

EXAMINATION REPORT OF
HUMBOLDT MUTUAL INSURANCE ASSOCIATION
HUMBOLDT, IOWA
AS OF DECEMBER 31, 2018

Humboldt, Iowa
May 13, 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

HUMBOLDT MUTUAL INSURANCE ASSOCIATION

HUMBOLDT, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 513 Sumner Avenue, Humboldt, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Humboldt Mutual Insurance Association, hereinafter referred to as "Association", was last examined as of December 31, 2018. 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 liabilities determined to present herein a statement of its financial condition as of December 31, 2018.

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 1953. On January 1, 2013, 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 Humboldt, Iowa on the fourth Monday in March 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. A quorum shall be one more member than the number of Directors 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 ten 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> |
|-----------------|----------------|---------------------|
| Tim McCartan | Humboldt, Iowa | 2020 |
| Maurice Abens | Humboldt, Iowa | 2020 |
| Thomas Jacobson | Ottosen, Iowa | 2020 |
| James Sayers | Humboldt, Iowa | 2021 |
| Ashley Emick | Humboldt, Iowa | 2021 |
| Chris Wergeland | Hardy, Iowa | 2022 |
| Tom Hundertmark | Rutland, 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 \$200 for each meeting attended and reimbursement of travel expense.

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

COMMITTEES

The Board of Directors shall be empowered to constitute and appoint such committees as they deem to be in the best interests of the Association.

Individuals serving on the committees at December 31, 2018 were as follows:

| <u>Executive Committee</u> | <u>Claims Committee</u> |
|---------------------------------|---------------------------------|
| Thomas Jacobson, President | Robert Abens, Secretary |
| James Sayers, Vice President | Amy Peters, Assistant Secretary |
| Robert Abens, Secretary | Heather Wilson, Adjuster |
| Scott Curran, Treasurer | |
| Amy Peters, Assistant Secretary | |

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> |
|-----------------|---------------------|
| Thomas Jacobson | President |
| James Sayers | Vice President |
| Robert Abens | Secretary |
| Scott Curran | Treasurer |
| Amy Peters | Assistant Secretary |

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually all officers, directors and key employees. Two key employees did not sign conflict of interest forms in 2017.

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 did not document the review of the Examination Report as of December 31, 2015.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a 1/2 half of the main floor with Humboldt Insurance Group, Ltd. d/b/a Abens-Marty-Curran Agency. The Agency is 46.5 percent owned by Robert Abens, Secretary, and 46.5 percent owned by Scott Curran, Treasurer.

The Agency produced approximately 44 percent of the Association's business and \$224,980 were paid in commissions during 2018. In 2018, the Agency paid \$1,125 monthly rent to the Association. The Agency pays all the utilities, phone and janitorial services. The salaries of the agency office employees are paid by the agency. The rental agreement was extended for another ten years on January 1, 2014.

The expense allocation between the Agency and Association does not appear to be unreasonable.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$100,000 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
- Business property
- Personal property
- Business liability
- Business auto liability
- Umbrella liability
- Cyber liability
- Employment practices
- 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

Eligible employees receive single coverage health insurance. The employee will pay the additional premium for spouse or dependent coverage if desired. Eligible employees receive a \$10,000 accidental death and disability coverage and \$50,000 Term Group Life coverage and a long-term disability coverage. Directors allowed to participate in the plan at their own expense. No directors are participating as of December 31, 2018. A recreational center membership of one-half of the cost is paid.

The Association has a Simplified Employee Pension Plan (SEP) with a 4 percent fixed rate annuity with an Association contribution of 5 percent of the eligible employee's salary in 2016 and 7.5 percent in 2017 and 2018. Association contributions to the plan were \$12,581, \$13,716 and \$22,460 in 2016, 2017 and 2018, respectively. An employee bonus is based on 1 percent of net company operational profit before tax for a minimum of \$500 and maximum of \$1,000 annually. An additional \$1,000 bonus for employee performance.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with an authorized insurer which provides the following:

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 retention. Second layer has a maximum 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Catastrophe Excess of Loss

The first \$600,000 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 \$1,621,000 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.

Home-owners Quota Share

Qualifying Home Guard dwelling policies, except hail coverage on growing crops or earthquake in excess of \$125,000 but less the \$1,000,000 are ceded to the Reinsured.

Facultative

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2018, 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.

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: Boone, Buena Vista, Calhoun, Cerro Gordo, Clay, Dickinson, Emmet, Franklin, Greene, Hamilton, Hancock, Hardin, Humboldt, Kossuth, Palo Alto, Pocahontas, Sac, Webster, Winnebago, Worth and Wright. Risks are located within the authorized territory based a review of numerous policies in force.

PRODUCER LICENSING

Business written by 115 licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and town security classes in 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

Eleven claim files closed with and without payment to determine the treatment of policyholders. Six claims did not have proof of losses signed by adjusters.

COMPLAINT REGISTER

No formal Insurance Division complaints made to the Association during the Examination period.

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>Net Premiums Earned</u> | <u>Net Losses Incurred</u> | <u>Net Investment Income Earned</u> |
|-------------|------------------------|---------------------------------|----------------------------|----------------------------|-------------------------------------|
| 2016 | 6,089,340 | 3,949,353 | 2,332,973 | 706,736 | 79,772 |
| 2017 | 5,538,383 | 3,727,120 | 2,329,933 | 1,574,654 | 78,028 |
| 2018 | 5,507,092 | 3,241,221 | 2,409,986 | 1,568,037 | 69,010 |

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the three-year period ended December 31, 2018 was as follows:

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>Total</u> |
|------------------------------|--------------------|---------------------|---------------------|---------------------|
| Premiums earned | \$2,337,411 | \$2,329,933 | \$2,410,579 | \$7,077,923 |
| <u>Incurred Deductions</u> | | | | |
| Losses | \$ 799,535 | \$1,574,654 | \$1,568,037 | \$3,942,226 |
| Loss adjustment expenses | 290,001 | 375,676 | 371,577 | 1,037,254 |
| Commissions | 505,983 | 491,856 | 584,052 | 1,581,891 |
| Salaries | 142,012 | 147,101 | 156,855 | 445,968 |
| Taxes, licenses and fees | 36,102 | 36,780 | 41,691 | 114,573 |
| Other underwriting expenses | <u>210,965</u> | <u>196,170</u> | <u>230,056</u> | <u>637,191</u> |
| Total deductions | <u>\$1,984,598</u> | <u>\$2,822,237</u> | <u>\$2,952,268</u> | <u>\$7,759,103</u> |
| Net underwriting gain (loss) | <u>\$ 352,813</u> | <u>\$ (492,304)</u> | <u>\$ (541,689)</u> | <u>\$ (681,180)</u> |

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

| <u>Incurred Deductions</u> | | | | |
|------------------------------|--------------|----------------|----------------|---------------|
| Losses | 34.2% | 67.6% | 65.0% | 55.7% |
| Loss adjustment expenses | 12.4 | 16.1 | 15.4 | 14.7 |
| Commissions | 21.6 | 21.1 | 24.2 | 22.3 |
| Salaries | 6.2 | 6.3 | 6.7 | 6.3 |
| Taxes, licenses and fees | 1.5 | 1.6 | 1.7 | 1.6 |
| Other underwriting expenses | <u>9.0</u> | <u>8.4</u> | <u>9.5</u> | <u>9.0</u> |
| Total deductions | <u>84.9%</u> | <u>121.1%</u> | <u>122.5%</u> | <u>109.6%</u> |
| Net underwriting gain (loss) | <u>15.1%</u> | <u>(21.1)%</u> | <u>(22.5)%</u> | <u>(9.6)%</u> |

ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were in agreement with or reconciled to the general ledger balances of assets, liabilities, income and disbursements. Selected cash receipts recorded during the period 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 is compliant with the Commissioner's Bulletin 97-6 at December 31, 2018 relative to security custodial requirements. Custodial agreement did not comply with Iowa Administrative Code 191, Chapter 32.3.

Twelve checks outstanding from more than twelve months as of December 31, 2018.

Association did not obtain approval from the Division for resurfacing the parking lot for \$12,286 in 2017 and purchase of an electrical generator for \$14,558 in 2018.

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, 2018, the gross risk in force for the Association was \$1,005,332,557. The Association's statutory minimum surplus level as of December 31, 2018 was \$1,005,333. It is noted the Association's surplus level to minimum surplus level ratio was 3.2/1. 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>Assets</u> | Not <u>Admitted</u> | <u>Admitted</u> |
|--|--------------------|------------------------|--------------------|
| Bonds | \$3,347,040 | \$ 3,656 | \$3,443,384 |
| Common stocks | 954,091 | | 954,091 |
| Real estate properties occupied | 85,466 | | 85,466 |
| Cash | 661,089 | | 661,089 |
| Investment income due and accrued | 30,282 | | 30,282 |
| Uncollected premiums | 75,217 | | 75,217 |
| Deferred premiums | 345,521 | | 345,521 |
| Amounts recoverable from reinsurers | 11,699 | | 11,699 |
| Current federal income tax recoverable | 22,400 | 22,400 | |
| Electronic data processing equipment | 936 | | 936 |
| Furniture and equipment | 1,394 | 1,394 | |
| Aggregate write-ins: | | | |
| Transportation equipment | <u>26,390</u> | <u>26,390</u> | <u> </u> |
| Total Assets | <u>\$5,561,525</u> | <u>\$53,840</u> | <u>\$5,507,685</u> |

LIABILITIES AND SURPLUS

| | |
|--|--------------------|
| Commissions payable and contingent commissions | \$ 154,535 |
| Other expenses | 4,438 |
| Taxes, licenses and fees | 13,033 |
| Borrowed money | 305,000 |
| Unearned premiums | 1,641,236 |
| Ceded reinsurance premiums payable | 96,735 |
| Funds held by company under reinsurance treaties | 17,733 |
| Aggregate write-ins: | |
| Suspense | <u>9,805</u> |
| Total liabilities | <u>\$2,242,515</u> |
| Surplus as regards policyholders | <u>\$3,265,170</u> |
| Total Liabilities and Surplus | <u>\$5,507,685</u> |

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$2,410,579

Incurred Deductions

Losses incurred \$1,568,037

Loss expenses incurred 371,577

Other underwriting expenses incurred 1,012,654

Total underwriting deductions 2,952,268

Net underwriting gain (loss) \$ (541,689)

Investment Income

Net investment income earned 69,010

Net realized capital gain (loss) 57,590

Other Income

Gain on Sale of Assets 10,357

Net income before federal income taxes \$ (404,732)

Federal income taxes (143,320)

Net income \$ (261,412)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017 \$3,727,120

Gains and (Losses) in Surplus

Net income \$ (261,412)

Net unrealized capital gains (losses) (147,053)

Change in non-admitted assets (53,485)

Change in surplus as regards policyholders \$ (461,950)

Surplus as regards policyholders, December 31, 2018 \$3,265,170

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$7,077,923

Incurred Deductions

Losses incurred \$3,942,226

Loss expenses incurred 1,037,254

Other operating expenses 2,779,623

Total underwriting deductions 7,759,103

Net underwriting gain (loss) \$(681,180)

Investment Income

Net investment income earned 226,810

Net realized capital gain (loss) 174,339

Other Income

Gain on sale of assets 10,357

Miscellaneous income 80

Net income before federal income taxes \$ (269,594)

Federal income taxes 9,268

Net income \$ (278,862)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015 \$3,557,302

Gains and (Losses) in Surplus

Net income \$ (278,862)

Net unrealized capital gains (losses) 23,006

Change in non-admitted assets (36,276)

Change in surplus as regards policyholders \$ (292,132)

Surplus as regards policyholders, December 31, 2018 \$3,265,170

CASH FLOW STATEMENT

Cash from Operations

| | |
|---------------------------------------|--------------------|
| Premiums collected net of reinsurance | \$2,572,859 |
| Net investment income | 86,437 |
| Miscellaneous income | <u>10,357</u> |
| Total | <u>\$2,669,653</u> |

| | |
|--|--------------------|
| Benefit and loss related payments | \$1,577,542 |
| Commissions, expenses paid and aggregate write-ins | 1,326,536 |
| Federal income taxes paid (recovered) net | <u>(120,920)</u> |
| Total | <u>\$2,783,158</u> |

Net cash from operations \$ (113,505)

Cash from Investments

| | |
|---|-------------------|
| Proceeds from investments sold, matured and repaid: | |
| Bonds | \$ 170,000 |
| Stocks | <u>57,590</u> |
| Total investment proceeds | <u>\$ 227,590</u> |

| | |
|---|-------------------|
| Cost of investments acquired (long-term) only | |
| Bonds | \$ 234,233 |
| Stocks | 66,597 |
| Real estate | <u>14,558</u> |
| Total investments acquired | <u>\$ 315,388</u> |

Net cash from investments \$ (87,798)

Cash from Financing and Miscellaneous Sources

| | |
|-------------------------------|-------------------|
| Borrowed funds | \$ 305,000 |
| Other cash provided (applied) | <u>(4,824)</u> |
| Net cash from financing | <u>\$ 300,176</u> |

Reconciliation of Cash and Short-Term Investments

| | |
|---|-------------------|
| Net change in cash and short-term investments | \$ 98,873 |
| Cash and short-term investments: | |
| Beginning of year | <u>\$ 562,216</u> |
| End of year | <u>\$ 661,089</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> | | | |
| Bonds | \$3,443,384 | \$3,343,384 | \$ (100,000) |
| Cash | 561,206 | 661,089 | 99,883 |
| Uncollected premiums | 12,212 | 75,217 | 63,005 |
| Deferred premiums | 407,816 | 345,521 | (62,295) |
| <u>Liabilities</u> | | | |
| Loss adjustment expenses | 15,922 | | 15,922 |
| Commissions payable | 154,802 | 154,535 | 267 |
| Other expenses | 7,718 | 4,438 | 3,280 |
| Taxes, licenses and fees | <u>16,920</u> | <u>13,033</u> | <u>3,887</u> |
| Net increase in surplus | | | <u>\$ 23,949</u> |
| Surplus per Association | | | <u>\$3,241,221</u> |
| Surplus per examination | | | <u>\$3,265,170</u> |

During the period under review, surplus funds decreased \$292,132 from the amount of \$3,557,302 as shown in the last previous examination report. An operating statement reflecting that change is contained in the financial section.

COMMENTS

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

Bonds \$3,343,384

This asset was decreased \$100,000 due to reclassifying a Certificate of Deposit to Cash.

Cash \$ 661,089

This asset was increased \$99,833 primarily due to reclassifying a Certificate of Deposit from Bonds.

Uncollected premiums \$ 75,217

This asset was increased \$63,005 primarily due to reclassifying Current receivables from Deferred premiums.

Deferred premiums \$ 345,521

This asset was decreased \$62,295 primarily due to reclassifying Current receivables to Uncollected premiums.

Loss adjustment expenses \$ _____0

An analysis of paid adjusting expenses to paid losses decreased the liability \$15,922.

Commissions payable \$ 154,535

This liability was decreased \$267 primarily due to including commissions that are past due 31 to 60 days.

Other expenses \$ 4,438

This liability decreased by \$3,280 to reflect actual expenses paid in 2019 incurred in 2018.

Taxes, licenses and fees \$ 13,033

This liability was decreased \$3,887 to reflect the amount of taxes paid in 2019 incurred in 2018.

CONCLUSION

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

Respectfully submitted,

____/s/ Jerry P. Cihota, CPA, CFE_____
Insurance Company Examiner Specialist
Iowa Insurance Division