

EXAMINATION REPORT OF  
CLAY MUTUAL INSURANCE ASSOCIATION  
CLAY COUNTY, SPENCER, IOWA  
AS OF DECEMBER 31, 2018

Spencer, Iowa  
November 5, 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

CLAY MUTUAL INSURANCE ASSOCIATION

CLAY COUNTY, SPENCER, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 515 Grand Avenue, Spencer, 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 1888 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 Spencer, Iowa on the second Wednesday in March at 1:00 p.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.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of nine 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>
Don Farquhar	Sutherland, Iowa	2019
Ronald Krager	Peterson, Iowa	2019
Frank Halverson	Linn Grove, Iowa	2019
Adam Binder	Greenville, Iowa	2020
Gary Klett	Everly, Iowa	2020
Rita Hoffman	Spencer, Iowa	2020
Alan Enderson	Spencer, Iowa	2021
Mike White	Dickens, Iowa	2021
Brian Batschelet	Spencer, 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 \$150 for each meeting attended.

#### 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>
Ronald Krager	President
Gary Klett	Vice President
Ann J. Banks	Secretary-Treasurer

Salaries and remunerations of officers are shown on Exhibit A following the signature page of this report.

#### CONFLICT OF INTEREST

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

#### 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 reviewed and accepted at the December 14, 2016 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$75,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

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

It appears 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 hospital and medical insurance with premiums paid by the Association. Dental insurance is also provided, with premiums paid by the Association.

Also, retirement benefit contributions were made to Hartford Life or Franklin Funds based on nine percent of the full-time eligible employee's salary. Contributions paid by the Association for 2016, 2017 and 2018 were \$13,546, \$13,706, and \$13,840, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a county mutual insurance association under the provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in nine counties in the State of Iowa. The permitted writing territory is composed of the following counties: Clay, Emmet, O'Brien, Buena Vista, Palo Alto, Dickinson, Osceola, Cherokee and Pocahontas. 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 these policies every three years.

At the present time, business is produced by 27 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	<u>\$1,703,815</u>	<u>\$1,711,724</u>	<u>\$1,707,128</u>	<u>\$5,122,667</u>
Incurred deductions:				
Losses	\$1,001,813	\$1,162,987	\$1,588,693	\$3,753,493
Loss adjustment expenses	37,565	47,050	29,265	113,880
Commissions	263,734	254,405	251,136	769,275
Salaries	96,455	97,676	98,701	292,832
Taxes, licenses and fees	33,285	31,461	34,056	98,802
Other underwriting expenses	<u>206,013</u>	<u>217,876</u>	<u>249,769</u>	<u>673,658</u>
Total deductions	<u>\$1,638,865</u>	<u>\$1,811,455</u>	<u>\$2,251,620</u>	<u>\$5,701,940</u>
Underwriting gain (loss)	<u>\$ 64,950</u>	<u>\$ (99,731)</u>	<u>\$ (544,492)</u>	<u>\$ (579,273)</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>
Incurred deductions:				
Losses	58.80%	67.94%	93.06%	73.27%
Loss adjustment expenses	2.20	2.75	1.71	2.22
Commissions	15.48	14.86	14.71	15.02
Salaries	5.66	5.71	5.78	5.72
Taxes, licenses and fees	1.95	1.84	1.99	1.93
Other underwriting expenses	<u>12.10</u>	<u>12.73</u>	<u>14.65</u>	<u>13.15</u>
Total deductions	<u>96.19%</u>	<u>105.83%</u>	<u>131.90%</u>	<u>111.31%</u>
Underwriting gain (loss)	<u>3.81%</u>	<u>(5.83%)</u>	<u>(31.90%)</u>	<u>(11.31%)</u>

REINSURANCE

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

Per Risk Excess of Loss

First \$150,000 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 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.

Catastrophe Excess of Loss

First \$500,000 of ultimate net loss per catastrophe, which is any period of 96 consecutive hours arising out of and directly occasioned by the same event, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

### Aggregate Excess of Loss

First \$1,550,000 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 are ceded on a facultative basis. As of December 31, 2018, there were no risks identified which warranted facultative agreements.

### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

### CLAIMS

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 Clay Agency, Inc. The agency is 100 percent owned by the Association. This agency produced approximately 50 percent of the Association's business during 2018.

The agency paid \$667 monthly rent to the Association during 2018, which did not appear to be unreasonable. The expense allocation between the agency and Association does not appear to be unreasonable.

The agency declared a dividend of \$2,500 in 2016, \$12,000 in 2017 and \$20,000 in 2018.

### 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 \$532,530,189. The Association's statutory minimum surplus level as of December 31, 2018 was \$532,530. It is noted the Association's surplus level to minimum surplus level ratio was 7.17/1. 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

	Ledger	Nonledger	Not Admitted	Admitted
Bonds	\$2,671,010	\$	\$ 4,539	\$2,666,471
Stocks	1,325,211	289,187		1,614,398
Bank balances:				
Subject to check	337,527			337,527
Real estate	122,083			122,083
Cash in office	30			30
Unpaid premiums:				
Due before November 1		210	210	
Due after November 1		27,625		27,625
Accrued interest		21,795		21,795
Equipment and furniture	2,592		2,592	
Automobiles	24,153		24,153	
Federal income tax recoverable		107,000	82,000	25,000
Other accounts receivable	1,441			1,441
Total	\$4,484,047	\$ 445,817	\$ 113,494	\$4,816,370

LIABILITIES AND SURPLUS

Losses	\$ 1,500
Unpaid adjusting expenses	24,103
Ceded reinsurance balances payable	42,894
Unpaid salaries and commissions	23,585
Borrowed money	7,500
Amounts withheld for the account of others	659
Taxes payable	3,757
Other unpaid expenses	5,127
Sick and vacation accrual	7,481
Premiums collected for other companies - not remitted	9,518
Premiums received in advance	6,325
Unearned premium reserve	865,620
Total liabilities	\$ 998,069
Surplus as regards policyholders	3,818,301
Total liabilities and surplus	\$4,816,370



INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017 \$ 4,958,105

INCOME

Net premiums and fees	\$	1,683,871
Net interest received on bonds		97,066
Increase (Decrease) by adjustment - bonds		(5,683)
Dividends received		105,113
Interest received on bank deposits		5,771
Profit on sale of investments		182,676
Rents received		16,000
Premiums collected for other companies		175,684
Federal income tax refund		26,471
Miscellaneous income		290
Total income	\$	2,287,259
Total assets and income	\$	7,245,364

DISBURSEMENTS

Losses paid	\$	1,909,384
<u>Operating Expense</u>		
Adjusting expense	\$	29,790
Commissions	255,265	
Advertising	10,915	
Boards, bureaus and associations	9,830	
Inspection and loss prevention	27,231	
Salaries of officers	43,988	
Salaries of office employees	54,713	
Employee welfare	69,254	
Insurance	15,983	
Directors' compensation	5,550	
Directors' expenses	4,616	
Rent and rent items	8,000	
Equipment	24,800	
Printing and stationary	5,880	
Postage, telephone, telegraph and exchange	23,961	
Legal and auditing	11,000	
State insurance taxes	22,061	
Insurance Division licenses and fees	170	
Payroll taxes	12,164	
Real estate expenses	7,344	
Real estate taxes	2,995	
Donations/contributions	3,749	
Travel and travel items	2,728	
Over and short	291	
Total operating expense	\$	652,278
<u>Non-Operating Expense</u>		
Depreciation on real estate		6,677
Federal income tax		4,393
Premium collections transmitted to other companies		143,570
Commissions paid agents for other companies		27,488
Decrease in ledger liabilities		17,527
Total disbursements	\$	2,761,317
Balance - ledger assets, December 31, 2018	\$	4,484,047

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 1,707,128
<u>Deductions</u>		
Losses incurred	\$ 1,588,693	
Loss expenses incurred	29,265	
Other operating expenses incurred	633,662	
Total underwriting deductions	<u>2,251,620</u>	
Net underwriting gain (loss)		\$ (544,492)
<u>Investment Income</u>		
Net investment income earned		371,020
<u>Other Income</u>		
Premiums collected for other companies (net)		4,603
Miscellaneous income		<u>290</u>
Net loss before Federal income tax		\$ (168,579)
Federal income tax incurred		<u>(51,471)</u>
Net loss		<u>\$ (117,108)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$ 4,317,207</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (117,108)
Change in not admitted assets		(21,262)
Change in net unrealized gains/losses		<u>(360,536)</u>
Change in surplus as regards policyholders for the year		<u>\$ (498,906)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 3,818,301</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 5,122,667
<u>Deductions</u>		
Losses incurred	\$ 3,753,493	
Loss expenses incurred	113,880	
Other operating expenses incurred	1,834,567	
Total underwriting deductions	<u>5,701,940</u>	
Net underwriting gain (loss)		\$ (579,273)
<u>Investment Income</u>		
Net investment income earned		741,983
<u>Other Income</u>		
Premiums collected for other companies (net)		9,739
Miscellaneous income		<u>1,058</u>
Net income before Federal income tax		\$ 173,507
Federal income tax incurred		<u>82,829</u>
Net income		<u>\$ 90,678</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$ 3,782,301</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 90,678
Change in not admitted assets	(1,254)
Change in net unrealized gains/losses	<u>(53,424)</u>
Change in surplus as regards policyholders for the period	<u>\$ 36,000</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 3,818,301</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>			
Stocks	\$ 1,615,658	\$ 1,614,398	\$ (1,260)
Unpaid premiums	30,027	27,625	(2,402)
Federal income tax recoverable		25,000	25,000
<u>Liabilities</u>			
Unpaid adjusting expense	31,620	24,103	7,517
Other unpaid expenses	4,154	5,127	(973)
Sick and vacation accrual		7,481	(7,481)
Unearned premium reserve	866,581	865,620	961
Net change to surplus			\$ 21,362
Surplus per Association			<u>\$ 3,796,939</u>
Surplus per examination			<u>\$ 3,818,301</u>

During the period under review, surplus funds increased \$36,000 from the amount of \$3,782,301 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:

Stocks \$1,614,398

This asset was decreased by \$1,260 to reflect the proper valuation of the wholly owned subsidiary agency.

Unpaid premiums \$ 27,625

This asset was decreased by \$2,402 to reflect the actual amount of premiums received in 2019.

Federal income tax recoverable \$ 25,000

This asset was increased by \$25,000 to reflect the income tax refund received in 2019.

Unpaid adjusting expenses \$ 24,103

An analysis of paid adjusting expenses to paid losses decreased this liability by \$7,517.

Other unpaid expenses \$ 5,127

This liability was increased \$973 to reflect actual expenses paid in 2019 for 2018.

Sick and vacation accrual \$ 7,481

This liability was established to reflect unused vacation and sick pay carried over to 2019.

Unpaid premium reserve \$ 865,620

A recalculation of unearned premium reserve using examination adjustments decreased this liability by \$961.

CONCLUSION

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

Respectfully submitted,

/s/ Abby Kramer  
Abby Kramer  
Cain Ellsworth & Co. LLP  
Representing the State of Iowa