

EXAMINATION REPORT OF
MOUNT CARMEL MUTUAL INSURANCE ASSOCIATION
CARROLL COUNTY, BREDA, IOWA
AS OF DECEMBER 31, 2018

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

Breda, Iowa
October 28, 2019

Commissioner Ommen:

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

MOUNT CARMEL MUTUAL INSURANCE ASSOCIATION

CARROLL COUNTY, BREDA, IOWA

AS OF DECEMBER 31, 2018

At its Home Office, 105 North Third Street, Breda, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

The Mount Carmel Mutual Insurance Association, hereinafter referred to as "Association", was last examined as of December 31, 2015. The examination report 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 Iowa Insurance Division of Iowa. 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 1882 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 Breda, Iowa on the third Thursday in February at 1:30 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 five 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>
Jeff Scharfenkamp	Carroll, Iowa	2019
*Larry Boeckman	Breda, Iowa	2019
*Ray Lenz	Carroll, Iowa	2021
*Cory Uhlenkamp	Breda, Iowa	2021
Jeff Koster	Carroll, Iowa	2020

*Director is an agent for Lenz Insurance and Real Estate, Inc.

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 expenses.

Remuneration for directors are shown in 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>
Jeff Koster	President
Jeff Scharfenkamp	Vice President
*Cory Uhlenkamp	Secretary-Treasurer
*Adam Humlicek	Assistant Secretary-Treasurer

*Officer is an agent for Lenz Insurance and Real Estate, Inc.

Cory Uhlenkamp replaced Ray Lenz was Secretary and Treasurer on February 16, 2017.

Remuneration for officers are shown in Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and some employees. Certain officers and directors are agents for the Association, but these conflicts were not disclosed on conflict of interest forms in 2016. The conflict of interest forms were not signed by a key employee for 2016 and 2018, but was signed in 2017. Another conflict of interest for a director who is an officer for a financial firm that the Association does business with was not disclosed during the examination period.

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 do not reflect that the Examination Report as of December 31, 2015 was reviewed and accepted during the board meeting. The starting time of the member's meetings was not evident from the board minutes for all three years of the examination. The minutes did not disclose if a quorum was met for a board meeting and a member's meeting. While the minutes noted if a motion and seconding of the motion of a board action, the minutes were often silent as to the approval of board actions.

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 one year period.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Employment practices liability

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

Certain full-time eligible employees are provided health insurance. One employee participated in a group health plan. Another employee was reimbursed for health insurance premiums.

The Association matches a contribution of up to 3% of eligible full-time employees' compensation to a Simple IRA plan. The Association made total contributions of \$3,617, \$3,021 and \$3,835 for 2016, 2017 and 2018, respectively.

TERRITORY AND PLAN OF OPERATION

It was authorized to transact business in eight counties in the State of Iowa. The permitted writing territory is composed of the following counties: Carroll, Crawford, Sac, Calhoun, Greene, Guthrie, Audubon, and Shelby. It was noted, from a review of numerous applications of policies in force, that risks are located within the authorized territory.

Policies are written or renewed annually with premiums payable monthly, quarterly, semi-annually, or annually. The Association underwrites these policies every three years.

At of the examination date, business is produced by 30 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>\$1,298,449</u>	<u>\$1,666,270</u>	<u>\$1,710,260</u>	<u>\$4,674,979</u>
<u>Incurred deductions:</u>				
Losses	\$ 949,837	\$ 535,812	\$1,450,020	\$2,935,669
Loss adjustment expense	14,772	18,560	33,651	66,983
Commissions	306,405	371,659	324,129	1,002,193
Salaries	175,069	134,784	147,213	457,066
Taxes, licenses and fees	44,425	48,469	40,052	132,946
Other underwriting expenses	<u>118,684</u>	<u>152,151</u>	<u>148,634</u>	<u>419,469</u>
Total deductions	<u>\$1,609,192</u>	<u>\$1,261,435</u>	<u>\$2,143,699</u>	<u>\$5,014,326</u>
Underwriting gain or (loss)	<u>\$ (310,743)</u>	<u>\$ 404,835</u>	<u>\$ (433,439)</u>	<u>\$ (339,347)</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>
<u>Incurred deductions:</u>				
Losses	73.15%	32.16%	84.78%	62.80%
Loss adjustment expense	1.14	1.11	1.97	1.43
Commissions	23.60	22.30	18.95	21.44
Salaries	13.48	8.09	8.61	9.78
Taxes, licenses and fees	3.42	2.91	2.34	2.84
Other underwriting expenses	<u>9.14</u>	<u>9.13</u>	<u>8.69</u>	<u>8.97</u>
Total deductions	<u>123.93%</u>	<u>75.70%</u>	<u>125.34%</u>	<u>107.26%</u>
Underwriting gain or (loss)	<u>(23.93)%</u>	<u>24.30%</u>	<u>(25.34)%</u>	<u>(7.26)%</u>

REINSURANCE

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

Assumed

Quota Share

The Association assumes fifty percent of farm and homeowners property risks from an authorized insurer.

Ceded

Property Per Risk Excess of Loss

First \$250,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer will pay 100% of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000 including the Association retention. 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Catastrophe Excess of Loss

First \$700,000 ultimate net loss incurred per loss occurrence is retained by Association. 100% of ultimate net loss per loss occurrence in excess of retention is covered by the reinsurer. Loss occurrence is the sum of all individual losses or series of losses related to one event. 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 \$1,700,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100% 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

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.

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.

The Association has entered into an employee sharing arrangement with another farm mutual for the adjustment of claims. The Association is reimbursed 30% of the employee's salary, benefits and some business expenses.

AFFILIATED AGENCY

The Association owns its home office building and shares 60 percent of the space with Lenz Insurance and Real Estate, Inc. (The Agency). As of December 31, 2018, the Agency is 26 percent owned by Ray Lenz, a director, and 24 percent owned by Adam Humlicek, Assistant Secretary-Treasurer of the Association. Two other owners have the remaining 50 percent ownership of the Agency and are not affiliated with either Mr. Lenz or Mr. Humlicek.

The Agency produced approximately 70 percent of the Association's business and was paid \$242,620 in commissions during 2018. The Agency received profit share of \$77,042 in 2018. The Agency paid \$450 monthly rent and its own telephone expenses to the Association. Supplies costs are shared equally between the Association and the Agency.

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.

It was noted from a review of 2018 bank statements that the amount on deposit was significantly in excess of the \$250,000 limits established by the Federal Deposit Insurance Corporation (FDIC). Prudent business practices would dictate that no more than \$250,000 be held at any one depository to protect the assets of the policyholders.

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 \$690,911,347. The Association's statutory minimum surplus level as of December 31, 2018 was \$690,911. It is noted the Association's surplus level to minimum surplus level ratio was 5.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2018 was 7.9/1.

SUBSEQUENT EVENTS

Adam Humlicek replaced Cory Uhlenkamp as Secretary and Treasurer on January 3, 2019.

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>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$2,136,666	\$ 25,000	\$ 9,889	\$2,151,777
Stocks	1,278,096	31,924		1,310,020
Bank balances:				
Subject to check	719,749	39,413		759,162
On interest	1,003,024			1,003,024
Real estate	46,741			46,741
Unpaid premiums:				
Due before November 1	589		589	
Due after November 1	313,114		294,204	18,910
Accrued interest		29,615		29,615
Equipment and furniture	3,470		3,470	
Federal tax recoverable	<u> </u>	<u>10,440</u>	<u> </u>	<u>10,440</u>
Total	<u>\$5,501,449</u>	<u>\$136,392</u>	<u>\$308,152</u>	<u>\$5,329,689</u>

LIABILITIES AND SURPLUS

Losses		\$ 712,603
Unpaid adjusting expenses		14,300
Ceded reinsurance balances payable		92,756
Unpaid salaries and commissions		41,533
Amounts withheld for others		5,565
Taxes payable		1,441
Other unpaid expenses		3,975
Premiums collected for other not remitted		6,592
Premiums received in advance		62,612
Unearned premium reserve		<u>1,093,489</u>
Total liabilities		\$2,034,866
Surplus as regards policyholders		<u>\$3,294,823</u>
Total liabilities and surplus		<u>\$5,329,689</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		<u>\$5,420,746</u>
	<u>INCOME</u>	
Net premiums and fees		\$1,700,936
Net interest received on bonds		90,495
Increase (Decrease) by adjustment - bonds		(2,135)
Dividends received		37,556
Interest received on bank deposits		10,586
Profit on sale of investments		5,749
Rents received		5,400
Premiums collected for other companies		119,388
Increase in ledger liabilities		11,830
Miscellaneous income		25
Total income		<u>\$1,979,830</u>
Total assets and income		<u>\$7,400,576</u>
	<u>DISBURSEMENTS</u>	
Losses paid		<u>\$ 981,231</u>
<u>Operating Expenses</u>		
Loss adjustment expenses	\$ 20,007	
Commissions	400,595	
Advertising	8,608	
Boards, bureaus and associations	8,377	
Inspection and loss prevention	1,293	
Salaries of officers	57,087	
Expenses of officers	1,266	
Salaries of office employees	90,126	
Employee welfare	31,566	
Insurance	16,314	
Directors' compensation	2,875	
Directors' expenses	180	
Equipment	4,344	
Printing, stationery and supplies	6,127	
Postage, telephone, and exchange	5,238	
Legal and auditing	11,351	
State insurance taxes	26,630	
Insurance Division licenses and fees	264	
Payroll taxes and all other taxes	11,928	
Real estate expenses and taxes	11,082	
Miscellaneous	8,941	
Annual and agent meeting expense	278	
Data Processing	25,598	
Management fee	25,081	
Donations/Travel	<u>1,303</u>	
Total operating expense		\$ 776,459
<u>Non-Operating Expense</u>		
Depreciation on real estate		959
Loss on sale of investment		7,083
Federal income tax		21,029
Premium collections transmitted to other companies		92,285
Commissions paid agents for other companies		20,081
Total disbursements		<u>\$1,899,127</u>
Balance - ledger assets, December 31, 2018		<u>\$5,501,449</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$1,710,260
 <u>Deductions</u>		
Losses incurred	\$1,450,020	
Loss expenses incurred	33,651	
Other operating expenses incurred	<u>660,028</u>	
Total underwriting deductions		<u>2,143,699</u>
Net underwriting gain (loss)		\$ (433,439)

Investment Income

Net investment income earned 137,316

Other Income

Premiums collected for other companies 7,757
Miscellaneous income 25

Net income before Federal income tax \$ (288,341)
Federal income tax incurred (411)
Net income \$ (287,930)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017 \$3,711,456

Gains and (Losses) in Surplus
Net income \$ (287,930)
Change in not admitted assets 2,559
Unrealized capital change (131,262)

Change in surplus as regards policyholders for the year \$ (416,633)

Surplus as regards policyholders, December 31, 2018 \$3,294,823

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$4,674,979
 <u>Deductions</u>		
Losses incurred	\$2,935,669	
Loss expenses incurred	66,983	
Other operating expenses incurred	<u>2,011,674</u>	
Total underwriting deductions		<u>5,014,326</u>
 Net underwriting gain (loss)		 \$ (339,347)

Investment Income

Net investment income earned 585,288

Other Income

Premiums collected for other companies 25,999

Loss on sale of equipment (26,812)

Miscellaneous income 1,299

Net income before Federal income tax \$ 246,427

Federal income tax incurred 10,589

Net income \$ 235,838

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015 \$2,856,143

Gains and (Losses) in Surplus

Net income \$ 235,838

Change in not admitted assets 2,477

Unrealized capital change 200,365

Change in surplus as regards policyholders for the year \$ 438,680

Surplus as regards policyholders, December 31, 2018 \$3,294,823

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>Assets</u>			
Bonds	\$2,130,205	\$2,151,777	\$ 21,572
Stocks	1,358,681	1,310,020	(48,661)
Bank balances - Checking	719,749	759,162	39,413
Federal income tax recoverable		10,440	10,440
<u>Liabilities</u>			
Losses	525,325	712,603	(187,278)
Unpaid adjusting expenses	<u>656</u>	<u>14,300</u>	<u>(13,644)</u>
Net change in surplus			\$ (178,158)
Surplus per Association			<u>\$3,472,981</u>
Surplus per examination			<u>\$3,294,823</u>

During the period under review, surplus funds increased \$438,680 from the amount of \$2,856,143 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 \$2,151,777

This asset increased by \$21,572 in total. An investment was reclassified from preferred stock for \$25,000 to bonds and lower than investment grade stocks were not admitted for an additional \$3,428.

Stocks \$1,310,020

This asset decreased by \$48,661 to reclassify a money market fund of \$24,861 to Bank balances - checking and an investment of \$23,800 to bonds.

Bank balances - cash \$ 759,162

This asset was increased by \$39,413 due to reclassifying money market from stocks, properly including a deposit in transit and a reduction for actual cash in custodial account.

Federal income tax recoverable \$ 10,440

This asset was increased by \$10,400 to account for income tax refund received in 2019.

Losses \$ 712,603

This liability increased by \$187,278 to reflect the current loss development of losses incurred prior to 2019, yet unpaid until after 2018.

Unpaid adjusting expenses \$ 14,300

This liability increased \$13,644 due the calculation of paid adjusting expenses to paid losses relative to current loss reserves.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry Cihota
Jerry Cihota, CPA, CFE
Insurance Company Specialist
Iowa Insurance Division