

EXAMINATION REPORT OF
BLACK HAWK MUTUAL INSURANCE ASSOCIATION
HUDSON, IOWA
AS OF DECEMBER 31, 2019

Hudson, Iowa
December 21, 2020

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

BLACK HAWK MUTUAL INSURANCE ASSOCIATION

HUDSON, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 353 East Eldora Road, Hudson, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2016 to December 31, 2019. 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, 2019.

HISTORY

The Association was incorporated in 1872 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 1945.

Effective January 1, 2004, the Danish Mutual Insurance Association of Cedar Falls, Iowa merged into the Association.

Effective January 1, 2009, the Articles of Incorporation and Bylaws were amended and substituted to change the corporate structure to a state mutual insurance association under Chapter 518A, Code of Iowa.

MANAGEMENT AND CONTROL

Membership

The membership shall consist of every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor, organization or other legal entity having insurance written by the Association which is in full force and effect.

The annual meeting of the members shall be held at Hudson, Iowa on the second Tuesday in February at 8:00 a.m. each year. 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-fourth of the members of the Association. Due notice of the time and place of such special meeting shall be given the membership. Each member present at any meeting shall be entitled to one vote on each question voted on regardless of the number of policies owned by the member. Voting by proxy is not permitted. The number of directors plus one constitutes 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 fifteen directors, each elected by a majority vote at the annual meeting of the members for a term not to exceed three years. Except for the Board members serving at the time this Bylaw was adopted on September 8, 2008, a person shall not be nominated to serve as a Director after he/she has reached the age of 65. 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Michael Reiter	Waterloo, Iowa	2020
John Jorgensen	Cedar Falls, Iowa	2020
Blake Hollis	Waterloo, Iowa	2021
Alan Karkosh	Hudson, Iowa	2021
Ron Hager	La Porte City, Iowa	2021
Brian Brummel	Cedar Falls, Iowa	2022
Scott Segebarth	Waterloo, Iowa	2022
Carrie Brown	Hudson, Iowa	2022

The annual meeting of the Board shall be held immediately after 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 \$150 for each meeting attended and reimbursement of travel expenses.

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 Chairman, 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, 2019 were:

<u>Name</u>	<u>Office</u>
Blake Hollis	Chairman of Board
Carrie Brown	President
Thomas B. Jones	Secretary/Treasurer

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

CONFLICT OF INTEREST

Conflict of interest statements are to be signed annually by all officers, directors and key employees. The Association was not able to provide completed forms for all officers for each year in the examination period.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended effective March 13, 2019 to update Article VI Section 1 in its entirety and substituting the following in lieu thereof, "The annual meeting of the members shall be held on the second Tuesday in February of each year at 8:00 a.m. at Hudson, IA...".

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, 2016 was reviewed and accepted at the March 20, 2018 Board meeting.

AFFILIATED AGENCY

During 1992, the Association formed Black Hawk Resources, Inc. for the general purpose of acquiring agencies writing business for the Association. The directors and officers of the Association hold the same position with Black Hawk Resources, Inc. Black Hawk Resources, Inc. holds no assets and has no liabilities or surplus. Black Hawk Resources, Inc. is inactive.

NON-AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Black Hawk Insurance Services, Inc. The agency is 98 percent owned by Carrie Brown, who is also the President of the Association. The agency currently pays \$225 monthly rent to the Association. The Agency pays for 50% of the internet service for the building and \$70 monthly for telephone services. The Agency purchases its own office supplies. Black Hawk Insurance Services Inc. is the managing partner of BHI Insurance LLC dba Black Hawk Insurance Services. BHI Insurance LLC acquired Hager insurance Agency effective January 1, 2016.

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.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Businessowners building and contents
- Commercial liability umbrella
- Business liability
- Cyber liability

It appears 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

Retirement benefit to a Simplified Employee Pension/Individual Retirement Account (SEP/IRA) fund was provided to full-time and part-time eligible employees. The Board of Directors approved five percent contributions during the examination period at their regular December meetings. Contributions were paid by the Association to the employee selected retirement fund of \$13,870, \$15,190 and \$12,849 for 2017, 2018, and 2019 respectively.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 with an authorized insurer which provide the following:

Per Risk Excess of Loss

The first \$200,000 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 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.

Catastrophe Excess of Loss

The first \$1,000,000 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

The first \$3,000,000 of ultimate net losses in aggregate, net of all other insurance recoveries is retained by Association. 100% 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 may be ceded on a facultative basis. As of December 31, 2019, no facultative agreements were in place.

Reinsurance - General

The Association 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 authorized to be written in the following counties: Benton, Black Hawk, Bremer, Buchanan, Butler, Cerro Gordo, Chickasaw, Delaware, Fayette, Floyd, Franklin, Grundy, Hardin, Iowa, Johnson, Linn, Marshall, Poweshiek, Story and Tama.

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 107 licensed and appointed agents.

Policy Forms and Underwriting Practices

The Association has policies in force on farm personal property, homeowners and country homeowners' classes in insurance covering fire, allied lines, and inland marine.

The Association implemented an insurance scoring rating option effective January 1, 2010.

Policies are renewed for a one-year period with premiums payable annually, semi-annually, quarterly, and monthly on an Electronic Funds Transfer basis only. The Association underwrites these policies every five years.

Advertising

The Association's advertising was reviewed and found to be in compliance with statutory requirements.

Rating and Statistical Reporting

They are not a member or subscriber to any rating bureau or statistical reporting agency.

TREATMENT OF POLICYHOLDERS

Claims

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel. Outside adjusters are retained to assist as needed. A sample of claim files was reviewed to determine 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 policy contracts.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination. The Association had no complaints during the examination period.

GROWTH OF THE ASSOCIATION

The following historical data was taken from office copies of filed annual statements for the year 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>
2017	9,605,169	6,893,967	3,195,768	2,999,529	302,534
2018	9,652,075	6,257,551	3,063,342	2,339,502	264,421
2019	10,667,043	7,318,193	3,266,896	1,922,856	264,166

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the three-year period ended December 31, 2019 was as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	<u>\$3,199,365</u>	<u>\$3,063,342</u>	<u>\$3,259,122</u>	<u>\$ 9,521,829</u>
Deductions				
Losses incurred	\$2,945,021	\$2,339,502	\$2,193,653	\$ 7,478,176
Loss adjustment expenses	106,764	145,002	118,594	370,360
Commissions	643,160	738,238	726,001	2,107,399
Salaries	250,401	304,062	268,074	822,537
Taxes, licenses and fees	62,386	51,505	49,708	163,599
Other underwriting expenses	39,725	49,549	108,288	197,562
Total underwriting deductions	<u>\$4,047,457</u>	<u>\$3,627,858</u>	<u>\$3,464,318</u>	<u>\$11,139,633</u>
Net underwriting gain (loss)	<u>\$ (848,092)</u>	<u>\$ (564,516)</u>	<u>\$ (205,196)</u>	<u>\$ (1,617,804)</u>

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Deductions				
Losses	92.1 %	76.4 %	67.3 %	78.5 %
Loss adjustment expenses	3.3	4.7	3.6	3.9
Commissions	20.1	24.1	22.3	22.1
Salaries	7.8	9.9	8.2	8.6
Taxes, licenses and fees	1.9	1.7	1.5	1.7
Other underwriting expenses	1.3	1.6	3.4	2.2
Total underwriting deductions	<u>126.5 %</u>	<u>118.4 %</u>	<u>106.3 %</u>	<u>117.0 %</u>
Net underwriting gain (loss)	<u>(26.5)%</u>	<u>(18.4)%</u>	<u>(6.3)%</u>	<u>(17.0)%</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, 2019 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, 2019, the gross risk in force for the Association was \$1,576,102,110. The Association's statutory minimum surplus level as of December 31, 2019 was \$1,576,102. It is noted the Association's

surplus level to minimum surplus level ratio was 3.2/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2019 was 8.5/1.

Investments do not appear to be properly reported. It is suggested that greater care be exercised to report investment securities according to their maturity dates.

In 2019, the Association exceeded the 50% surplus stock limitation, but did not reflect it in the 2019 annual statement. They subsequently reduced the stock holdings to regain compliance in 2020.

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, 2019 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	\$ 3,730,550	\$ 13,845	\$ 3,716,705
Preferred stocks	586,700		586,700
Common stocks	4,488,018	829,811	3,658,207
Real estate	44,040		44,040
Cash and short-term investments	1,365,502	1,197,545	167,957
Investment income due & accrued	32,486		32,486
Premiums and considerations:			
Uncollected premiums	20,152	6,794	13,358
Deferred premiums	412,982	980	412,002
EDP equipment	1,035		1,035
Furniture and equipment	2,616	2,616	
	<u>\$10,684,081</u>	<u>\$2,051,591</u>	<u>\$ 8,632,490</u>
Total			

LIABILITIES AND SURPLUS

Losses	\$ 716,821
Loss adjustment expenses	37,088
Commissions payable	172,113
Other expenses	56,658
Taxes, licenses and fees	8,233
Unearned premiums	2,336,628
Advance premiums	134,946
Ceded reinsurance premiums payable	136,630
Amounts withheld or retained by company for the account of others	21,392
Suspense	8,387
	<u>\$ 3,628,896</u>
Total liabilities	
Surplus as regards policyholders	<u>5,003,594</u>
Total liabilities and surplus	<u>\$ 8,632,490</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$ 3,259,122
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$2,193,653	
Loss expenses incurred	118,594	
Other operating expenses incurred	1,152,069	
Total underwriting deductions	<u>3,464,316</u>	
Net underwriting gain (loss)		\$ (205,194)
<u>Investment Income</u>		
Net investment income earned	264,743	
Net realized capital gains	21,190	
Total Investment income		\$ 285,933
<u>Other Income</u>		
Miscellaneous income	458	
Total other income		<u>\$ 458</u>
Net income before Federal income tax		\$ 81,197
Federal income tax incurred		<u>0</u>
Net income		<u>\$ 81,197</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$ 6,257,551</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 81,197
Change in not admitted assets		(2,004,329)
Change in net unrealized gains/losses		<u>669,175</u>
Change in surplus as regards policyholders for the year		<u>\$ (1,253,957)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 5,003,594</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$ 9,521,829
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$7,478,176	
Loss expenses incurred	370,360	
Other operating expenses incurred	3,291,097	
Total underwriting deductions	<u>11,139,633</u>	
Net underwriting gain (loss)		\$ (1,617,804)
<u>Investment Income</u>		
Net investment income earned	830,733	
Net realized capital gains	125,997	
Total Investment income	<u>956,730</u>	\$ 956,730
<u>Other Income</u>		
Miscellaneous income	1,265	
Total other income	<u>1,265</u>	\$ 1,265
Net loss before Federal income tax		<u>\$ (659,809)</u>
Federal income tax incurred		<u>(85,000)</u>
Net loss		<u>\$ (574,809)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 7,012,157</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (574,809)
Change in not admitted assets		(2,006,645)
Change in net unrealized gains/losses		<u>572,891</u>
Change in surplus as regards policyholders for the year		<u>\$ (2,008,563)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 5,003,594</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>			
Bonds	\$ 3,716,127	\$ 3,716,704	\$ 577
Common stocks	4,488,018	3,658,207	(829,811)
Cash holdings	177,061	167,957	(9,104)
Short-term investments	1,188,441	0	(1,188,441)
Uncollected premiums	20,152	13,358	(6,794)
Deferred premiums	412,982	412,002	(980)
<u>Liabilities</u>			
Losses	446,024	716,821	(270,797)
Loss adjustment expenses	25,682	37,088	(11,406)
Commissions payable	173,194	172,113	1,081
Other expenses	57,734	56,658	1,076
Net change to surplus			\$ (2,314,599)
Surplus per Association			<u>\$ 7,318,193</u>
Surplus per examination			<u>\$ 5,003,594</u>

During the period under review surplus funds decreased \$2,008,563 from the amount of \$7,012,157 as shown in the last examination report. An operating statement reflecting the decrease is shown in the financial section.

COMMENTS

Bonds \$ 3,716,704

This asset was increased by \$577 due to the recalculation of amortization.

Common stocks \$ 3,658,207

This asset was decreased by \$829,811 to non-admit an investment in violation of code section 518.14.4.f.(2) at year-end 2019.

Cash holdings \$ 167,957

This asset was decreased by \$9,104 to reflect actual cash balances at year-end 2019.

Short-term investments \$ 0

This asset was decreased by \$1,188,441 to non-admit an investment in violation of code section 518.14.4.f.(2) at year-end 2019.

Uncollected premiums \$ 13,358

This asset was decreased by \$6,794 to reflect the actual amount of premiums received in 2019.

Deferred premiums \$ 412,002

This asset was decreased by \$980 to reflect the actual amount of premiums received in 2019.

Losses \$ 716,821

Losses increased by \$270,797 to reflect actual loss development.

Loss adjustment expenses \$ 37,088

An analysis of paid adjusting expenses to paid losses increased the liability by \$11,406.

Commissions payable \$ 172,113

This liability was decreased by \$1,081 to reflect the actual commissions paid on premiums receivable.

Other expenses \$ 56,658

This liability was decreased by \$1,076 to reflect actual expenses paid in 2020 for 2019.

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