

EXAMINATION REPORT OF  
SVEA MUTUAL INSURANCE ASSOCIATION  
HENRY COUNTY, SWEDESBURG, IOWA  
AS OF DECEMBER 31, 2018

Swedesburg, Iowa  
October 1, 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

SVEA MUTUAL INSURANCE ASSOCIATION

HENRY COUNTY, SWEDESBURG, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 1903 140<sup>th</sup> Street, Swedesburg, Iowa. The report, containing applicable comments and financial data, is presented herein.

#### 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 1875 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 1954.

#### 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 Swedesburg, Iowa on the second Saturday in February at 10:00 a.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> |
|------------------|----------------------|---------------------|
| William McGohan  | Mt. Pleasant, Iowa   | 2019                |
| Tom McAllister   | Crawfordsville, Iowa | 2019                |
| Monte Kann       | Swedesburg, Iowa     | 2019                |
| Gary L. Anderson | Swedesburg, Iowa     | 2020                |
| Kent Baker       | Winfield, Iowa       | 2020                |
| John Wickham     | Mt. Pleasant, Iowa   | 2020                |
| Arthur Lauer     | Winfield, Iowa       | 2021                |
| Stanley Unkrich  | Winfield, Iowa       | 2021                |
| Carl Alvine      | Mt. Pleasant, 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 \$50 for each meeting attended. Remuneration of directors are shown on 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 offices as it deems necessary.

Officers serving at December 31, 2018 were:

| <u>Name</u>  | <u>Office</u>               |
|--------------|-----------------------------|
| Carl Alvine  | President                   |
| Arthur Lauer | Vice President              |
| Monte Kann   | Secretary/Treasurer/Manager |

Monte Kann is the only agent and was not paid commissions by the Association.

Salaries and remuneration of officers are reflected in Exhibit 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 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 November 22, 2016 Board meeting.

### 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 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
- General liability
- 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

The Secretary was provided health insurance for his family with premiums paid by the Association. Exhibit A at the end of this examination report shows Association contributions.

The Association's retirement benefit is known as a Simplified Employee Pension (SEP) plan. Plan contributions were made to salaried officers based on twenty-five percent of the full-time eligible employee's salary. The Board votes each year to determine the percentage contributed to the retirement plan. Contributions paid by the Association were \$10,875, \$11,375 and \$11,375 for 2016, 2017 and 2018, 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 seven counties in the State of Iowa. The permitted writing territory is composed of the following counties: Henry, Washington, Jefferson, Louisa, Des Moines, Lee, and Van Buren.

It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

Policies have premiums payable monthly, quarterly, annually, or semi-annually. The Association underwrites these policies every five years.

At the present time, business is produced by one licensed agent.

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             | \$ 215,465        | \$ 229,445         | \$ 256,855        | \$ 701,765        |
| Incurred deductions:        |                   |                    |                   |                   |
| Losses                      | 90,825            | 164,509            | 51,995            | 307,329           |
| Loss adjustment expense     | 0                 | 8,750              | 8,750             | 17,500            |
| Commissions                 | 0                 | 0                  | 0                 | 0                 |
| Salaries                    | 43,500            | 45,333             | 45,500            | 134,333           |
| Taxes, licenses and fees    | 6,988             | 8,181              | 4,308             | 19,477            |
| Other underwriting expenses | 57,214            | 50,191             | 57,472            | 164,877           |
| Total deductions            | <u>\$ 198,527</u> | <u>\$ 276,964</u>  | <u>\$ 168,025</u> | <u>\$ 643,516</u> |
| Underwriting gain or (loss) | <u>\$ 16,938</u>  | <u>\$ (47,519)</u> | <u>\$ 88,830</u>  | <u>\$ 58,249</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                      | 42.15%        | 71.70%          | 20.24%        | 43.79%        |
| Loss adjustment expense     | 0.00          | 3.81            | 3.41          | 2.49          |
| Commissions                 | 0.00          | 0.00            | 0.00          | 0.00          |
| Salaries                    | 20.19         | 19.76           | 17.71         | 19.14         |
| Taxes, licenses and fees    | 3.24          | 3.57            | 1.68          | 2.78          |
| Other underwriting expenses | 26.55         | 21.87           | 22.38         | 23.49         |
| Total deductions            | <u>92.13%</u> | <u>120.71%</u>  | <u>65.42%</u> | <u>91.69%</u> |
| Underwriting gain or (loss) | <u>7.87%</u>  | <u>(20.71%)</u> | <u>34.58%</u> | <u>8.31%</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 \$100,000 of ultimate net loss per risk is retained by 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 for each risk. 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

### Aggregate Excess of Loss

First \$200,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by 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.

### Hail on Growing Crops

One-hundred percent of each risk written.

### Facultative

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

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

The Association entered a contract on December 29, 2011 to have DMC Mutual Insurance Association conduct claims adjustment and loss control inspection services. The contract began on January 1, 2012 and automatically renews. Annual fee was \$6,695, \$8,750, and \$8,750 for 2016, 2017, and 2018, respectively, for 25 claims per year. Secretary, Monte Kann, did some claims adjusting.

## AFFILIATED AGENCY

The Association rents home office facilities from Gary Anderson and Gary Lauger. The space is shared with Meiek, LLC DBA: Gary L. Anderson Insurance Agency. The Association pays rent of \$330 per month. The Agency reimburses the Association \$165 per month. The Association and Agency split all utilities, garbage pickup, mowing, and snow removal evenly. Sharing of expenses appears reasonable.

## 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.

The Association does not have any formal written agency contract.

The Association should obtain investment bond ratings for each reporting period.

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 \$136,798,024. The Association's statutory minimum surplus level as of December 31, 2018 was \$136,798. It is noted the Association's surplus level to minimum surplus level ratio was 15.1/1. 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> | <u>Not<br/>Admitted</u> | <u>Admitted</u> |
|----------------------|---------------|------------------|-------------------------|-----------------|
| Bonds                | \$ 216,278    | \$               | \$                      | \$ 216,278      |
| Stocks               | 28,221        | 8,021            |                         | 36,242          |
| Bank balances:       |               |                  |                         |                 |
| Subject to check     | 305,347       |                  |                         | 305,347         |
| On interest          | 1,690,000     |                  |                         | 1,690,000       |
| Unpaid Premiums:     |               |                  |                         |                 |
| Due after November 1 |               | 598              |                         | 598             |
| Accrued interest     |               | 6,629            |                         | 6,629           |
|                      | <hr/>         | <hr/>            | <hr/>                   | <hr/>           |
| Total                | \$2,239,846   | \$ 15,248        | \$ 0                    | \$2,255,094     |

LIABILITIES AND SURPLUS

|   |             |
|---|-------------|
| Ceded reinsurance balances payable                    | \$ 13,734   |
| Amounts withheld for the account of others            | 1,445       |
| Taxes payable   | (292)       |
| Other unpaid expenses                                 | 1,269       |
| Premiums collected for other companies - not remitted | 770         |
| Premiums received in advance                          | 6,577       |
| Unearned premium reserve                              | 168,844     |
|   | <hr/>       |
| Total liabilities                                     | \$ 192,347  |
| Surplus as regards policyholders                      | 2,062,747   |
|   | <hr/>       |
| Total liabilities and surplus                         | \$2,255,094 |

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

|  |            |                    |
|--|------------|--------------------|
| Ledger assets, December 31, 2017                   |            | <u>\$2,160,323</u> |
| <u>INCOME</u>                                      |            |                    |
| Net premiums and fees                              |            | \$ 268,857         |
| Net interest received on bonds                     |            | 8,509              |
| Increase (decrease) by adjustment - bonds          |            | (1,513)            |
| Dividends received                                 |            | 49                 |
| Interest received on bank deposits                 |            | 23,496             |
| Other interest                                     |            | 2,034              |
| Premiums collected for other companies             |            | <u>11,464</u>      |
| Total income                                       |            | <u>\$ 312,896</u>  |
| Total assets and income                            |            | <u>\$2,473,219</u> |
| <u>DISBURSEMENTS</u>                               |            |                    |
| Losses paid  |            | \$ 106,652         |
| <u>Operating Expense</u>                           |            |                    |
| Adjusting expense                                  | \$ 8,750   |                    |
| Advertising  | 3,070      |                    |
| Boards, bureaus and associations                   | 3,761      |                    |
| Salaries of officers                               | 45,500     |                    |
| Employee welfare                                   | 25,080     |                    |
| Insurance  | 5,013      |                    |
| Directors' compensation                            | 650        |                    |
| Directors' expenses                                | 310        |                    |
| Rent and rent items                                | 3,002      |                    |
| Equipment  | 3,188      |                    |
| Printing, stationary and supplies                  | 458        |                    |
| Postage and telephone                              | 1,606      |                    |
| Legal and auditing                                 | 1,300      |                    |
| State insurance taxes                              | 5,148      |                    |
| Insurance Division licenses and fees               | 110        |                    |
| Payroll taxes                                      | 3,558      |                    |
| Donations  | 650        |                    |
| Data processing                                    | 3,694      |                    |
| Annual meeting expense                             | 1,272      |                    |
| Over and short                                     | <u>(2)</u> |                    |
| Total operating expense                            |            | \$ 116,118         |
| <u>Non-Operating Expense</u>                       |            |                    |
| Loss on sale of investments                        |            | 325                |
| Premium collections transmitted to other companies |            | 10,222             |
| Decrease in ledger liabilities                     |            | <u>56</u>          |
| Total disbursements                                |            | <u>\$ 233,373</u>  |
| Balance - ledger assets, December 31, 2018         |            | <u>\$2,239,846</u> |

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

|  |                   |
|--|-------------------|
| <u>Underwriting Income</u>                   |                   |
| Premiums earned                              | \$ 256,855        |
| <u>Deductions</u>                            |                   |
| Losses incurred                              | \$ 51,995         |
| Loss expenses incurred                       | 8,750             |
| Other operating expenses incurred            | 107,280           |
| Total underwriting deductions                | <u>168,025</u>    |
| Net underwriting gain                        | \$ 88,830         |
| <u>Investment Income</u>                     |                   |
| Net investment income earned                 | 31,080            |
| <u>Other Income</u>                          |                   |
| Premiums collected for other companies (net) | <u>1,232</u>      |
| Net income                                   | <u>\$ 121,142</u> |

CAPITAL AND SURPLUS ACCOUNT

|   |                    |
|---|--------------------|
| Surplus as regards policyholders, December 31, 2017     | <u>\$1,941,080</u> |
| <u>Gains and (Losses) in Surplus</u>                    |                    |
| Net income  | \$ 121,142         |
| Change in net unrealized gains/losses                   | <u>525</u>         |
| Change in surplus as regards policyholders for the year | <u>\$ 121,667</u>  |
| Surplus as regards policyholders, December 31, 2018     | <u>\$2,062,747</u> |

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

|  |            |                   |
|--|------------|-------------------|
| <u>Underwriting Income</u>                   |            |                   |
| Premiums earned                              |            | \$ 701,765        |
| <u>Deductions</u>                            |            |                   |
| Losses incurred                              | \$ 307,329 |                   |
| Loss expenses incurred                       | 17,500     |                   |
| Other operating expenses incurred            | 318,687    |                   |
| Total underwriting deductions                |            | <u>643,516</u>    |
| Net underwriting gain                        |            | \$ 58,249         |
| <u>Investment Income</u>                     |            |                   |
| Net investment income earned                 |            | 95,704            |
| <u>Other Income</u>                          |            |                   |
| Premiums collected for other companies (net) |            | 3,461             |
| Miscellaneous income                         |            | <u>4,642</u>      |
| Net income                                   |            | <u>\$ 162,056</u> |

CAPITAL AND SURPLUS ACCOUNT

|   |            |                    |
|---|------------|--------------------|
| Surplus as regards policyholders, December 31, 2015       |            | <u>\$1,899,814</u> |
| <u>Gains and (Losses) in Surplus</u>                      |            |                    |
| Net income  | \$ 162,056 |                    |
| Change in net unrealized gains/losses                     |            | <u>877</u>         |
| Change in surplus as regards policyholders for the period |            | <u>\$ 162,933</u>  |
| Surplus as regards policyholders, December 31, 2018       |            | <u>\$2,062,747</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<br/>Annual<br/>Statement</u> | <u>Examination<br/>Financial<br/>Statement</u> | <u>Surplus<br/>Increase<br/>(Decrease)</u> |
|---|---|--|--|
| <u>Assets</u>                           |   |  |  |
| Unpaid premiums due after<br>November 1 | \$ 303                                      | \$ 598   | \$ 295                                     |
| <u>Liabilities</u>                      |   |  |  |
| Amounts withheld for others             | 1,111                                       | 1,445  | (334)                                      |
| Taxes payable                           | 214   | (292)  | 506  |
| Unearned premium reserve                | 169,939                                     | 168,844  | <u>1,095</u>                               |
| Net change to surplus                   |   |  | \$ 1,562                                   |
| Surplus per Association                 |   |  | <u>\$2,061,185</u>                         |
| Surplus per examination                 |   |  | <u>\$2,062,747</u>                         |

During the period under review, surplus funds increased \$162,933 from the amount of \$1,899,814 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:

|   |               |
|---|---------------|
| <u>Unpaid premiums due after November 1</u> | <u>\$ 598</u> |
|---|---------------|

This asset was increased by \$295 to reflect the actual amount of premiums received in 2019 for 2018.

|   |                 |
|---|-----------------|
| <u>Amounts withheld for account of others</u> | <u>\$ 1,445</u> |
|---|-----------------|

This liability was increased by \$334 to reflect the actual amount of payroll taxes paid in 2019 for 2018.

|                      |                 |
|----------------------|-----------------|
| <u>Taxes payable</u> | <u>\$ (292)</u> |
|----------------------|-----------------|

This liability was decreased by \$506 due to the recalculation of the premium taxes payable.

|                                 |                   |
|---------------------------------|-------------------|
| <u>Unearned premium reserve</u> | <u>\$ 168,844</u> |
|---------------------------------|-------------------|

A recalculation of unearned premium reserve using examination adjustments decreased this liability by \$1,095.

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 & Co., LLP  
Representing the State of Iowa