

EXAMINATION REPORT OF  
DANISH MUTUAL INSURANCE ASSOCIATION  
SHELBY COUNTY, ELK HORN, IOWA  
AS OF DECEMBER 31, 2018

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

Elk Horn, Iowa  
October 2, 2019

Commissioner Ommen:

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

DANISH MUTUAL INSURANCE ASSOCIATION

SHELBY COUNTY, ELK HORN, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 4138 Main Street, Elk Horn, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Danish Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2015. The examination reported 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 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 1886 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 1966.

Effective July 1, 2012, the Association amended its Articles of Incorporation to become a state mutual insurance association under Chapter 518A, Code of Iowa. At the same time, the Association merged with South Central Mutual Insurance Association (SCMIA) of Chariton, Iowa through an assumption and reinsurance agreement. The Association was the survivor of this transaction.

The Association merged with Ringgold Mutual Insurance Association, Mount Ayr, Iowa through an assumption and reinsurance agreement effective July 8, 2013. The Association was the survivor of this transaction.

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 in Elk Horn, Iowa on the third Friday in February at 1:30 p.m. Special meetings may be called by the President upon request of the majority of the members of the Board of Directors or upon written request of one-half the members 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. The number of Directors fixed by Resolution of the Board of Directors, plus one, constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five (5) nor more than fifteen (15) directors, each elected by a majority vote at the annual meeting of the members for terms of three years. No member shall be eligible for election as a director upon attaining the age of 75. 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>
Duane Christofferson	Exira, Iowa	2019
Bruce Hoegh	Exira, Iowa	2019
Mark Smith	Elk Horn, Iowa	2019
Lanny Olson	Exira, Iowa	2020
Kenneth Vorm	Kimballton, Iowa	2020
Greg Zellmer	Atlantic, Iowa	2020
Tim Fredericksen	Elk Horn, Iowa	2021
Dwayne Bornholdt	Atlantic, Iowa	2021
Bryan Greve	Walnut, 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 President or Chairman of the Board. 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 of directors are shown in Exhibit A following this report.

OFFICERS

At its regular annual meeting, the Board of Directors shall elect for a term of one year, a Chairman, a Vice Chairman, a President, one or more Vice Presidents, a Secretary and a Treasurer and may elect such additional officers as it deems necessary. Any such offices may be combined, except that of President and Secretary.

Officers serving at December 31, 2018 were:

<u>Name</u>	<u>Office</u>
Duane Christofferson	Board Chairman
Kenneth Vorm	Vice-Chairman
Tim Fredericksen	Board Secretary
Tom Cannon	President/Treasurer
Terry Petersen	Vice-President

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.

### 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 read and approved at the April 24, 2017 Board meeting. A quorum was not evident in two of the membership meetings.

### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative. It was noted that the coverage exceeds the \$75,000 National Association of Insurance Commissioners suggested amount of fidelity insurance for the Association.

Policies for other coverages are as follows:

- General liability
- Workers' compensation and employers' liability
- Buildings and personal property
- Equipment breakdown
- Commercial umbrella
- Professional liability
- Officers' and directors' liability
- General liability
- Employment practices 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 ninety percent of the premiums paid by the Association. The remaining ten percent is paid by the employee.

Full-time eligible employees are also provided life, long-term disability, accidental death and dismemberment and dental insurance on a non-contributory basis. A vision insurance plan is also offered with employee paying the premiums. Employee monthly membership fees to a local fitness center are paid by the Association.

A simple IRA plan is offered to qualifying employees of the Association. The Association will match 100 percent of employee's contribution up to a maximum of 3 percent of gross wages. Association contributed the following amounts to employee retirement accounts: \$11,785, \$9,626 and \$12,000 for 2016, 2017 and 2018, respectively.

There is also a profit-sharing plan available in the years that the Association shows an underwriting profit. The Association paid the following profit-sharing amounts: \$11,200, \$11,785, and \$12,000 for 2016, 2017, and 2018, respectively.

#### 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 \$200,000 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 \$800,000. 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

##### Property Catastrophe Excess of Loss

The first \$750,000 ultimate net loss incurred per loss occurrence is retained by Association. Loss occurrence is the sum of all individual losses or series of losses related to one event. One-hundred 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 \$2,200,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. One-hundred percent 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, no risks identified which warranted facultative coverage.

##### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

#### MARKET CONDUCT

##### TERRITORY AND PLAN OF OPERATION

As of the beginning of this examination period, Association was authorized to transact business in the following 23 counties: Adair, Adams, Appanoose, Audubon, Carroll, Cass, Clarke, Crawford, Decatur, Harrison, Lucas, Madison, Marion, Monroe, Montgomery, Mills, Pottawattamie, Ringgold, Shelby, Taylor, Union, Warren and Wayne. As of August 11, 2017, Association added the following four counties for authorized territory: Dallas, Greene, Guthrie and Monona counties.

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

As of the exam date, business is produced by 150 licensed agents in 29 agencies. Farm and mobile home policies are underwritten every three and home policies every five years.

#### ADVERTISING

The Association's advertising material was reviewed during the examination period and found to be in compliance with statutes and regulations.

#### POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm, homeowners, rental and mobile home classes in insurance covering fire, allied lines, inland marine, service line.

Policy and endorsement forms have been filed and approved. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

#### 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

The Association contracts with a third party vendor to adjust property claims through a fixed fee contract up to a set limit of claims. Claims in excess of this limit are to be billed on a fixed fee per claim basis.

Numerous claims files were reviewed, including closed by payment, and closed without payment to determine adequacy of loss reserves and the treatment of policyholders. 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.

#### COMPLAINT REGISTER

The Association maintains a complaint file as promulgated by rules set forth in Chapter 15, Iowa Insurance Regulations. The Association had one complaint received during the examination period resolved timely and in keeping with the Iowa laws and regulations.

#### CREDIT SCORES

Credit scoring is used for rating purposes.

GROWTH OF THE ASSOCIATION

The following historical data, taken from office copies of filed annual statements for the years indicated, reflects the growth of the Association:

<u>YEAR</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Net Investment Income Earned</u>
2016	\$7,227,626	\$4,919,719	\$2,631,349	\$1,245,527	\$169,792
2017	7,655,995	5,386,999	2,730,812	1,482,623	129,856
2018	7,709,138	5,404,133	2,894,841	1,589,624	121,187

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's filed 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	\$2,630,833	\$2,730,812	\$2,894,841	\$8,256,486
<u>Incurred Deductions</u>				
Losses	\$1,172,428	\$1,482,623	\$1,593,155	\$4,248,206
Loss adjustment expenses	156,783	154,019	144,758	455,560
Commissions	469,532	486,234	515,323	1,471,089
Salaries	351,130	363,316	361,668	1,076,114
Taxes, licenses and fees	38,610	43,499	42,184	124,293
Other underwriting expenses	<u>207,889</u>	<u>189,017</u>	<u>211,789</u>	<u>608,695</u>
Total deductions	\$2,396,372	\$2,718,708	\$2,868,877	\$7,983,957
Net underwriting gain (loss)	\$ 234,461	\$ 12,104	\$ 25,964	\$ 272,529

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

<u>Incurred Deductions</u>				
Losses	44.6%	54.3%	55.0%	51.5%
Loss adjustment expenses	6.0	5.6	5.0	5.5
Commissions	17.8	17.8	17.8	17.8
Salaries	13.3	13.3	12.5	13.0
Taxes, licenses and fees	1.5	1.7	1.5	1.5
Other underwriting expenses	<u>7.9</u>	<u>6.9</u>	<u>7.3</u>	<u>7.4</u>
Total deductions	<u>91.1%</u>	<u>99.6%</u>	<u>99.1%</u>	<u>96.7%</u>
Net underwriting gain (loss)	<u>8.9%</u>	<u>0.4%</u>	<u>0.9%</u>	<u>3.3%</u>

#### AFFILIATED AGENCY

The Association owns its Home Office building and shares 14 percent of the space with Insurance Services, Inc. (Agency). The Agency is 100 percent owned by the Association and pays \$100 monthly rent to the Association. The Agency pays its own telephone bills and salaries and reimburses the Association for its share of health insurance costs for Agency employees. The Agency produced 11 percent of the Association's business in 2018.

The Agency acquired Kastens Insurance Agency for \$60,000 on September 1, 2017, which was partially financed by a capital distribution from the Association of \$50,000. This acquired agency is 100 percent owned by the Association.

#### 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 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 \$1,152,794,853. The Association's statutory minimum surplus level as December 31, 2018 was \$1,152,795. The Association's surplus level to minimum surplus level ratio was 4.6/1. The reported surplus/statutory minimum ratio average for the Chapter 518A 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>Assets</u>	<u>Not Admitted</u>	<u>Net Admitted</u>
Bonds	\$4,015,218	\$	\$4,015,218
Common stocks	2,439,331	27,359	2,411,972
Real estate properties occupied	40,930		40,930
Cash	740,620		740,620
Investment income due and accrued	37,276		37,276
Uncollected premiums	84,752	(22)	84,774
Deferred premiums	378,220		378,220
Furniture and equipment	<u>788</u>	<u>788</u>	<u></u>
Total Assets	<u>\$7,737,135</u>	<u>\$ 28,125</u>	<u>\$7,709,010</u>

LIABILITIES AND SURPLUS

Losses		\$ 196,480
Loss adjusting expenses		19,719
Commissions payable and contingent commissions		125,288
Other expenses		13,347
Taxes, licenses and fees		5,540
Federal income taxes		31,000
Unearned premiums		1,850,584
Advance premiums		66,819
Ceded reinsurance premiums payable		95,775
Amounts withheld for others		<u>18,509</u>
Total liabilities		<u>\$2,423,061</u>
Surplus as regards policyholders		<u>\$5,285,949</u>
Total Liabilities and Surplus		<u>\$7,709,010</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FOR THE ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$2,894,841
 <u>Incurred Deductions</u>	
Losses incurred	\$1,593,155
Loss expenses incurred	144,758
Other underwriting expenses incurred	<u>1,130,964</u>
Total underwriting deductions	<u>2,868,877</u>
Net underwriting gain (loss)	\$ 25,964
 <u>Investment Income</u>	
Net investment income earned	121,187
Net realized capital gain (loss)	(1,813)
 <u>Other Income</u>	
Net premiums written for others	17,323
Miscellaneous income	<u>188</u>
Net income before federal income taxes	\$ 162,849
Federal income taxes	<u>82,593</u>
Net income	<u>\$ 80,256</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	<u>\$5,387,001</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 80,256
Net unrealized capital gains (losses)	(144,991)
Change in non-admitted assets	<u>(21,792)</u>
Change in surplus as regards policyholders	<u>\$ (86,527)</u>
Surplus as regards policyholders, December 31, 2018	<u>\$5,300,474</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$8,257,518
 <u>Incurred Deductions</u>		
Losses incurred	\$4,394,404	
Loss expenses incurred	455,560	
Other operating expenses	<u>3,263,239</u>	
Total underwriting deductions		<u>8,113,203</u>
Net underwriting gain (loss)		\$ 144,315
 <u>Investment Income</u>		
Net investment income earned		420,835
Net realized capital gain (loss)		379,791
 <u>Other Income</u>		
Agents' or premium balances charged off		17,323
Net premiums collected for others		32,142
Miscellaneous income		<u>11,403</u>
Net income before federal income taxes		<u>\$1,005,809</u>
Federal income taxes		<u>180,543</u>
Net income		<u>\$ 825,266</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$4,560,087</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 825,266
Net unrealized capital gains (losses)		(62,150)
Change in non-admitted assets		<u>(22,729)</u>
Change in surplus as regards policyholders		<u>\$ 740,387</u>
Surplus as regards policyholders, December 31, 2018		<u>\$5,300,474</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$2,941,491
Net investment income	141,951
Miscellaneous income	<u>17,512</u>
Total	<u>\$3,100,954</u>

Benefit and loss related payments	\$1,536,822
Commissions, expenses paid and aggregate write-ins	1,275,328
Federal income taxes paid (recovered) net	<u>56,593</u>
Total	<u>\$2,868,743</u>

Net cash from operations	<u>\$ 232,211</u>
--------------------------	-------------------

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 325,352
Stocks	<u>820,133</u>
Total investment proceeds	<u>\$1,145,485</u>

Cost of investments acquired (long-term) only	
Bonds	\$ 425,072
Stocks	854,327
Total investments acquired	<u>\$1,279,399</u>

Net cash from investments	<u>\$ (133,914)</u>
---------------------------	---------------------

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ 250,869
Net cash from financing	<u>\$ 250,869</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 349,166
Cash and short-term investments:	
Beginning of year	<u>\$ 391,454</u>
End of year	<u>\$ 740,620</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>			
Common stock	\$2,412,100	\$2,411,972	\$ (128)
<u>Liabilities</u>			
Losses	188,156	196,480	(8,324)
Amounts retained for others	<u>23,302</u>	<u>18,509</u>	<u>4,793</u>
Net increase in surplus			<u>\$ (3,659)</u>
Surplus per Association			<u>\$5,304,133</u>
Surplus per examination			<u>\$5,300,474</u>

During the period under review, surplus funds increased \$725,862 from the amount of \$4,560,087 as shown in the last previous examination report.

COMMENTS

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

Common stock \$2,411,972

This asset was decreased by \$128 to account for difference of actual Association's subsidiary agency valuation and to properly report the valuation of a stock.

Losses \$ 196,480

This liability was increased \$8,324 to reflect current loss development on losses incurred prior to 2019.

Amounts retained by company for others \$ \_ 18,509

This liability was decreased \$4,793 to reflect the actual amounts retained by Association that are due other entities.

CONCLUSION

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

Respectfully submitted,

\_/s/ Jerry P. Cihota  
Jerry P. Cihota, CPA, CFE  
Examiner Specialist  
Iowa Insurance Division