

EXAMINATION REPORT OF
MEMBERS MUTUAL INSURANCE ASSOCIATION
STORM LAKE, IOWA
AS OF DECEMBER 31, 2018

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

Storm Lake, Iowa
November 13, 2019

Commissioner Ommen:

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

MEMBERS MUTUAL INSURANCE ASSOCIATION

STORM LAKE, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 1711 North Lake Avenue, Storm Lake, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Members Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2015. 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 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 1887 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 1948.

Effective April 1, 2014, Buena Vista Mutual Insurance Association and Ida Mutual Insurance Association of Ida Grove, Iowa, merged and became Members Mutual Insurance Association with Buena Vista Mutual being the surviving entity. At that time the Association converted to 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 Alta, Iowa on the last Tuesday in February at 11:00 a.m. Members changed the starting time from 10:00am to 11:00am in 2017. Special meetings may be called by the Board of Directors or upon written request of the majority 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 member more than the number of Directors present 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. The number is fixed by resolution of the Board. Each board member is 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> |
|-------------------|--------------------|---------------------|
| G. Randy McKibben | Rembrandt, Iowa | 2019 |
| Delmar Rieman | Newell, Iowa | 2019 |
| Dennis Lansink | Arthur, Iowa | 2019 |
| Mark Rehnstrom | Sioux Rapids, Iowa | 2020 |
| Jason Fineran | Kiron, Iowa | 2020 |
| Steve Schug | Ida Grove, Iowa | 2020 |
| David Friedrich | Alta, Iowa | 2021 |
| Chris Richter | Storm Lake, Iowa | 2021 |
| Thad Diersen | Kiron, 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 \$125 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 interest of the Association. As of December 31, 2018, individuals appointed to the investment committee were Mark Rehnstrom, Director; G. Randy McKibben, Director; Jason Fineran, Director; and Scott Lahr, Secretary-Treasurer. Individuals appointed to executive committee were Dave Friedrich, Director; Steve Schug, Director; and Scott Lahr, Secretary-Treasurer.

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> |
|-----------------|---------------------|
| David Friedrich | President |
| Steve Schug | Vice President |
| Scott Lahr | Secretary-Treasurer |

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

CONFLICT OF INTEREST

All officers, directors, and key employees annually signed conflict of interest statements.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination. At the February 28, 2017 members meeting, the members meeting time change from 10:00am to 11:00am was approved. As of date of examination report, Articles not amended to reflect that change.

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 October 26, 2016 board meeting.

AFFILIATED AGENCY

The Association owns fifty percent of the building, which houses its Home Office and shares a portion of that space with Buena Vista Agency, Inc. (Agency) and a nonaffiliated life insurance agency. The life insurance agency paid the Association \$1,350 in annual rent. North Lake Professional Association (North Lake) owns the other half of the building. Scott Lahr, Secretary/Treasurer owns North Lake with two other individuals not related to the Secretary/Treasurer or the Association. The Association and North Lake split building maintenance costs and utilities 50/50.

The Agency is 100 percent owned by the Association. The Agency produced approximately twenty percent of the Association's business and received \$48,237 in commissions in 2018. The Agency pays \$1,000 monthly rent to the Association. Three employees of the Association share time working for the Agency and for the Association. During the entire examination period, the Agency paid a dividend to the Association of \$62,000 in 2017.

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
- General liability
- Business auto
- Business property and personal property
- Equipment breakdown
- Umbrella liability
- Cyber liability
- Directors & officers liability

Insurance is placed with authorized insurers. However, professional and directors' and officers' liability insurance written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEE WELFARE

The Association provides health insurance to full-time eligible employees. The Association also provides an accidental death and dismemberment policy covering each employee and each director.

The Association provided a Simplified Employee Pension Individual Retirement Arrangement (SEP-IRA) for employees. Retirement benefit contributions were made to qualified full-time employees based on three percent of the full-time eligible employee's salary. Contributions were paid by the Association were \$5,701, \$7,127, and \$6,198 for 2016, 2017 and 2018, respectively.

REINSURANCE

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

Property Per Risk Excess of Loss

First \$225,000 of ultimate net loss per risk is retained by the Association. First layer is reinsurer will pay 100% of net loss in excess of retention. The maximum recovery for first layer is \$775,000. 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 the 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 the Association. Loss occurrence is the sum of all individual losses or series of losses related to one event. One-hundred 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 \$1,350,000 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. This 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.

Facultative

As of December 31, 2018 there was two per risks which warranted a facultative agreement and the mutual had a facultative agreement in place for those risks. Per Risk Excess of Loss covers up to \$20,000,000 with an Association retention of \$225,000 as noted above.

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 fourteen counties: Dickinson, Carroll, Crawford, Monona, Woodbury, Buena Vista, Cherokee, O'Brien, Clay, Palo Alto, Pocahontas, Calhoun, Sac, and Ida. 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, semi-annually or annually. The Association underwrites these policies every three years.

PRODUCER LICENSING

Business is written by way of fifty-nine licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal and home property and lines of business include: 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

The Association contracts with an outside service to adjust claims and has an adjuster on staff. The contractor was paid \$7,027 in 2018.

Of ten claim files reviewed, including closed by payment and closed without payment to determine the treatment of policyholders.

COMPLAINT REGISTER

A review was made of all written complaints received by the Association during the period under examination. The one formal Iowa Insurance Division complaint was handled timely and in a manner consistent with the provisions of the policy.

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 | \$6,000,938 | \$4,597,482 | \$1,614,785 | \$ 949,865 | \$145,881 |
| 2017 | 6,759,833 | 5,217,183 | 1,580,197 | 581,287 | 174,287 |
| 2018 | 6,197,867 | 4,548,193 | 1,567,340 | 1,319,609 | 194,930 |

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 | <u>\$1,612,746</u> | <u>\$1,580,197</u> | <u>\$1,567,340</u> | <u>\$4,760,283</u> |
| <u>Incurred Deductions</u> | | | | |
| Losses | \$ 953,299 | \$ 581,287 | \$1,325,250 | \$2,859,836 |
| Loss adjustment expenses | 179,544 | 165,455 | 169,250 | 514,249 |
| Commissions | 405,438 | 311,124 | 343,512 | 1,060,074 |
| Salaries | 129,480 | 124,680 | 119,284 | 373,444 |
| Taxes, licenses and fees | 18,713 | 23,622 | 23,388 | 65,723 |
| Other underwriting expenses | <u>110,811</u> | <u>165,081</u> | <u>165,748</u> | <u>441,640</u> |
| Total deductions | <u>\$1,797,285</u> | <u>\$1,371,249</u> | <u>\$2,146,432</u> | <u>\$5,314,966</u> |
| Net underwriting gain (loss) | <u>\$ (184,539)</u> | <u>\$ 208,948</u> | <u>\$ (579,092)</u> | <u>\$ (554,683)</u> |
| <u>Incurred Deductions</u> | | | | |
| Losses | 59.1% | 36.8% | 84.6% | 60.1% |
| Loss adjustment expenses | 11.1 | 10.5 | 10.8 | 10.8 |
| Commissions | 25.1 | 19.7 | 21.9 | 22.3 |
| Salaries | 8.0 | 7.9 | 7.5 | 7.8 |
| Taxes, licenses and fees | 1.2 | 1.5 | 1.5 | 1.4 |
| Other underwriting expenses | <u>6.9</u> | <u>10.4</u> | <u>10.6</u> | <u>9.3</u> |
| Total deductions | <u>111.4%</u> | <u>86.8%</u> | <u>136.9%</u> | <u>111.7%</u> |
| Net underwriting gain (loss) | <u>(11.4)%</u> | <u>13.2%</u> | <u>(36.9)%</u> | <u>(11.7)%</u> |

ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were not found to be in agreement with or reconciled to the general ledger balances of assets, liabilities, income and disbursements because of the merger.

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 complied with the Commissioner's Bulletin 97-6 at December 31, 2018 relative to security custodial requirements.

Thirty-nine checks are outstanding as of December 31, 2018. It is recommended that the Association follow state of Iowa escheat laws.

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 \$576,334,332. The Association's statutory minimum surplus level as of December 31, 2018 was \$576,334. It is noted the Association's surplus level to minimum surplus level ratio was 7.9/1. The reported surplus/statutory minimum ratio average for the chapter 518A 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 that date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

| | <u>Assets</u> | Non <u>Admitted</u> | Net <u>Admitted</u> |
|--|------------------------|------------------------|------------------------|
| Bonds | \$3,283,136 | \$ 4,027 | \$3,279,109 |
| Preferred stocks | 139,482 | | 139,482 |
| Common stocks | 1,933,105 | | 1,933,105 |
| Real estate properties occupied | 141,247 | | 141,247 |
| Cash: | | | |
| Cash holdings | 334,763 | | 334,763 |
| Short-term investments | 71,241 | | 71,241 |
| Aggregate write-ins for invested | | | |
| assets: Restricted building fund | 7,416 | 7,416 | |
| Investment income due and accrued | 27,126 | | 27,126 |
| Uncollected premiums | 44,580 | (1,050) | 45,630 |
| Deferred premiums | 225,852 | | 225,852 |
| Amounts recoverable from reinsurers | 34,367 | | 34,367 |
| Current federal income tax recoverable | 55,760 | 55,760 | |
| Electronic data processing equipment | 667 | | 667 |
| Furniture and equipment | 3,477 | 3,477 | |
| Aggregate write-ins for assets: | | | |
| Transportation equipment | <u>10,250</u> | <u>10,250</u> | |
| Total Assets | <u>\$6,312,469</u> | <u>\$ 79,880</u> | <u>\$6,232,589</u> |

LIABILITIES AND SURPLUS

| | | |
|--|--|------------------------|
| Losses | | \$ 22,050 |
| Loss adjusting expenses | | 2,981 |
| Commissions payable and contingent commissions | | 63,216 |
| Other expenses | | 2,759 |
| Taxes, licenses and fees | | 12,959 |
| Borrowed money | | 355,811 |
| Unearned premiums | | 1,079,154 |
| Advance premiums | | 45,524 |
| Ceded reinsurance premiums payable | | 57,255 |
| Amounts withheld for account of others | | 9,069 |
| Aggregate write-ins for liabilities: | | |
| Suspense | | <u>229</u> |
| Total liabilities | | <u>\$1,651,007</u> |
| Surplus as regards policyholders | | <u>\$4,581,582</u> |
| Total Liabilities and Surplus | | <u>\$6,232,589</u> |

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2018
STATEMENT OF INCOME

| | | |
|--|----------------|---------------------|
| <u>Underwriting Income</u> | | |
| Premiums earned | | \$1,567,340 |
| <u>Incurred Deductions</u> | | |
| Losses incurred | \$1,325,250 | |
| Loss expenses incurred | 169,250 | |
| Other underwriting expenses incurred | <u>651,932</u> | |
| Total underwriting deductions | | <u>2,146,992</u> |
| Net underwriting gain (loss) | | \$ (579,092) |
| <u>Investment Income</u> | | |
| Net investment income earned | | 194,930 |
| Net realized capital gain (loss) | | 111,914 |
| <u>Other Income</u> | | |
| Net premiums written for others | | <u>22,715</u> |
| Net income before federal income taxes | | \$ (249,533) |
| Federal income taxes | | <u>2,618</u> |
| Net income | | <u>\$ (252,151)</u> |

CAPITAL AND SURPLUS ACCOUNT

| | | |
|---|--|---------------------|
| Surplus as regards policyholders, December 31, 2017 | | <u>\$5,217,184</u> |
| <u>Gains and (Losses) in Surplus</u> | | |
| Net income | | \$ (252,151) |
| Net unrealized capital gains (losses) | | (332,144) |
| Change in non-admitted assets | | <u>(51,307)</u> |
| Change in surplus as regards policyholders | | <u>\$ (635,602)</u> |
| Surplus as regards policyholders, December 31, 2018 | | <u>\$4,581,582</u> |

UNDERWRITING AND INVESTMENT EXHIBIT
THREE-YEAR PERIOD ENDED DECEMBER 31, 2018
STATEMENT OF INCOME

| | | |
|--|------------------|--------------------|
| <u>Underwriting Income</u> | | |
| Premiums earned | | \$4,760,283 |
| <u>Incurred Deductions</u> | | |
| Losses incurred | \$2,859,836 | |
| Loss expenses incurred | 514,249 | |
| Other operating expenses | <u>1,940,881</u> | |
| Total underwriting deductions | | <u>\$5,314,966</u> |
| Net underwriting gain (loss) | | \$ (554,683) |
| <u>Investment Income</u> | | |
| Net investment income earned | | 515,098 |
| Net realized capital gain (loss) | | 231,964 |
| <u>Other Income</u> | | |
| Net premiums collected for others | | <u>29,089</u> |
| Net income before federal income taxes | | <u>\$ 221,468</u> |
| Federal income taxes | | <u>\$ 77,414</u> |
| Net income | | <u>\$ 144,054</u> |

CAPITAL AND SURPLUS ACCOUNT

| | | |
|---|--|--------------------|
| Surplus as regards policyholders, December 31, 2015 | | <u>\$4,555,047</u> |
| <u>Gains and (Losses) in Surplus</u> | | |
| Net income | | \$ 144,054 |
| Net unrealized capital gains (losses) | | (57,782) |
| Change in non-admitted assets | | <u>(59,737)</u> |
| Change in surplus as regards policyholders | | <u>\$ 26,535</u> |
| Surplus as regards policyholders, December 31, 2018 | | <u>\$4,581,582</u> |

CASH FLOW

Cash from Operations

| | |
|---------------------------------------|--------------------|
| Premiums collected net of reinsurance | \$1,591,843 |
| Net investment income | 212,506 |
| Miscellaneous income | <u>22,715</u> |
| Total | <u>\$1,827,064</u> |

| | |
|--|--------------------|
| Benefit and loss related payments | \$1,627,192 |
| Commissions, expenses paid and aggregate write-ins | 819,220 |
| Federal income taxes paid (recovered) net | <u>67,378</u> |
| Total | <u>\$2,513,790</u> |

Net cash from operations \$ (686,726)

Cash from Investments

Proceeds from investments sold, matured and repaid:

| | |
|---------------------------|-------------------|
| Bonds | \$ 330,000 |
| Stocks | <u>400,000</u> |
| Total investment proceeds | <u>\$ 730,000</u> |

Cost of investments acquired (long-term only):

| | |
|----------------------------|-------------------|
| Bonds | \$ 244,648 |
| Stocks | <u>166,631</u> |
| Total investments acquired | <u>\$ 411,279</u> |

Net cash from investments \$ 318,721

Cash from Financing and Miscellaneous Sources

| | |
|-------------------------------|-------------------|
| Borrowed funds | \$ 355,812 |
| Other cash provided (applied) | <u>33,844</u> |
| Net cash from financing | <u>\$ 389,656</u> |

Reconciliation of Cash and Short-Term Investments

| | |
|---|-------------------|
| Net change in cash and short-term investments | \$ 21,651 |
| Cash and short-term investments: | |
| Beginning of year | <u>\$ 384,353</u> |
| End of year | <u>\$ 406,004</u> |

SURPLUS AS REGARDS POLICYHOLDERS

The changes that resulted in the net increase 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 | \$3,283,136 | \$3,279,109 | \$ (4,027) |
| Common Stock | 1,885,720 | 1,933,105 | 47,385 |
| Restricted building fund | 7,416 | | (7,416) |
| Amounts recoverable from reinsurers | 36,254 | 34,367 | (1,887) |
| Electronic data processing Equipment | | 667 | 667 |
| <u>Liabilities</u> | | | |
| Losses | 18,296 | 22,050 | (3,754) |
| Loss adjustment expenses | 6,300 | 2,981 | 3,319 |
| Commissions payable | 63,029 | 63,216 | (187) |
| Taxes, licenses, fees | 12,248 | 12,959 | <u>(711)</u> |
| Net increase in surplus | | | <u>\$ 33,389</u> |
| Surplus per Association | | | <u>\$4,548,193</u> |
| Surplus per examination | | | <u>\$4,581,582</u> |

During the period under review, surplus funds increased \$26,535 from the amount of \$4,555,047 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:

Bonds \$3,279,109

This asset reduced by \$4,027 to account for bonds that were less than investment grade.

Common stock \$1,933,105

This asset increased by \$11,485 due to reclassifying a mutual fund from restricted building fund for \$5,266 and recognizing the remaining value of the mutual fund for \$5,187 and increasing the valuation of subsidiary agency for \$1,032.

Restricted Building Fund \$ 0

This asset reduced by \$7,416 due to reclassifying a portion of a mutual fund into common stock for \$5,266 and excluding cash not owned by the Association for \$2,190.

Amounts recoverable from reinsurers \$ 34,367

This asset decreased by \$1,887 to account for actual receivable from reinsurer.

Electronic data processing \$ 667

This asset increased \$667 due to admitting the non-depreciated asset.

Losses \$ 22,050

This liability increased by \$3,754 to reflect loss development in 2019 on losses incurred prior to 2019.

Loss adjustment expenses \$ 2,981

This liability decreased \$3,319 to reflect the ratio of loss adjustment expenses to losses paid times the loss reserves as of December 31, 2018.

Commissions payable \$ 63,216

This liability increased \$187 to reflect the actual commissions due as of December 31, 2018.

Taxes, licenses and fees \$ 12,959

This liability decreased \$711 to adjust non-income taxes to actual amounts paid.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry P. Cihota

Jerry P. Cihota, CPA, CFE
Examiner Specialist
Iowa Insurance Division