

EXAMINATION REPORT OF
VALLEY MUTUAL INSURANCE ASSOCIATION
ATLANTIC, IOWA
AS OF DECEMBER 31, 2018

Atlantic, IA
November 26, 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

VALLEY MUTUAL INSURANCE ASSOCIATION

ATLANTIC, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 600 Walnut Street, Atlantic, 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 1889 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 1949.

Effective January 1, 2015, Valley Mutual Insurance Association of Atlantic, Iowa and Harrison Mutual Insurance Association of Logan, Iowa, merged and became Valley Mutual Insurance Association. Also effective January 1, 2015, 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 Atlantic, Iowa on the third Wednesday of February at 1:30 p.m. Special meetings may be called upon petition of twenty-five percent of the members of the Association. 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 more member 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 nine directors, each elected by a majority vote at the annual meeting of the members for terms of three years. Not more than two licensed insurance producers who are agents of the Association shall be eligible to serve as members of the Board of Directors. 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>Principal Occupation</u>	<u>Term Expires</u>
Richard Groves	Massena, Iowa	Retired Farmer	2019
Larry DeBord	Atlantic, Iowa	Farmer	2019
Tim Hamer	Missouri Valley, Iowa	Union Bank & Trust Rep.	2019
Victor Nichols	Atlantic, Iowa	Farmer, Feed Salesman	2020
Brad Pellett	Atlantic, Iowa	Farmer	2020
Eric Euken	Wiota, Iowa	Farmer	2020
Ron Juelsgaard	Exira, Iowa	Retired Factory Worker	2021
Larry Ramsey	Woodbine, Iowa	Retired Farmer	2021
Gary Wiechmann	Lewis, Iowa	Farmer	2021

The annual meeting of the Board shall be 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 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 interests of the Association.

Individuals serving on the Investment Committee at December 31, 2018 were as follows:

- Larry DeBord, Director and Vice President
- Paul Price, Secretary/Treasurer
- Tim Hamer, Director
- Ron Juelsgaard, Director

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>
Gary Wiechmann	President
Larry DeBord	Vice President
Paul Price	Secretary/Treasurer
Pam Parsons	Assistant Secretary

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors. Key employees are not required to disclose conflicts of interest.

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 reviewed and accepted at the February 15, 2017 Board meeting.

AFFILIATED AGENCY

The Association owns the Atlantic office building and occupies 50 percent of its space. The other 50 percent is occupied by Partners Insurance, Inc.

In 2015, Valley Mutual Insurance Association formed a holding company named Valley Mutual Holdings, which owns 100 percent of Partners Insurance, Inc. Valley Mutual Holdings is a wholly owned subsidiary of the Association. Upon formation of the holding company, no stock certificates were issued to the Association. These were issued and obtained on February 27, 2015.

Partners Insurance, Inc. produced approximately thirty-five percent of the Association's business in 2018. The agency received \$61,989 in commissions from the Association during 2018.

The officers and board of directors are the same for the Mutual and the Holding Company.

Partners Insurance, Inc. pays \$250 per month for rent. The Association and Partners Insurance, Inc. also share the utilities, lawn care, snow removal and office cleaning expenses 50-50.

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:

- Professional liability
- Directors' and officers' liability
- Workers' compensation and employers' liability
- Employment practices liability
- Business and personal property
- Business liability
- Cyber liability and data breach response

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

EMPLOYEES' WELFARE

Effective January 1, 2015, the Association employees were eligible to participate in the Partners Insurance Agency 401(k) plan, as part of the controlled group. The Association matched up to 7% of eligible full-time employees' compensation to the 401(k) plan. Total contributions of \$2,812 in 2016, \$2,881 in 2017, and \$3,963 in 2018 were paid by the Association.

During the February 19, 1997 Board of Directors meeting, a motion was passed to adopt an employee profit sharing plan. The plan is based on the total of net underwriting profit (loss) plus fifty percent of the net investment income (loss) for the year. The employee profit sharing plan is a continuous plan reviewed annually by the Board. The Association made a total contribution of \$16,669 in 2017 for the year ended December 31, 2016 and \$10,287 in 2019 for the year ended December 31, 2018 to employees.

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 \$125,000 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. 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 \$400,000 of ultimate net loss per catastrophe, which is any period of 96 consecutive hours arising out of and directly occasioned by the same event, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

Aggregate Excess of Loss

First \$850,000 of ultimate net loss in aggregate, net of all other insurance 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, 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.

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 currently authorized to be written in the following counties: Adair, Adams, Audubon, Carroll, Cass, Crawford, Greene, Guthrie, Harrison, Mills, Monona, Montgomery, Pottawattamie, and Shelby. 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 thirty-one licensed and approved agents.

Policies are renewed for a one-year period with premiums payable quarterly, semi-annually or annually. The Association underwrites these policies every three years.

POLICY FORMS AND UNDERWRITING PRACTICES

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

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

Adjustment of claims is handled through the FarMutual Adjusting Program (Mutual Claims Services).

Numerous claim files were reviewed to determine adequacy of loss reserves and the treatment of policyholders. From the claims reviewed, it appeared that the Association made prompt and equitable settlements which were in keeping with the terms of the contracts.

COMPLAINT REGISTER

The Association had no complaints during the examination period.

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>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2016	4,175,857	3,455,409	1,021,095	266,510	80,477
2017	3,948,281	3,276,361	938,712	845,772	77,938
2018	4,308,987	3,430,099	954,214	424,346	78,162

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>\$1,024,977</u>	<u>\$ 938,712</u>	<u>\$ 953,407</u>	<u>\$2,917,096</u>
Incurred deductions:				
Losses	266,510	845,772	433,283	1,545,565
Loss expenses incurred	62,170	86,191	62,752	211,113
Commission and brokerage	147,407	157,221	173,652	478,280
Salaries	108,542	97,095	112,351	317,988
Taxes, licenses and fees	14,154	24,196	16,095	54,447
Other underwriting expenses	31,059	34,452	42,006	107,517
Total underwriting deductions	<u>\$ 629,844</u>	<u>\$1,244,927</u>	<u>\$ 840,139</u>	<u>\$2,714,910</u>
Net underwriting gain (loss)	<u>\$ 395,133</u>	<u>\$ (306,215)</u>	<u>\$ 113,268</u>	<u>\$ 202,186</u>

Expressed in ratios of incurred deductions to premiums earned, the ratios are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Incurred deductions:				
Losses	26.0%	90.1%	45.4%	53.0%
Loss expenses incurred	6.1	9.2	6.6	7.2
Commission and brokerage	14.4	16.7	18.2	16.4
Salaries	10.6	10.3	11.8	10.9
Taxes, licenses and fees	1.4	2.6	1.7	1.9
Other underwriting expenses	3.0	3.7	4.4	3.7
Total underwriting deductions	<u>61.5%</u>	<u>132.6%</u>	<u>88.1%</u>	<u>93.1%</u>
Net underwriting gain (loss)	<u>38.5%</u>	<u>(32.6%)</u>	<u>11.9%</u>	<u>6.9%</u>

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.

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 \$312,884,421. The Association's statutory minimum surplus level as of December 31, 2018 was \$312,885. It is noted the Association's surplus level to minimum surplus level ratio was 10.9/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2018 was 7.9/1.

Investment assets and transactions do not appear to be properly reported in the Association's filed annual statement. It is suggested that greater care be taken to report correct maturity dates, trade date, interest rates, and classifications.

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 on 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>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$2,797,154	\$ 1,258	\$2,795,896
Common stocks	699,844		699,844
Real estate	33,264		33,264
Cash and short-term investments	632,537		632,537
Investment income due and accrued	23,209		23,209
Premiums and considerations:			
Uncollected premiums	7,685	106	7,579
Deferred premiums	113,971	701	113,270
Amounts recoverable from reinsurers	2,581		2,581
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Total	\$4,310,245	\$ 2,065	\$4,308,180

LIABILITIES AND SURPLUS

Losses	\$ 170,818
Loss adjustment expenses	3,123
Commissions payable	26,071
Other expenses	1,621
Taxes, licenses and fees	4,830
Current federal and foreign income taxes	9,500
Unearned premiums	607,760
Advance premium	12,131
Ceded reinsurance premiums payable	31,072
Amounts withheld or retained by company for account of others	7,317
Suspense	1,090
Profit share payable	10,287
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Total liabilities	\$ 885,620
Surplus as regards policyholders	3,422,560
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Total liabilities and surplus	\$4,308,180

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 953,407
<u>Deductions</u>		
Losses incurred	\$ 433,283	
Loss expenses incurred	62,752	
Other underwriting expenses	344,104	
Total underwriting deductions	<u>840,139</u>	
Net underwriting gain		\$ 113,268
<u>Investment Income</u>		
Net investment income earned	78,162	
Net realized gains	42,670	
Net investment gain	<u>120,832</u>	
<u>Other Income</u>		
Finance and service charges not included in premiums	30,904	
Other income		<u>\$ 30,904</u>
Net income before Federal income tax		\$ 265,004
Federal income tax incurred		<u>13,475</u>
Net income		<u>\$ 251,529</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$3,276,361</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 251,529
Change in net unrealized gains/losses		(111,970)
Change in net admitted assets		<u>6,640</u>
Change in surplus as regards policyholders for the year		<u>\$ 146,199</u>
Surplus as regards policyholders, December 31, 2018		<u>\$3,422,560</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$2,917,096
<u>Deductions</u>		
Losses incurred	\$1,545,565	
Loss expenses incurred	211,113	
Other underwriting expenses	958,232	
Total underwriting deductions	<u>2,714,910</u>	
Net underwriting gain		\$ 202,186
<u>Investment Income</u>		
Net investment income earned	237,405	
Net realized gains	64,825	
Net investment gain	<u>302,230</u>	
<u>Other Income</u>		
Finance and service charges not included in premiums	95,209	
Other income		<u>\$ 95,209</u>
Net income before Federal income tax		\$ 599,625
Federal income tax incurred		<u>176,619</u>
Net income		<u>\$ 423,006</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$3,067,880</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 423,006
Change in net unrealized gains/losses		(98,318)
Change in net admitted assets		<u>29,992</u>
Change in surplus as regards policyholders for the period		<u>\$ 354,680</u>
Surplus as regards policyholders, December 31, 2018		<u>\$3,422,560</u>

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>			
Uncollected premiums	\$ 7,685	\$ 7,579	\$ (106)
Deferred premiums	113,971	113,270	(701)
<u>Liabilities</u>			
Losses	161,881	170,818	(8,937)
Loss adjustment expenses	6,587	3,123	3,464
Taxes, licenses and fees	3,571	4,830	(1,259)
Net change to surplus			\$ (7,539)
Surplus per Association			<u>\$ 3,430,099</u>
Surplus per examination			<u>\$ 3,422,560</u>

During the period under review, surplus funds increased \$354,680 from the amount of \$3,067,880 as shown in the last previous examination report. An operating statement reflecting the increase is shown in the financial section.

COMMENTS

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

<u>Uncollected premiums</u>	<u>\$ 7,579</u>
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This asset was decreased by \$106 to reflect the actual amount of premiums received in 2019.

<u>Deferred premiums</u>	<u>\$ 113,270</u>
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This asset was decreased by \$701 to reflect the actual amount of premiums received in 2019.

<u>Losses</u>	<u>\$ 170,818</u>
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Losses increased by \$8,937 to reflect actual loss development.

<u>Loss adjustment expenses</u>	<u>\$ 3,123</u>
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This liability was decreased by \$3,464 to reflect the actual amount paid in 2019.

<u>Taxes, licenses and fees</u>	<u>\$ 4,830</u>
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This liability was increased by \$1,259 due to an adjustment to payroll taxes.

CONCLUSION

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

Respectfully submitted,

 /s/ Andria Baker
Andria Baker, CPA
Cain Ellsworth & Company, LLP
Representing the State of Iowa