EXAMINATION REPORT OF

POCAHONTAS MUTUAL INSURANCE ASSOCIATION

POCAHONTAS COUNTY, LAURENS, IOWA

AS OF DECEMBER 31, 2016

Laurens, Iowa
November 10, 2017

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

POCAHONTAS MUTUAL INSURANCE ASSOCIATION

POCAHONTAS COUNTY, LAURENS, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 137 South Third Street, Laurens, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2012 to December 31, 2016. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

The examination was conducted in accordance with the procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. A detailed audit was not made of all transactions, but accounting procedures and records were examined and tested to the extent deemed essential. The Association's assets were verified and evaluated and liabilities determined to present herein a statement of its financial condition as of December 31, 2016.

HISTORY

The Association was incorporated in 1891 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 1950. In April 2000, the Association converted to an Association 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 Laurens, Iowa on the first Tuesday of April at 1:30 p.m. Special meetings of the members 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 matter to be decided at any regular or special meeting. Voting by proxy is not permitted. A quorum shall be one or more members than the number of directors authorized by the Articles of Incorporation or Bylaws.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of six 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, 2016 were:

Name	Primary Occupation	Term
Andy Peterson Palmer, Iowa	Service Manager/Farmer	2016
T. H. Hoefing Manson, Iowa	Farmer	2016
Brent Boysen Havelock, Iowa	Farmer	2017
Rick Hawk Havelock, Iowa	Farmer	2018
William Kemna Rolfe, Iowa	Farmer	2018
Darrel Schnetter Albert City, Iowa	Farmer	2018

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 $250 for each meeting attended and reimbursement of travel expense.

Salaries and remunerations of directors are shown on Schedule 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 interests of the Association.

The President and two members of the Board of Directors shall constitute an Executive Committee with such powers as specified in the Bylaws or as the Board of Directors may delegate.

Serving on each committee at December 31, 2016 were:

Executive Committee

T.H. Hoefing
Brent Boysen
Kaye Van Genderen

Investment Committee

T.H. Hoefing
Brent Boysen
Kaye Van Genderen

Compensation Committee

Rick Hawk
T. H. Hoefing
Bill Kemna

Audit Committee

Brent Boysen
Andy Peterson
Darrel Schnetter

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, 2016 were:

Name	Office
T.H. Hoefing	President
Brent Boysen	Vice President
Kaye Van Genderen	Secretary/Treasurer

Richard Main retired as Secretary/Treasurer in April of 2016.

Salaries and remunerations of officers are shown on Schedule A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended 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 were silent in regards to accepting the Examination Report as of December 31, 2013.

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 indefinite period and the indemnity is noncumulative. The current bond amount of $75,000 does not provide adequate coverage for the Mutual according to guidelines established by the National Association of Insurance Commissioners.

Policies for other coverages are as follows:

Workers’ compensation and employers’ liability
Professional liability
Commercial and general liability
Officers’ and directors’ liability
Building and contents
Business automobile

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 with a small AD&D benefit and life insurance. Full time eligible employees also received a paid vacation benefit, which is accrued on an annual basis.

A profit sharing contribution, based upon 10% of the full-time eligible employee's salary, was paid by the Association for the years 2013, 2014, 2015, and 2016 of $11,791, $12,415, $14,720, and $16,006, respectively.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

CEDED

First Per Risk Excess of Loss

$150,000 in excess of $150,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to $300,000 as respects any one loss occurrence, irrespective of the number of risks involved.

In addition the Association shall retain $150,000 of losses and loss adjusting expenses which would otherwise be recoverable as an Annual Deductible.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium subject to the occurrence limit. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

Second Per Risk Excess of Loss

$200,000 in excess of $300,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to $200,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduced the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

Third Per Risk Excess of Loss and Second Aggregate Excess

$1,000,000 in excess of $500,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to $1,000,000 as respect any one loss occurrence, irrespective of the number of risks involved. It is specifically agreed that the Third Per Risk will inure to the benefit of the Second Aggregate Excess.

The reinsurer shall be liable for 100 percent of the Association's ultimate net loss in excess of 125 percent of the Association's gross net written premium income in any one annual period.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

First Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 85.50 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 41.00 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 79.00 percent of its gross net written premium income.

Third Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 250 percent of the Association’s gross net written premium income in any one annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 250 percent of its gross net written premium income.

Property Excess Facultative

Risks in excess of the Association’s reinsurance contract are ceded on a facultative basis. As of December 31, 2016 there were six risks identified which warranted facultative agreements.

Reinsurance – General

Reinsurance attachments are in compliance with Iowa statutes.

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. It is authorized to transact business in the following twenty-three counties in the State of Iowa: Pocahontas, Calhoun, Clay, Buena Vista, Palo Alto, Kossuth, Sac, Webster, Humboldt, Emmet, Dickinson, Osceola, O’Brien, Cherokee, Ida, Crawford, Carroll, Greene, Boone, Hamilton, Wright, Hancock, and Winnebago. 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 72 licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and suburban security classes in insurance covering 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 POLICY HOLDERS

Claims

Adjustment of claims is handled primarily by the Association’s salaried personnel.

Numerous claim files were reviewed, including closed by payment, closed without payment and open files to determine adequacy of loss reserves and the treatment of policyholders. Of the claims reviewed, 100 percent were paid within twelve days from the date sufficient information was received to pay the claim.

Complaint Register

No formal insurance division complaints were filed during the exam period.

GROWTH OF ASSOCIATION

The following historical data was taken from office copies of filed annual statements for the year indicated.

Year	Admitted Assets	Surplus to Policyholders	Premiums Earned	Losses Incurred	Investment Income Earned
2013	5,463,953	4,115,693	1,328,175	954,316	101,735
2014	5,156,522	3,975,623	1,497,749	1,378,277	119,226
2015	4,879,836	3,658,110	1,571,433	1,109,550	114,178
2016	5,214,936	4,009,142	1,598,799	850,616	92,409

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2016

Classification	2013	2014	2015	2016	Total
Premiums earned	$1,328,175	$1,497,749	$1,571,433	$1,584,253	$5,981,610
Incurred deductions:					
Losses	954,316	1,378,277	1,109,550	834,166	4,276,309
Unpaid adjustment expenses	81,933	122,652	117,690	120,852	443,127
Commissions	305,600	326,503	336,183	352,577	1,320,863
Salaries	119,290	125,438	146,253	152,089	543,070
Taxes, licenses and fees	21,503	22,810	23,887	24,603	92,803
Other underwriting expenses	137,554	121,972	128,610	113,646	501,782
Total deductions	$1,620,196	$2,097,652	$1,862,173	$1,597,933	$7,177,954
Underwriting gain (loss)	$(292,021)	$(599,903)	$(290,740)	$ (13,680)	$(1,196,344)

Expressed in ratios of expenses incurred to premiums earned, the percentages would be:

	2013	2014	2015	2016	Total
Incurred deductions:					
Losses	71.85 %	92.02 %	70.61 %	52.65 %	71.49 %
Loss adjustment expenses	6.17	8.19	7.49	7.63	7.41
Commissions	23.01	21.80	21.39	22.26	22.08
Salaries	8.98	8.38	9.31	9.60	9.08
Taxes, licenses, and fees	1.62	1.52	1.52	1.55	1.55
Other underwriting expenses	10.36	8.14	8.18	7.17	8.39
Total deductions	121.99 %	140.05 %	118.50 %	100.86 %	120.00 %
Underwriting gain (loss)	(21.99)%	(40.05)%	(18.50)%	(0.86)%	(20.00)%

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Woodley Insurance and Real Estate.

The agency paid $475 monthly rent to the Association for rent, utilities and office maintenance. Expenses for telephone, supplies and advertising are paid on an actual basis by each party.

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, 2016 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, 2016, the gross risk in force for the Association was $543,214,304. The Association’s statutory minimum surplus level at December 31, 2016 was $543,214. It is noted the Association’s surplus level to minimum surplus level ratio was 6.9/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2016 was 8.5/1.

Details of debt and equity investment securities according to their paper value, interest rates, and CUSIPS were not accurately recorded.

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, 2016 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	Not Admitted	Admitted
Bonds	$1,948,060	$ 16,689	$1,931,371
Preferred stocks	391,640		391,640
Common stocks	2,188,617	258,344	1,930,273
Real estate			
Properties occupied by the Company	61,571		61,571
Cash	582,530		582,530
Accrued interest	21,063		21,063
Unpaid premiums			
Uncollected premiums	20,077	13,983	6,094
EDP equipment	1,378		1,378
Furniture and equipment	19,010	19,010	
Foreign tax withheld	1,225	1,225	
Total	$5,235,171	$309,251	$4,925,920

LIABILITIES AND SURPLUS

Losses	$ 118,135
Unpaid adjusting expenses	11,359
Commissions payable	981
Other unpaid expenses	14,060
Taxes, Licenses and Fees	10,133
Unearned premiums	983,105
Ceded reinsurance premiums payable	17,044
Amounts withheld or retained by company for account of others	11,632
Accrued wages and vacations	9,830
Accrued profit sharing	16,006
Total liabilities	$ 1,192,285
Surplus as regards policyholders	3,733,635
Total liabilities and surplus	$ 4,925,920

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$1,584,253
Deductions		
Losses incurred	$834,166	
Loss expenses incurred	120,852	
Other operating expenses incurred	642,915	
Total underwriting deductions		1,597,933
Net underwriting gain (loss)		$ (13,680)
Investment Income		
Net investment income earned	92,409	
Net realized capital gains	54,585	
Total Investment income		$ 146,994
Other Income		
Finance and service charges not included in premiums	30,213	
Commission income	13,445	
Total other income		$ 43,658
Net income before Federal income tax		$ 176,972
Federal income tax incurred		0
Net income		$ 176,972

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	$3,658,110
Gains and (Losses) in Surplus	
Net income	$ 176,972
Change in not admitted assets	5,219
Change in net unrealized gains/losses	(106,666)
Change in surplus as regards policyholders for the year	$ 75,525
Surplus as regards policyholders, December 31, 2016	$3,733,635

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$ 5,981,610
Deductions		
Losses incurred	$4,276,309	
Loss expenses incurred	443,127	
Other operating expenses incurred	2,458,518	
Total underwriting deductions		7,177,954
Net underwriting gain (loss)		$(1,196,344)
Investment Income		
Net investment income earned	427,548	
Net realized capital gains	247,546	
Total Investment income		$ 675,094
Other Income		
Finance and service charges not included in premiums	117,837	
Commission income	41,740	
Miscellaneous income	811	
Total other income		$ 160,388
Net income before Federal income tax		$ (360,862)
Federal income tax incurred		(70,132)
Net income		$ (290,730)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	$3,885,734
Gains and (Losses) in Surplus	
Net income	$ (290,730)
Change in not admitted assets	(1,623)
Change in net unrealized gains/losses	140,254
Change in surplus as regards policyholders for the period	$ (152,099)
Surplus as regards policyholders, December 31, 2016	$3,733,635

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease are shown in the following statement of differences:

Classification	Association Annual Statement	Examination Financial Statement	Surplus Increase (Decrease)
Assets			
Bonds	$ 1,948,060	$ 1,931,371	$ (16,689)
Common stocks	2,188,617	1,930,273	(258,344)
Uncollected premiums	20,077	6,094	(13,983)
Liabilities			
Losses	134,585	118,135	16,450
Unpaid adjusting expenses	6,505	11,359	(4,854)
Ceded reinsurance premiums payable	16,481	17,044	(563)
Amounts withheld or retained by Company	14,108	11,632	2,476
Net change to surplus			$ (275,507)
Surplus per Association			$4,009,142
Surplus per examination			$3,733,635

During the period under review, surplus funds decreased $125,382 from the amount of $3,859,017 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

Bonds $ 1,931,371

The asset was decreased by $16,689 to adjust for the write down of bonds below investment grade.

Common stocks $ 1,930,273

The asset was decreased by $258,344 to non-admit stocks that are over the statutory limits of non-paying dividends and the 50% limit.

Uncollected premiums $ 6,094

The asset was decreased by $13,983 to reflect the actual amount of premiums received in 2016.

Losses $ 118,135

Losses decreased by $16,450 to reflect actual loss development.

Unpaid adjusting expenses $ 11,359

An analysis of paid adjusting expenses to paid losses increased the liability by $4,854.

Ceded reinsurance balances payable $ 17,044

The liability was increased by $563 to reflect the actual amount of ceded reinsurance balances payable at the end of 2016.

Amounts withheld or retained by Company $ 11,632

This liability was decreased by $2,476 to reflect the actual amount of liability premiums at the end of 2016.

CONCLUSION

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

Respectfully submitted,

_/s/ Abby De Zeeuw___________
Abby De Zeeuw, CPA
Cain Ellsworth & Company, LLP
Representing the State of Iowa