

EXAMINATION REPORT OF
WINNESHIEK MUTUAL INSURANCE ASSOCIATION
WINNESHIEK COUNTY, DECORAH, IOWA
AS OF DECEMBER 31, 2018

Decorah, Iowa
November 8, 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

WINNESHIEK MUTUAL INSURANCE ASSOCIATION

WINNESHIEK COUNTY, DECORAH, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 703 Short Street, Decorah, Iowa. The report, containing applicable comments and financial data, is presented herein.

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 of Iowa. 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 1877 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 1953.

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 Decorah, Iowa on the second 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 to 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 not less than five nor more than seven 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>
Raymond Whalen	New Albin, Iowa	2019
Dustin Hager	Waukon, Iowa	2020
Andrew Ludeking	Decorah, Iowa	2021
Mark Reis	Lime Springs, Iowa	2021
Wayne Wicks	Decorah, 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 \$100 per meeting attended and reimbursement of travel expense.

The Executive Committee consists of the President, Vice President, and Secretary who receive a \$30 fee for each meeting attended and reimbursement of travel expenses. No executive committee meetings were held during this examination period.

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 the Treasurer and such additional officers as it deems necessary.

Officers serving at December 31, 2018 were:

<u>Name</u>	<u>Office</u>
Mark Reis	President
Wayne Wicks	Vice President
Philip T. Norton	Secretary/Manager
Andrew Ludeking	Treasurer

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 and key employees. Greater care should be taken to ensure all proper interests and affiliations are disclosed.

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 were silent as to the discussion and approval of the Examination Report as of December 31, 2015.

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
- Building and contents
- General liability
- Officers' and directors' 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

Eligible employees are provided a fixed amount each month for a health insurance reimbursement. The Association pays \$400 a month to full-time employees and \$325 a month to part-time employees.

A Simple Individual Retirement Account (IRA) fund is provided to eligible employees. The Association matches up to three percent of the employee's gross salary or wage to the employee selected retirement fund. Total contributions paid to the Simple IRA were \$4,749, \$4,983 and \$5,137 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 six counties: Winneshiek, Allamakee, Clayton, Howard, Fayette, and Chickasaw 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 three-year period with premiums payable monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by thirty-two 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>\$1,060,015</u>	<u>\$1,031,187</u>	<u>\$1,005,325</u>	<u>\$3,096,527</u>
Incurred deductions:				
Losses	\$ 762,705	\$ 882,235	\$ 669,997	\$2,314,937
Loss adjustment expenses	32,433	60,981	33,400	126,814
Commissions	197,852	181,308	180,150	559,310
Salaries	170,766	167,685	169,550	508,001
Taxes, Licenses and fees	31,156	31,790	31,461	94,407
Other underwriting expenses	<u>35,837</u>	<u>56,405</u>	<u>97,517</u>	<u>189,759</u>
Total deductions	<u>\$1,230,749</u>	<u>\$1,380,404</u>	<u>\$1,182,075</u>	<u>\$3,793,228</u>
Underwriting gain or (loss)	<u>\$ (170,734)</u>	<u>\$ (349,217)</u>	<u>\$ (176,750)</u>	<u>\$ (696,701)</u>

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

<u>Classification</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Incurred deductions:				
Losses	71.95 %	85.56 %	66.64 %	74.76 %
Loss adjustment expenses	3.06	5.91	3.32	4.10
Commissions	18.67	17.58	17.92	18.06
Salaries	16.11	16.26	16.87	16.41
Taxes, Licenses and fees	2.94	3.08	3.13	3.05
Other underwriting expenses	<u>3.38</u>	<u>5.48</u>	<u>9.70</u>	<u>6.12</u>
Total deductions	<u>116.11 %</u>	<u>133.87 %</u>	<u>117.58 %</u>	<u>122.50 %</u>
Underwriting gain or (loss)	<u>(16.11)%</u>	<u>(33.87)%</u>	<u>(17.58)%</u>	<u>(22.50)%</u>

REINSURANCE

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

Per Risk Excess of Loss

First \$175,000 of ultimate net loss per risk is retained by the 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Catastrophe Excess of Loss

First \$500,000 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 \$795,000 of ultimate net loss in aggregate, net of all other insurance 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. 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.

CLAIMS

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

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Winneshiek Mutual Agency, Inc.

The agency is 100 percent owned by the Association. This agency produced 23.9% percent of the Association's business during 2018.

The agency paid \$2,500 monthly expense reimbursement to the Association, which includes rent and other relevant expenses and \$20,000 in annual management fees.

The agency declared a dividend of \$39,059 in 2016, \$29,932 in 2017 and \$30,169 in 2018 to go to the Association.

Discussion of the expense allocation between the agency and Association was not documented in the Association's minutes.

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 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 \$425,110,797. The Association's statutory minimum surplus level as of December 31, 2018 was \$425,111. It is noted the Association's surplus level to minimum surplus level ratio was 2.5/1. 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 Admitted</u>	<u>Admitted</u>
Stocks	\$ 234,683	\$ 18,042	\$ 76,000	\$ 176,725
Bank balances				
Subject to check	30,318			30,318
On interest	2,012,897		350,979	1,661,918
Real estate	41,599			41,599
Cash in office	75			75
Unpaid premiums:				
Due after November 1		6,795		6,795
Reinsurance receivable on paid loss		3,528		3,528
Accrued interest		1,541		1,541
Equipment and furniture	1,444		1,444	
Supplies		500	500	
Dividends declared but unpaid		30,169		30,169
Premium tax credit receivable		189	189	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$2,321,016	\$ 60,764	\$ 429,112	\$1,952,668

LIABILITIES AND SURPLUS

Losses	\$ 98,213
Unpaid adjusting expenses	2,938
Ceded reinsurance balances payable	62,095
Unpaid salaries and commissions	23,857
Amounts withheld for the account of others	5,465
Taxes payable	3,274
Other unpaid expenses	6,978
Employee benefits payable	5,566
Premiums collected for other companies - not remitted	8,437
Premiums received in advance	20,513
Unearned premium reserve	667,553
	<u> </u>
Total liabilities	\$ 904,889
Surplus as regards policyholders	1,047,779
	<u> </u>
Total liabilities and surplus	\$ 1,952,668

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		\$2,211,384
	<u>INCOME</u>	
Net premiums and fees		\$ 997,351
Dividends received		34,848
Interest received on bank deposits		26,630
Profit on sale of investments		16,608
Rents received		6,000
Premiums collected for other companies		136,291
Total income		<u>\$1,217,728</u>
Total assets and income		<u>\$3,429,112</u>

	<u>DISBURSEMENTS</u>	
Losses paid		\$ 460,636
<u>Operating Expense</u>		
Loss adjusting expense	\$ 38,180	
Commissions	183,345	
Advertising	7,323	
Boards, bureaus and associations	9,802	
Inspection and loss prevention	19,113	
Salaries of officers	96,799	
Expenses of officers	121	
Salaries of office employees	72,751	
Employee welfare	17,575	
Insurance	8,340	
Directors' compensation	3,482	
Rent and rent items	6,000	
Equipment	16,312	
Printing, stationery and supplies	2,724	
Postage and telephone	7,697	
Legal and auditing	3,639	
State insurance taxes	17,389	
Insurance Division licenses and fees	297	
Payroll taxes	13,986	
Real estate expenses	5,365	
Real estate taxes	3,022	
Miscellaneous	131	
Agent meetings and expense	852	
Annual meeting expense	1,352	
Management fee	<u>(20,000)</u>	
Total operating expense		\$ 515,597

<u>Non-Operating Expense</u>		
Depreciation on real estate		3,680
Premiums collections transmitted on other companies		104,234
Commissions paid agents for other companies		20,441
Decrease in ledger liabilities		3,280
Charitable contributions		228
Total disbursements		<u>\$1,108,096</u>
Balance - ledger assets, December 31, 2018		<u>\$2,321,016</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$1,005,325
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$ 669,997	
Loss expenses incurred	33,400	
Other operating expenses incurred	478,678	
Total underwriting deductions	<u>1,182,075</u>	
Net underwriting gain (loss)		\$ (176,750)
<u>Investment Income</u>		
Net investment income earned		72,390
<u>Other income</u>		
Premiums collected for other companies		<u>10,882</u>
Net loss before Federal income tax		\$ (93,478)
Federal income tax incurred		<u>0</u>
Net loss		<u>\$ (93,478)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$1,523,635</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (93,478)
Change in not admitted assets		(349,773)
Change in unrealized gains/losses		<u>(32,605)</u>
Change in surplus as regards policyholders for the year		<u>\$ (475,856)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$1,047,779</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,096,527
<u>Deductions</u>		
Losses incurred	\$2,314,937	
Loss expenses incurred	126,814	
Other operating expenses incurred	1,351,477	
Total underwriting deductions	<u>3,793,228</u>	
Net underwriting gain (loss)		\$ (696,701)
<u>Investment Income</u>		
Net investment income earned		190,610
<u>Other Income</u>		
Premiums collected for other companies		<u>18,308</u>
Net loss before Federal income tax		\$ (487,783)
Federal income tax incurred		<u>0</u>
Net loss		<u>\$ (487,783)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$1,887,089</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (487,783)
Change in not admitted assets		(347,360)
Change in net unrealized gains/losses		<u>(4,167)</u>
Change in surplus as regards policyholders for the exam period		<u>\$ (839,310)</u>
Surplus as regards policyholders, December 31, 2018		<u>\$1,047,779</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>			
Bank balances on interest	\$2,012,897	\$1,661,918	\$ (350,979)
Unpaid premiums	7,400	6,795	(605)
<u>Liabilities</u>			
Losses	104,186	98,213	5,973
Unpaid adjusting expenses	5,787	2,938	2,849
Unpaid salaries and commissions	23,003	23,857	(854)
Amounts withheld for the account of others	6,522	5,465	1,057
Employee benefits payable		5,566	<u>(5,566)</u>
Net change to surplus			\$ (348,125)
Surplus per Association			<u>1,395,904</u>
Surplus per examination			<u>\$1,047,779</u>

During the period under review, surplus funds decreased \$839,310 from the amount of \$1,887,089 as shown in the 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:

Bank balances on interest \$1,661,918

The asset was decreased by \$350,979 to non-admit an investment in violation of code section 518.14.4.f.(2) at year end 2018.

Unpaid premiums \$ 6,795

The asset was decreased by \$605 to reflect the actual amount of premiums received in 2019.

Losses \$ 98,213

Losses was decreased by \$5,973 to reflect actual loss development.

Unpaid adjusting expense \$ 2,938

The liability was decreased by \$2,849 to reflect the actual amount paid in 2019.

Unpaid salaries and commissions \$ 23,857

The liability was increased by \$854 to reflect the actual commissions paid on premiums receivable.

Amounts withheld for the account of others \$ 5,465

The liability was decreased by \$1,057 to reflect the actual amount of payroll taxes paid in 2019 for 2018.

Employee benefits payable \$ 5,566

The liability was established to reflect unused vacation and sick pay carried over into 2019.

CONCLUSION

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

Respectfully submitted,

 /s/ Abby Kramer
ABBY KRAMER
Cain Ellsworth & Company, LLP
Representing the State of Iowa