
Rents received			16,200
Premiums collected for other companies			75,103
Total income			<u>\$1,084,737</u>
Total assets and income			<u>\$5,323,979</u>
	<u>DISBURSEMENTS</u>		
Losses paid		\$	190,275
<u>Operating Expense</u>			
Adjusting expense	\$	33,635	
Commissions	157,622		
Advertising	1,551		
Boards, bureaus and associations	5,094		
Inspection and loss prevention	1,720		
Salaries of officers	13,176		
Expenses of officers	329		
Salaries of office employees	89,854		
Employee welfare	5,202		
Insurance	12,025		
Directors' compensation	3,075		
Directors' expenses	2,032		
Rent and rent items	7,354		
Equipment	15,041		
Printing, stationery and supplies	2,816		
Postage and telephone	5,816		
Legal and auditing	12,591		
State insurance taxes	10,933		
Insurance Division licenses and fees	1,850		
Payroll taxes	11,228		
Real estate expenses	16,679		
Real estate taxes	1,096		
Donations	800		
Travel and travel items	3,907		
Over and Short	339		
Miscellaneous	<u>5,048</u>		
Total operating expense		\$	420,813
<u>Non-Operating Expense</u>			
Depreciation on real estate			1,803
Federal income tax			10,173
Premium collections transmitted to other companies			60,081
Commissions paid agents for other companies			10,170
Decrease in ledger liabilities			927
Total disbursements			<u>\$ 694,242</u>
Balance - ledger assets, December 31, 2018			<u>\$4,629,737</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 822,419
<u>Deductions</u>	
Losses incurred	\$ 119,577
Loss expenses incurred	31,008
Other operating expenses incurred	<u>373,032</u>
Total underwriting deductions	<u>523,617</u>
Net underwriting gain (loss)	\$ 298,802
<u>Investment Income</u>	
Net investment income earned	145,203
<u>Other Income</u>	
Premiums collected for other companies (net)	<u>4,709</u>
Net income before Federal income tax	\$ 448,714
Federal income tax incurred	<u>16,173</u>
Net income	<u>\$ 432,541</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	<u>\$3,583,857</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 432,541
Change in not admitted assets	(2,011)
Change in net unrealized gains/losses	<u>(106,109)</u>
Change in surplus as regards policyholders for the year	<u>\$ 324,421</u>
Surplus as regards policyholders, December 31, 2018	<u>\$3,908,278</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$2,410,973
<u>Deductions</u>	
Losses incurred	\$1,633,978
Loss expenses incurred	97,163
Other operating expenses incurred	<u>1,068,209</u>
Total underwriting deductions	<u>2,799,350</u>
Net underwriting gain (loss)	\$ (388,377)
<u>Investment Income</u>	
Net investment income earned	366,547
<u>Other Income</u>	
Premiums collected for other companies (net)	13,244
Miscellaneous Income	<u>457</u>
Net loss before Federal income tax	\$ (8,129)
Federal income tax incurred	<u>13,226</u>
Net loss	<u>\$ (21,355)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$3,891,894</u>
<u>Gains and (Losses) in Surplus</u>	
Net loss	\$ (21,355)
Change in not admitted assets	11
Change in net unrealized gains/losses	<u>37,728</u>
Change in surplus as regards policyholders for the period	<u>\$ 16,384</u>
Surplus as regards policyholders, December 31, 2018	<u>\$3,908,278</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>Liabilities</u>			
Losses	\$ 59,730	\$ 66,043	\$ (6,313)
Unpaid adjusting expenses	4,000	2,812	1,188
Ceded reinsurance balances payable	23,753	24,392	(639)
Other unpaid expenses	2,712	4,335	(1,623)
Service fee and employee benefits payable	15,651	20,050	(4,399)
Premiums collected for other companies - not remitted	5,158	4,519	639
Unearned premiums reserve	439,000	439,833	<u>(833)</u>
Net change to surplus			\$ (11,980)
Surplus per Association			<u>\$3,920,258</u>
Surplus per examination			<u>\$3,908,278</u>

During the period under review, surplus funds increased \$16,384 from the amount of \$3,891,894 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:

Losses \$ 66,043

This liability was increased by \$6,313 to reflect current loss development.

Unpaid adjustment expenses \$ 2,812

This liability was decreased by \$1,188 to reflect the actual amount of adjusting expense paid in 2019 related to 2018.

Ceded reinsurance balances payable \$ 24,392

This liability was increased by \$639 to reclassify Earthquake premium payable from premiums collected for other companies - not remitted.

Other unpaid expenses \$ 4,335

This liability was increased by \$1,623 to reflect actual expenses paid in 2019 for 2018.

Service fee and employee benefits payable \$ 20,050

This liability was increased by \$4,399 to reflect unused vacation pay carried over to 2019.

Premiums collected for other companies - not remitted \$ 4,519

This liability was decreased by \$639 to reclassify Earthquake premium payable to ceded reinsurance balances payable.

Unearned premium reserve \$439,833

A recalculation of unearned premium reserve using examination adjustments increased the liability by \$833.

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