

EXAMINATION REPORT OF  
FARMERS MUTUAL INSURANCE ASSOCIATION  
FAYETTE COUNTY, FAYETTE, IOWA  
AS OF DECEMBER 31, 2016

Fayette, Iowa  
October 27, 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

FARMERS MUTUAL INSURANCE ASSOCIATION

FAYETTE COUNTY, FAYETTE, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 135 South Main Street, Fayette, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2013 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.

HISTORY

The Association was incorporated in 1874 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 1948.

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 shall be held in Fayette, Iowa on the second Tuesday in February at 1:00 p.m. each year. Special meetings may be called by the President upon request of the majority of the members of the Board of Directors and shall be called upon petition of one-fourth of the members of the Association as provided in the Articles of Incorporation. Due written notice of the time and place ten days prior to the special meetings shall be given the membership. Each member present shall be entitled to one vote on any question to be decided. Voting by proxy is not permitted. A quorum shall be one more member present than the number of directors stated in the Bylaws.

BOARD OF DIRECTORS

The corporate powers of the Association shall be vested in a Board of not less than five nor more than fifteen 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 the remaining directors. Directors must be members of the Association and maintain membership status while they serve as Directors.

Directors serving at December 31, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Leanne Cline	Elgin, Iowa	2017
Brett Ingersoll	Oelwein, Iowa	2017
Loras P. Manternach	Masonville, Iowa	2017
Marilyn S. Bennett	Oelwein, Iowa	2018
Ann Langerman	Fayette, Iowa	2018
Eugene Nuss	Hawkeye, Iowa	2018
Ronald Buchkofsky	Independence, Iowa	2019
James M. Michels	Stanley, Iowa	2019

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 \$125 for each meeting attended and reimbursement of travel expense.

All salaries and remunerations of directors are shown on Schedule A following this report.

#### OFFICERS

At its annual meeting, the Board of Directors shall elect 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:

<u>Name</u>	<u>Office</u>
Brett Ingersoll	President
Eugene Nuss	Vice President
Ann Langerman	Secretary/Treasurer/Manager

Marilyn Bennett retired as Secretary/Treasurer/Manager effective April 30, 2016.

The salaries of the officers are shown in Schedule A immediately 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, 2013 was reviewed and approved at the November 20, 2014 Board meeting.

#### 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 a three year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Business property and business personal property
- Commercial liability umbrella
- Cyber liability and data breach
- Business 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

Regular full-time eligible employees are provided health, long term disability, life and accidental death and dismemberment insurance benefits on a non-contributory basis for a single plan.

The Association will reimburse seventy percent of the dental fees incurred by an eligible employee per year.

Each year an eligible employee is provided an allowance of \$500 which may be utilized for other health coverage, deductible or any other appropriate need at the employee's discretion. Any remaining balance at year-end will be added to the employee's salary net of appropriate taxes.

Retirement benefit contributions were made to a Simplified Employment Pension Plan based on seven and one-half percent of the full-time eligible employee's salary. Contributions were paid by the Association of \$11,649, \$11,817 and \$9,251 for 2014, 2015 and 2016, respectively.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Fayette, Clayton, Winneshiek, Bremer, Delaware, Buchanan, Allamakee, Black Hawk, 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 an annual basis with premiums payable annually, semi-annually, quarterly or monthly via electronic transfer of funds. The Association underwrites these policies every three years.

At the present time, business is produced by 53 licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Premiums earned	\$ 825,263	\$ 874,017	\$ 983,438	\$2,682,718
Incurred deductions:				
Losses	800,471	583,714	265,664	1,649,849
Loss adjustment expenses	57,561	23,839	20,931	102,331
Commissions	174,361	183,756	200,213	558,330
Salaries	81,374	171,175	150,114	402,663
Taxes, licenses and fees	22,843	28,370	26,211	77,424
Other underwriting expenses	218,374	97,122	133,341	448,837
Total deductions	<u>\$1,354,984</u>	<u>\$1,087,976</u>	<u>\$ 796,474</u>	<u>\$3,239,434</u>
Underwriting gain (loss)	<u>\$ (529,721)</u>	<u>\$ (213,959)</u>	<u>\$ 186,964</u>	<u>\$ (556,716)</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Incurred deductions:				
Losses	97.00 %	66.79 %	27.01 %	61.50 %
Loss adjustment expenses	6.97	2.73	2.13	3.81
Commissions	21.13	21.02	20.36	20.81
Salaries	9.86	19.58	15.26	15.01
Taxes, licenses and fees	2.77	3.25	2.67	2.89
Other underwriting expenses	<u>26.46</u>	<u>11.11</u>	<u>13.56</u>	<u>16.73</u>
Total deductions	<u>164.19 %</u>	<u>124.48 %</u>	<u>80.99 %</u>	<u>120.75 %</u>
Underwriting gain (loss)	<u>(64.19) %</u>	<u>(24.48) %</u>	<u>19.01 %</u>	<u>(20.75) %</u>

REINSURANCE

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

Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer will pay 100% of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000. Second layer has a recover of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has a maximum recover 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 \$900,000 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.

Facultative Quota Share

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

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

CLAIMS

Beginning in 2012, adjustment of property claims has been handled by a third party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for overage. Home office personnel prepare the proof of loss and issue the claim proceeds.

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.

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 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, 2016, the gross risk in force for the Association was \$438,447,121. The Association's statutory minimum surplus level at December 31, 2016 was \$438,447. It is noted the Association's surplus level to minimum surplus level ratio was 8.7/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2016 was 9.2/1.

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, 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

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$2,663,031	\$	\$	\$2,663,031
Stocks	1,251,824	14,360		1,266,184
Bank balances:	260,627			260,627
Subject to check	276,240			276,240
On interest				
Real estate	12,613			12,613
Cash in office	100			100
Unpaid premiums:				
Due after November 1		4,081		4,081
Accrued interest		27,943		27,943
EDP equipment	6,517			6,517
	\$4,470,952	\$ 46,384	\$	\$4,517,336
Total				

LIABILITIES AND SURPLUS

Losses		\$	45,774
Unpaid adjusting expenses			2,060
Ceded reinsurance balances payable			38,400
Unpaid salaries and commissions			20,829
Amounts withheld for the account of others			4,171
Taxes payable			3,062
Other unpaid expenses			2,680
Premiums collected for other companies - not remitted			8,707
Premiums received in advance			29,231
Unearned premium reserve			550,000
Employee benefits payable			2,889
			707,803
Total liabilities		\$	707,803
Surplus as regards policyholders			3,809,533
Total liabilities and surplus		\$	4,517,336



INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015 \$3,977,611

INCOME

Net premiums and fees		\$1,024,466
Net interest received on bonds		109,151
Decrease by adjustment - bonds		(7,978)
Dividends received		27,716
Interest received on bank deposits		1,676
Profit on sale of investments		152,774
Rents received		3,000
Premiums collected for other companies		128,614
Increase in ledger liabilities		10,212
Total income		<u>\$1,449,631</u>
Total assets and income		<u>\$5,427,242</u>

DISBURSEMENTS

Losses paid		\$ 287,043
<u>Operating Expense</u>		
Loss adjusting expense	\$ 22,259	
Commissions	197,331	
Advertising	5,803	
Boards, bureaus and associations	6,329	
Inspection and loss prevention	1,689	
Salaries of officers	65,363	
Salaries of office employees	84,751	
Employee welfare	49,299	
Insurance	11,950	
Directors' compensation	6,644	
Directors' expenses	1,656	
Rent and rent items	3,031	
Equipment	19,053	
Printing, stationary and supplies	8,465	
Postage and telephone	15,822	
Legal and auditing	7,595	
State insurance taxes	14,206	
Insurance Division licenses and fees	480	
Payroll taxes	12,298	
Real estate expenses	4,073	
Real estate taxes	662	
Travel and travel items	1,696	
Donations/contributions	500	
Over and short	488	
Total operating expense	<u>541,443</u>	\$ 541,443
<u>Non-Operating Expense</u>		
Depreciation on real estate		494
Loss on sale of investments		5,272
Commissions paid agents for other companies		19,281
Premium collections transmitted to other companies		102,757
Total disbursements		<u>\$ 956,290</u>
Balance - ledger assets, December 31, 2016		<u>\$4,470,952</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 983,438
<u>Deductions</u>		
Losses incurred	\$265,664	
Loss expenses incurred	20,931	
Other operating expenses incurred	509,879	
Total underwriting deductions	796,474	796,474
Net underwriting gain (loss)		\$ 186,964
<u>Investment Income</u>		
Net investment income earned		276,886
<u>Other Income</u>		
Premiums collected for other companies (net)		6,357
Net income before Federal income tax		\$ 470,207
Federal income tax incurred		0
Net income		\$ 470,207

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	\$3,421,904
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 470,207
Change in not admitted assets	1,605
Change in net unrealized gains/losses	(84,183)
Change in surplus as regards policyholders for the year	\$ 387,629
Surplus as regards policyholders, December 31, 2016	\$3,809,533

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$2,682,718
<u>Deductions</u>		
Losses incurred	\$1,649,849	
Loss expenses incurred	102,331	
Other operating expenses incurred	1,487,254	
Total underwriting deductions	<u>3,239,434</u>	
Net underwriting gain (loss)		\$ (556,716)
<u>Investment Income</u>		
Net investment income earned		696,095
<u>Other Income</u>		
Premiums collected for other companies (net)		20,154
Miscellaneous income		<u>74</u>
Net income before Federal income tax		\$ 159,607
Federal income tax incurred		<u>(18,500)</u>
Net income		<u>\$ 178,107</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$3,866,930</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 178,107	
Change in not admitted assets	11,792	
Change in net unrealized gains/losses	<u>(247,296)</u>	
Change in surplus as regards policyholders for the period		<u>\$ (57,397)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$3,809,533</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>Liabilities</u>			
Losses	44,612	45,774	(1,162)
Unpaid adjusting expenses	2,952	2,060	892
Other unpaid expense	1,888	2,680	(792)
Net change to surplus			\$ (1,062)
Surplus per Association			3,810,595
Surplus per examination			\$ 3,809,533

During the period under review, surplus funds decreased \$57,397 from the amount of \$3,866,930 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

Losses \$ 45,774

Losses increased by \$1,162 to reflect actual loss development.

Unpaid adjusting expenses \$ 2,060

An analysis of paid adjusting expenses to paid losses decreased the liability by \$892.

Other unpaid expense \$ 2,680

This liability was increased by \$792 to reflect the actual expenses paid in 2017 for 2016

CONCLUSION

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

Respectfully submitted,

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/s/ Abby De Zeeuw  
ABBY DE ZEEUW, CPA  
Cain Ellsworth & Co., LLP  
Representing the State of Iowa