

EXAMINATION REPORT OF
CENTURY MUTUAL INSURANCE ASSOCIATION
HARTLEY, IOWA
AS OF DECEMBER 31, 2020

Hartley, Iowa
September 15, 2021

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

CENTURY MUTUAL INSURANCE ASSOCIATION

HARTLEY, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 91 South Central Avenue, Hartley, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the intervening period from December 31, 2016 through December 31, 2020. The examination was conducted in accordance with procedures recommended 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, 2020.

HISTORY

The Association was incorporated in 1890 under the name of Farmers Mutual Fire and Lightning Insurance Association 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 1967 and the name was changed to Farmers Mutual Insurance Association of O'Brien County.

Effective January 1, 2007, the Articles of Incorporation and Bylaws were amended and restated to change the corporate structure to a state mutual insurance association under Chapter 518A, Code of Iowa. At that same time the name was changed to Century Mutual Insurance Association.

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 Hartley, Iowa on the second Wednesday in February at 1:00 p.m. Special meetings may be called by the Board of Directors or written request of one-fourth of the members 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. One more member present than number of directors constitutes a quorum 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 fifteen 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, 2020 were:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Dennis Youngers	Sheldon, Iowa	2021
Todd Faust	Paullina, Iowa	2023
Richard Simm	Paullina, Iowa	2022
William Teimer	Hartley, Iowa	2021
James Sickelka	Primghar, Iowa	2022
Terry Thomsen	Hartley, Iowa	2022
Barry Sterk	Sheldon, Iowa	2023

The annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the President. A majority present constitutes a quorum for the transaction of business.

For each regular and executive committee meeting attended the director will receive a fee of \$325 and reimbursement of travel expense. The Chairman of the Board receives \$750 per meeting attended plus travel expense for regular and executive committee meetings. The fee per reorganization or a special committee meeting is set at \$100 plus mileage.

COMMITTEE

The Association has an executive committee that meets once per year to review the prior year's financial performance along with management's reports of operations and personnel plus the independent annual audit information.

Members of the executive committee as of December 31, 2020:

<u>Name</u>	<u>Office</u>
James Sickelka	Chair
Barry Sterk	Vice-Chair
William Treimer	Board

OFFICERS

At its annual meeting, the Board of Directors shall elect for a term of one year a Chairman, Vice Chairman, President, Treasurer and Secretary, and may elect such other offices as specified in the Bylaws as deemed advisable. Any such offices may be combined, except those of President and Secretary.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
Mark Riedemann	President/Treasurer
Richard Simm	Secretary

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and directors. Conflict of interest statements should be completed by key employees.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or restated 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, 2016 was reviewed and accepted at the August 8, 2018 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
- Employment practices
- General liability
- Commercial personal property
- Commercial property
- Umbrella liability
- Equipment breakdown
- Automobile property and 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

Full-time eligible employees are provided health, vision and dental insurance with 80 percent of the premium for single coverage paid by the Association. Employee is responsible for the increase in premium if family coverage is secured for these three named types of insurance. Disability and accidental death and dismemberment coverage of \$30,000 is paid by the Association. Directors may participate in accidental death and dismemberment insurance, yet the directors must pay the premiums.

A pension/profit sharing and trust retirement plan is provided whereby the Association annually contributes 10% of the employees' salary. Additional amounts up to 5% may be contributed, upon board approval, to the plan based on the Association's profitability. Employees may not contribute individually to the plan. Annual

contributions were \$80,574, \$57,529, \$91,200 and \$103,808 for 2017 to 2020, respectively. Bonuses paid annually to employees were \$19,800, \$21,500, \$23,950 and \$25,500 for 2017 to 2020.

REINSURANCE

The Association has ceded reinsurance contracts in force as of December 31, 2020 with an authorized insurer which provide the following:

Property Per Risk Excess of Loss

First layer includes the reinsurer paying 100 percent of each risk in excess of retention of \$250,000 up to a maximum recovery of \$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 for each risk. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000. Any risk in excess of \$20,000,000 is excluded from coverage.

Property Catastrophe Excess of Loss

First \$1,500,000 of ultimate net loss per loss occurrence, which is defined as the sum of all individual losses directly occasioned by any one event that occurs in any period of 96 consecutive hours, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

Property Aggregate Excess of Loss

First \$6,500,000 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, which is unlimited, is covered by the reinsurer. 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 limit of \$20,000,000 are ceded on a facultative basis. As of December 31, 2020, 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 in the following 27 counties in the State of Iowa: O'Brien, Sioux, Lyon, Osceola, Dickinson, Clay, Plymouth, Cherokee, Buena-Vista, Woodbury, Ida, Sac, Calhoun, Monona, Crawford, Carroll, Emmet, Palo Alto, Pocahontas, Kossuth, Humboldt, Webster, Greene, Harrison, Shelby, Audubon, and Guthrie.

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 written by 311 licensed and approved agents.

Policies are underwritten every three years with premiums payable annually, semi-annually, quarterly, or monthly.

ADVERTISING

The Association's advertising material was reviewed during the examination period with no violations noted under the provisions of the Iowa Administrative Code.

RATING AND STATISTICAL REPORTING

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm property, homeowners property, rental and mobile home classes in insurance covering fire, wind, allied lines, and inland marine.

Policy and endorsement forms have been filed and approved. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

TREATMENT OF POLICYHOLDERS

CLAIMS

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel. Of the fifteen claim files reviewed to determine adequacy of loss reserves and the treatment of policyholders, three proof of losses were not signed by the insured. Of the claims reviewed, all but one were paid within ten days from the date sufficient information was received to pay the claim.

COMPLAINT REGISTER

The Association is aware of the complaint register as promulgated by rules set forth in Iowa Administrative Code 191-15. All Association complaints received during the examination period were resolved timely and in keeping with Iowa laws and regulations.

GROWTH OF THE ASSOCIATION

The following historical financial data, taken from annual statements for the years indicated, reflects the growth of the Association:

<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>
2017	\$18,601,917	\$13,931,710	\$6,491,655	\$3,115,859	\$565,930
2018	18,514,191	12,483,305	6,801,104	5,978,963	634,095
2019	19,903,924	14,983,249	6,948,900	4,139,407	615,444
2020	23,156,242	17,960,020	7,153,979	2,542,230	586,409

UNDERWRITING EXPERIENCE
FOUR-YEAR PERIOD ENDED DECEMBER 31, 2020

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	\$6,491,655	\$ 6,801,104	\$6,948,900	\$7,163,532	\$27,405,191
<u>Incurred Deductions</u>					
Losses	\$3,304,741	\$ 5,978,963	\$4,139,407	\$2,433,544	\$15,856,655
Loss adjustment expenses	226,078	283,567	344,172	448,213	1,302,030
Commissions	1,129,320	1,163,250	1,213,389	1,272,635	4,778,594
Salaries	378,804	357,462	395,857	447,616	1,579,739
Taxes, licenses and fees	109,320	119,108	114,555	121,633	464,616
Other underwriting expenses	318,102	289,110	299,150	362,002	1,268,364
Total deductions	\$5,466,365	\$ 8,191,460	\$6,506,530	\$5,085,643	\$25,249,998
Net underwriting gain (loss)	\$1,025,290	\$ (1,390,356)	\$ 442,370	\$2,077,889	\$ 2,155,193

Expressed in ratios of incurred deductions to earned premiums.

<u>Incurred Deductions</u>					
Losses	50.9%	87.9%	59.6%	34.0%	57.9%
Loss adjustment expenses	3.5	4.2	5.0	6.3	4.8
Commissions	17.4	17.1	17.5	17.8	17.4
Salaries	5.8	5.1	5.6	6.1	5.7
Taxes, licenses and fees	1.7	1.8	1.6	1.7	1.7
Other underwriting expenses	<u>4.9</u>	<u>4.3</u>	<u>4.3</u>	<u>5.1</u>	<u>4.6</u>
Total deductions	<u>84.2%</u>	<u>120.4%</u>	<u>93.6%</u>	<u>71.0%</u>	<u>92.1%</u>
Net underwriting gain (loss)	<u>15.8%</u>	<u>(20.4)%</u>	<u>6.4%</u>	<u>29.0%</u>	<u>7.9%</u>

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 were proved by comparison and reconciliation to the monthly bank statements.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2020 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, 2020, the gross risk in force for the Association was \$2,768,534,858. The Association's statutory minimum surplus level as December 31, 2020 was \$2,768,535. It is noted the Association's surplus level to minimum surplus level ratio was 6.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2020 was 8.4/1.

SUBSEQUENT EVENT

As of the Board Meeting on April 14, 2021, Terry Thomsen retired and Chad McCarty replaced him as director.

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, 2020 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	\$13,438,686	\$ 30,080	\$13,408,606
Preferred stocks	26,660		26,660
Common stocks	6,902,003		6,902,003
Real estate properties occupied	78,002	4,714	73,288
Cash	1,049,753		1,049,753
Cash equivalents	1,643		1,643
Investment income due and accrued	151,348		151,348
Uncollected premiums	240,532	(22)	240,554
Deferred premiums	1,022,412		1,022,412
Amounts recoverable from reinsurers	21,701		21,701
Other amounts receivable from reinsurers	83,173		83,173
Current federal income tax recoverable	59,000	59,000	
Furniture and equipment	7,466	7,466	
Aggregate write-ins for assets:			
Automobiles	72,468	72,468	
IMT overwrite receivable	4,308		4,308
Prepaid re	136,000		136,000
Total Assets	<u>\$23,295,155</u>	<u>\$173,706</u>	<u>\$23,121,449</u>

LIABILITIES AND SURPLUS

Losses	\$ 825,651
Loss adjusting expenses	65,046
Commissions payable and contingent commissions	274,556
Other expenses	178,116
Taxes, licenses and fees	9,384
Unearned premiums	3,545,184
Advance premiums	109,859
Ceded reinsurance premiums payable	138,622
Amounts withheld for account of others	225
Total liabilities	<u>\$ 5,146,643</u>
Surplus as regards policyholders	<u>\$17,974,806</u>
Total Liabilities and Surplus	<u>\$23,121,449</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOR THE ONE YEAR PERIOD DECEMBER 31, 2020

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 7,163,532

Incurred Deductions

Losses incurred \$2,433,544

Loss expenses incurred 448,213

Other underwriting expenses incurred 2,203,886

Total underwriting deductions 5,085,643

Net underwriting gain (loss) \$ 2,077,889

Investment Income

Net investment income earned 586,409

Net realized capital gain (loss) (75,687)

Other Income

Finance and service charges 39,501

Overwrite fee 56,550

Miscellaneous income 186

Net income before federal income taxes \$ 2,684,848

Federal income taxes 442,000

Net income \$ 2,242,848

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019 \$14,983,249

Gains and (Losses) in Surplus

Net income \$ 2,242,848

Net unrealized capital gains (losses) 805,888

Change in non-admitted assets (57,179)

Change in surplus as regards policyholders \$ 2,991,557

Surplus as regards policyholders, December 31, 2020 \$17,974,806

UNDERWRITING AND INVESTMENT EXHIBIT

FOR THE FOUR-YEAR PERIOD DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$27,405,191
 <u>Incurred Deductions</u>	
Losses incurred	\$15,856,655
Loss expenses incurred	1,302,030
Other underwriting expenses incurred	<u>8,091,313</u>
Total underwriting deductions	<u>25,249,998</u>
 Net underwriting gain (loss)	 \$ 2,155,193
 <u>Investment Income</u>	
Net investment income earned	2,401,878
Net realized capital gain (loss)	772,826
 <u>Other Income</u>	
Finance and service charges	169,247
Overwrite fee	209,122
Miscellaneous income	<u>186</u>
 Net income before federal income taxes	 \$ 5,708,452
 Federal income taxes	 <u>1,000,516</u>
 Net income	 <u>\$ 4,707,936</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	<u>\$11,919,554</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 4,707,936
Net unrealized capital gains (losses)	1,459,427
Change in non-admitted assets	<u>(112,111)</u>
 Change in surplus as regards policyholders	 <u>\$ 6,055,252</u>
 Surplus as regards policyholders, December 31, 2020	 <u>\$17,974,806</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance:	\$ 7,297,531
Net investment income	583,324
Miscellaneous income	<u>96,236</u>
Total	<u>\$ 7,977,091</u>

Benefit and loss related payments:	\$ 2,601,007
Commissions, expenses paid and aggregate write-ins	2,512,718
Federal income taxes paid (recovered) net	<u>436,000</u>
Total	<u>\$ 5,549,725</u>
Net cash from operations	<u>\$ 2,427,366</u>

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 861,407
Stocks	<u>247,377</u>
Total investment proceeds	<u>\$ 1,108,784</u>

Cost of investments acquired (long-term) only:	
Bonds	\$ 2,669,033
Stocks	<u>204,235</u>
Total investments acquired	<u>\$ 2,873,268</u>
Net cash from investments	<u>\$ (1,764,484)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ (164,236)</u>
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Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 498,646
Cash and short-term investments:	
Beginning of year	<u>\$ 552,750</u>
End of year	<u>\$ 1,051,396</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	\$13,438,686	\$13,408,606	\$ (30,080)
Real estate	78,002	73,288	(4,714)
<u>Liabilities</u>			
Losses	\$ 934,337	\$ 825,651	\$ 108,686
Loss adjustment expenses	3,500	65,046	(61,546)
Commissions payable	276,716	274,556	2,160
Other expenses	168,843	178,116	(9,273)
Unearned premiums	3,554,737	3,545,184	<u>9,553</u>
Net increase in surplus			<u>\$ 14,786</u>
Surplus per Association			<u>\$17,960,020</u>
Surplus per examination			<u>\$17,974,806</u>

During the period under review, surplus funds increased \$6,055,252 from the amount of \$11,919,554 as shown in the 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:

Bonds \$13,408,606

This asset was decreased \$30,080 to non-admit a bond purchased when it was non-investment grade.

Real estate \$ 73,288

This asset was decreased \$4,714 to non-admit two improvements requiring the Insurance Division's approval.

Losses \$ 825,651

This liability was decreased by \$108,686 to reflect actual loss development.

Loss adjustment expenses \$ 65,046

An analysis of paid expenses to paid losses applied to the loss reserve resulted in an increase in this liability by \$61,546.

Commissions payable \$ 274,556

The liability was decreased by \$2,160 to reflect the actual accrued commissions paid in 2021.

Other expenses \$ 178,116

This liability was increased by \$9,273 to reflect actual expenses incurred in 2020 paid in 2021.

Unearned premiums \$ 3,545,184

This liability increased \$9,553 due to accounting for the impact of unpaid premiums in the calculation of this line item.

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
Examiner Specialist
Iowa Insurance Division