

EXAMINATION REPORT OF  
GRUNDY MUTUAL INSURANCE ASSOCIATION  
GRUNDY COUNTY, GRUNDY CENTER, IOWA  
AS OF DECEMBER 31, 2018

Grundy Center, Iowa  
July 21, 2020

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

Commissioner:

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

GRUNDY MUTUAL INSURANCE ASSOCIATION

GRUNDY COUNTY, GRUNDY CENTER, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 715 G Avenue, Grundy Center, Iowa. The report, containing applicable comments and financial data, is presented herein.

#### INTRODUCTION

The Grundy Mutual Insurance Association, hereinafter referred to as the "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 December 31, 2015 to December 31, 2018. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa 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, 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 1948.

#### 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 Grundy Center, Iowa on the first Thursday in February 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 no less than five and no more than eight 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>
Greg Lindaman	Wellsburg, Iowa	2019
Mark Schildroth	Reinbeck, Iowa	2019
Charlie Haywood	Union, Iowa	2020
Arlan Anderson	Dike, Iowa	2020
Donald Butler	Grundy Center, Iowa	2020
Wendell Giesking	Reinbeck, Iowa	2021
Bryon Hook	Holland, 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.

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>
Charlie Haywood	President
Wendell Giesking	Vice-President
DeeGene McMartin	Secretary
Donald Butler	Recording Secretary

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees for the entire 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 reflected that the Examination Report as of December 31, 2015 was presented and accepted at the April 13, 2017 Board meeting.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by an Employee Theft and Forgery Policy in the amount of \$125,000 for any one loss occurrence. This coverage 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
- Building and contents
- General liability
- Umbrella liability
- Employers liability
- Equipment breakdown
- Cyber 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 insurance with premiums paid by Association after \$90 per month paid by employee. Employee pays \$1,000 of a \$2,500 deductible annually.

Clothing allowance of \$100 is annually provided to each employee. Association provides homeowners insurance of \$250 and auto insurance of \$300 per year, respectively. Insurance must be placed with the Association or the Association's reinsurance affiliate to be eligible for the credit.

Retirement benefit contributions were made to qualified employees based on a maximum match of five percent of the full-time eligible employee's salary. Contributions paid by the Association were \$14,456, \$14,687 and \$15,013 for 2016, 2017 and 2018, respectively.

Bonuses paid to employees by the Association were \$7,796, \$3,249 and \$3,249 for 2016, 2017 and 2018, respectively.

The Association offers employees a cafeteria plan enabling them to receive certain benefits on a pretax basis as allowed by the IRS.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Grundy County and contiguous counties. 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 continuous period with premiums payable quarterly, annually or semi-annually. The Association underwrites these policies every three years.

At the present time, business is produced by 58 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>\$1,583,033</u>	<u>\$1,554,524</u>	<u>\$1,624,494</u>	<u>\$4,762,051</u>
Incurred deductions:				
Losses	\$ 419,318	\$1,526,372	\$ 536,955	\$2,482,645
Loss adjustment expense	50,045	55,935	67,189	173,169
Commissions	327,117	296,910	336,794	960,821
Salaries	180,317	180,987	190,755	552,059
Taxes, licenses and fees	50,709	41,396	42,048	134,153
Other underwriting expenses	<u>154,261</u>	<u>262,069</u>	<u>87,720</u>	<u>504,050</u>
Total deductions	<u>\$1,181,767</u>	<u>\$2,363,669</u>	<u>\$1,261,461</u>	<u>\$4,806,897</u>
Underwriting gain or (loss)	<u>\$ 401,266</u>	<u>\$ (809,145)</u>	<u>\$ 363,033</u>	<u>\$ (44,846)</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	26.49%	98.19%	33.05%	52.13%
Loss adjustment expense	3.16	3.60	4.14	3.64
Commissions	20.66	19.10	20.73	20.18
Salaries	11.40	11.64	11.74	11.59
Taxes, licenses and fees	3.20	2.66	2.59	2.82
Other underwriting expenses	<u>9.74</u>	<u>16.86</u>	<u>5.40</u>	<u>10.58</u>
Total deductions	<u>74.65%</u>	<u>152.05%</u>	<u>77.65%</u>	<u>100.94%</u>
Underwriting gain or (loss)	<u>25.35%</u>	<u>(52.05)%</u>	<u>22.35%</u>	<u>(0.94)%</u>

REINSURANCE

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

#### Property Per Risk Excess of Loss

First \$150,000 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 \$10,000,000 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 \$800,000 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 \$1,700,000 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.

#### Facultative Quota Share

Association had four facultative insurance policies in December of 2018.

#### 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 equitable and timely settlements which were in keeping with the terms of the policy contracts.

#### AFFILIATED AGENCY

The Association owns its Home Office building and shares 14% of the space with Mutual Agency, Ltd., a wholly owned entity by the Association.

The Agency was established in August 1, 1988 with 50,000 shares with a par value of \$10 for each share. This Agency produced approximately 20 percent of the Association's business during 2018 and received \$40,420 in commissions from the Association. The Agency's directors and officers are the same as those of the Association.

The Agency paid the Association rent of \$9,600, postage of \$2,400, telephone expenses of \$2,400 and computer expenses of \$3,600 during 2018. The Agency

also paid \$66,000 in 2018 as a management fee for salaries, supplies and miscellaneous expenses.

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

#### ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were found to reconciled to the general ledger balances of assets, liabilities, income and disbursements.

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, authorized signatures and proper endorsements. Cash receipts and disbursements were proven by comparison and reconciliation to the monthly bank statements.

Six checks were outstanding over two years after the Examination report period.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2019 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 \$757,308,149. The Association's statutory minimum surplus level as December 31, 2018 was \$757,308. It is noted the Association's surplus level to minimum surplus level ratio was 7.2/1. 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>Ledger</u>	<u>Nonledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$4,341,516	\$	\$	\$4,341,516
Stocks	1,725,366	279,164		2,004,530
Bank balances:				
Subject to check	490,771			490,771
On interest	112,242			112,242
Real estate	58,979		21,610	58,979
Cash in office	250			250
Unpaid premiums:				
Due before November 1		6,094	6,094	
Due after November 1		16,579		16,579
Accrued interest		38,299		38,299
Equipment and furniture	959		959	
Contingency receivable		23,302		23,302
Federal tax recoverable		44,000	44,000	
EDP equipment	3,616			3,616
Overwrite from IMT		95		95
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$6,733,699</u>	<u>\$407,533</u>	<u>\$72,663</u>	<u>\$7,068,569</u>

LIABILITIES AND SURPLUS

Unpaid claims	\$ 254,757
Unpaid adjusting expenses	17,166
Ceded reinsurance balances payable	68,771
Unpaid salaries and commissions	33,326
Amounts withheld for others	279
Taxes payable	3,132
Other unpaid expenses	4,815
Premiums collected for other companies - not remitted	8,847
Premiums received in advance	51,665
Unearned premium reserve	<u>960,342</u>
Total liabilities	\$1,403,100
Surplus as regards policyholders	<u>5,665,469</u>
Total liabilities and surplus	<u>\$7,068,569</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		\$6,095,968
	<u>INCOME</u>	
Net premiums and fees		\$1,655,203
Net interest received on bonds		148,995
Increase (Decrease) by adjustment - bonds		(19,207)
Dividends received		130,135
Interest received on bank deposits		3,681
Profit on sale of investments		6,679
Rents received		10,800
Premiums collected for other companies		2,411
Underwriting expense reimbursement		1,995
Increase in ledger liabilities		3,428
Federal income tax refund		192,210
Miscellaneous income		1,308
Total income		<u>\$2,137,638</u>
Total assets and income		<u>\$8,233,606</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 578,937
<u>Operating Expenses</u>		
Loss adjustment expenses	\$ 60,023	
Commissions	328,570	
Advertising	4,703	
Boards, bureaus and associations	8,296	
Inspection and loss prevention	7,110	
Salaries of officers	76,370	
Salaries of office employees	114,385	
Employee welfare	52,567	
Insurance	14,632	
Directors' expenses	5,930	
Rent and rent items	1,200	
Equipment	27,802	
Printing, stationery and supplies	4,805	
Postage, telephone, and exchange	3,657	
Legal and auditing	20,300	
State insurance taxes	22,070	
Insurance Division licenses and fees	430	
Payroll taxes	17,101	
Real estate expenses	13,905	
Real estate taxes	1,740	
Miscellaneous	5,360	
Interest on borrowed money	488	
Donations	750	
Investment Expense	17,561	
Travel	4,145	
Total operating expense	<u>813,900</u>	
<u>Non-Operating Expense</u>		
Borrowed money repaid		75,000
Depreciation on real estate		1,945
Loss on sale of investment		30,125
Total disbursements		<u>\$1,499,907</u>
Balance - ledger assets, December 31, 2018		<u>\$6,733,699</u>

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

Underwriting Income

Premiums earned \$1,624,494

Deductions

Losses incurred \$536,955

Loss expenses incurred 67,189

Other operating expenses incurred 657,317

Total underwriting deductions 1,261,461

Net underwriting gain (loss) \$ 363,033

Investment Income

Net investment income earned 235,613

Other Income

Premiums collected for other companies 2,617

Miscellaneous income 1,308

Borrowed Money (75,000)

Net income before Federal income tax \$ 527,571

Federal income tax incurred (192,210)

Net income \$ 719,781

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017 \$5,223,371

Gains and (Losses) in Surplus

Net income \$ 719,781

Change in not admitted assets (19,567)

Unrealized capital change (258,116)

Change in surplus as regards policyholders for the year \$ 442,098

Surplus as regards policyholders, December 31, 2018 \$5,665,469

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

Underwriting Income		
Premiums earned		\$4,762,051
Deductions		
Losses incurred	\$2,482,645	
Loss expenses incurred	173,169	
Other operating expenses incurred	<u>2,151,083</u>	
Total underwriting deductions		<u>4,806,897</u>
Net underwriting gain (loss)		\$ (44,846)
<u>Investment Income</u>		
Net investment income earned		684,271
<u>Other Income</u>		
Premiums collected for other companies		\$ 34,174
Miscellaneous income		<u>(8,420)</u>
Net income before Federal income tax		\$ 665,179
Federal income tax incurred		<u>70,851</u>
Net income		<u>\$ 594,328</u>

CAPITAL AND SURPLUS

<u>ACCOUNT</u>		
Surplus as regards policyholders, December 31, 2015		\$4,988,150
Gains and (Losses) in Surplus		
Net income		\$ 594,328
Change in not admitted assets		11,858
Unrealized capital change		<u>71,133</u>
Change in surplus as regards policyholders for the year		<u>\$ 677,319</u>
Surplus as regards policyholders, December 31, 2018		<u>\$5,665,469</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>			
Real estate	\$ 58,979	\$ 37,369	\$ (21,610)
Unpaid premiums	10,249	16,579	6,330
<u>Liabilities</u>			
Unpaid claims	464,673	254,757	209,916
Unpaid adjusting expenses	10,000	17,166	(7,166)
Other unpaid expenses	10,105	4,815	5,290
Premiums collected for others	10,001	8,847	1,154
Advance premiums	50,599	51,665	<u>(1,066)</u>
Net change in surplus			<u>\$ 192,848</u>
Surplus per Association			<u>\$5,472,621</u>
Surplus per examination			<u>\$5,665,469</u>

During the period under review, surplus funds increased \$677,319 from the amount of \$4,988,150 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:

Real estate \$ 37,369

This asset was decreased by \$21,610 to non-admit a capital improvement that was not approved by the Iowa Insurance Division.

Unpaid premiums - due after November 1 \$ 16,579

This asset was increased by \$6,330 to reflect the actual amount of premiums received in 2017.

Unpaid claims \$254,757

This liability was decreased by \$209,916 to reflect actual loss development.

