

EXAMINATION REPORT OF
GFMUTUAL INSURANCE ASSOCIATION
ALLAMAKEE COUNTY, WAUKON, IOWA
AS OF DECEMBER 31, 2017

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

Waukon, Iowa
August 21, 2018

Commissioner Ommen:

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

GFMUTUAL INSURANCE ASSOCIATION

ALLAMAKEE COUNTY, WAUKON, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 20 Spring Avenue, Waukon, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

The GFMutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2013. The examination report herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2014 to December 31, 2017. The examination was conducted in accordance with procedures established by the Iowa Insurance Division as recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed adequate. 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, 2017.

HISTORY

The Association was incorporated in 1870 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.

Effective January 1, 2008, the Articles of Incorporation were amended and substituted to change the corporate structure to a state mutual insurance association under the provisions of Chapter 518A of the Code of Iowa. At the same time the name was changed from German Farmers Mutual Insurance Association to GFMutual Insurance Association.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of those persons or organizations having insurance herein written by the Association which is in full force and effect.

The annual meeting of the members is held at Waukon, Iowa on the third Wednesday of March at 1:00 p.m. Special meetings may be called by the president upon request of the majority of members of the Board of Directors and shall be called upon petition of one-fourth of the members of the Association. Ten days written notice of the time and place of special meetings shall be given the membership. Each member present at any meeting is entitled to one vote on any question to be decided. Voting by proxy is not permitted. One more member than number of directors present shall constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association shall be vested in a Board of nine directors, each elected by a majority vote at the annual meeting of the membership for such terms as shall be established in the Bylaws of the Association. Any vacancy on the Board may be filled for the unexpired term by the remaining directors.

Directors serving at December 31, 2017 were:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Linda Bernhard	Monona, Iowa	2018
Robert Leppert	Lansing, Iowa	2018
Greg Palmer	Waukon, Iowa	2018
Kermit Renk	New Albin, Iowa	2019
Gary Schulte	Dorchester, Iowa	2019
Bradley Winkie	Waukon, Iowa	2019
John Meyer	Dorchester, Iowa	2020
Lyle Stock	Waukon, Iowa	2020
Jim Winke	Waukon, Iowa	2020

Directors' compensation is reported in Exhibit A following this report.

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 of directors present constitutes a quorum for the transaction of business.

Directors receive a fee of \$200 for each meeting attended and reimbursement of travel expense.

COMMITTEES

For the committees noted below, the Board of Directors made the following appointments:

<u>Executive</u>	<u>Nominating</u>
John Meyer	Bradley Winkie
Kermit Renk	Robert Leppert
Linda Bernhard	Gary Schulte

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. However, no person shall simultaneously hold the offices of President and Secretary.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
Kermit Renk	President
John Meyer	Vice President
Linda Bernhard	Secretary-Manager-Treasurer

Officers' compensation is shown in Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors, and employees. Disclosures were indicated on the statements.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended 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 during the November 4, 2014 board meeting.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Cook Agency, Inc. Cook Agency (The Agency) is co-owned by Linda Bernhard, who is also the Secretary-Treasurer-Manager of the Association, and Kelly Bulman. Ms. Bernhard owns 50 percent of the Agency. The Agency produced twenty-two percent of the Association's business during 2017.

The Agency paid \$200 monthly rent and \$600 for exchange of services and expense reimbursement. The Association pays the Agency \$200 for accounting services. The expense allocation between the agency and Association appears to be reasonable.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$500,000 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
- Building and contents
- General liability
- Employee practices liability
- Cyber liability
- Equipment breakdown
- Inland marine

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

Eligible employees participate in an "Employee Share Plan" which provides a distribution to employees if the Mutual increases surplus during the calendar year. Employees receive eight percent of the first \$100,000 surplus increase and five percent of any amount over \$100,000. Funds are distributed based on years of service and gross salary. The Employee Share Plan was paid \$27,242, \$14,902, \$0 and \$33,777 for 2014, 2015, 2016 and 2017, respectively.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2017 with an authorized insurer which provides 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% 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 \$700,000 of ultimate net loss per loss occurrence net of all other reinsurance recoveries is retained by Association. The reinsurer will pay 100 percent of net loss per loss occurrence in excess of retention. 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.

Property Aggregate Excess of Loss

First \$1,715,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100 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.

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. It is currently authorized to transact business in the following eleven counties in the State of Iowa: Allamakee, Blackhawk, Bremer, Buchanan, Chickasaw, Clayton, Delaware, Dubuque, Fayette, Howard, and Winneshiek.

Producer Licensing

At the present time, business is produced by forty-nine licensed agents.

Policies are written or renewed for a continuous period with premiums payable annually, semi-annually, quarterly or monthly. The Association underwrites these every three years for farm guard policies and every five years for home guard policies.

Advertising

The Association's advertising material was reviewed during the examination period with no violations noted under the provisions of the Iowa Administrative Code.

Rating and Statistical Reporting

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

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.

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.

TREATMENT OF POLICYHOLDERS

Claims

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel. Numerous claims files were reviewed to determine adequacy of loss reserves and the treatment of policyholders. Claims were paid timely and within the terms of the policy contracts.

Complaint Register

All written complaints received by the Association during the period under examination were requested for review. No complaints were received during the current examination period.

GROWTH OF THE ASSOCIATION

The following historical financial data, taken from 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>
2014	8,379,776	6,867,471	1,692,174	814,860	128,199
2015	8,083,829	6,832,813	1,760,624	1,395,039	147,331
2016	8,805,489	7,448,364	1,802,352	620,748	153,813
2017	8,520,850	7,317,325	1,850,937	1,694,885	153,696

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the four year period ended December 31, 2017 was as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	<u>\$1,692,174</u>	<u>\$1,760,624</u>	<u>\$1,802,352</u>	<u>\$1,850,937</u>	<u>\$7,106,087</u>
<u>Incurred Deductions</u>					
Losses	\$ 819,827	\$1,395,039	\$ 620,748	\$1,694,885	\$4,530,499
Loss adjustment expenses	40,914	19,484	22,257	19,177	101,832
Commissions	339,581	262,703	340,105	319,959	1,262,348
Salaries	193,291	177,254	201,650	189,891	762,086
Taxes, licenses and fees	22,505	22,909	23,550	24,233	93,197
Other underwriting expenses	<u>156,282</u>	<u>132,732</u>	<u>124,155</u>	<u>137,068</u>	<u>550,237</u>
Total deductions	<u>\$1,572,400</u>	<u>\$2,010,121</u>	<u>\$1,332,465</u>	<u>\$2,385,213</u>	<u>\$7,300,199</u>
Net underwriting gain (loss)	<u>\$ 119,774</u>	<u>\$ (249,497)</u>	<u>\$ 469,887</u>	<u>\$ (534,276)</u>	<u>\$ (194,112)</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>TOTAL</u>
<u>Incurred Deductions</u>					
Losses	48.45%	79.24%	34.44%	91.57%	63.76%
Loss adjustment expenses	2.42	1.11	1.23	1.04	1.43
Commissions	20.07	14.92	18.87	17.29	17.76
Salaries	11.42	10.06	11.19	10.26	10.72
Taxes, licenses and fees	1.32	1.30	1.31	1.30	1.32
Other underwriting expenses	<u>9.24</u>	<u>7.54</u>	<u>6.89</u>	<u>7.41</u>	<u>7.74</u>
Total deductions	<u>92.92%</u>	<u>114.17%</u>	<u>73.93%</u>	<u>128.87%</u>	<u>102.73%</u>
Net underwriting gain (loss)	<u>7.08%</u>	<u>(14.17)%</u>	<u>26.07%</u>	<u>(28.87)%</u>	<u>(2.73)%</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 not compliance with the Commissioner's Bulletin 97-6 at December 31, 2017 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, 2017, the gross risk in force for the Association was \$747,589,439. The Association's statutory minimum surplus level as of December 31, 2017 was \$747,589. It is noted the Association's surplus level to minimum level ratio was 9.8/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2017 was 8.2/1.

SUBSEQUENT EVENT

The Employee Share Plan as discussed in Employee Welfare section of this Report was discontinued in 2018.

The Association started using Grinnell Mutual Reinsurance to do the adjusting of claims as of April 1, 2018.

As of September 25, 2018, the Association is in compliance with the Commissioner's Bulletin 97-6 relative to security custodial requirements.

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, 2017 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>Not Admitted</u>	<u>Net Admitted</u>
Bonds	\$3,798,362	\$(2,399)	\$3,800,761
Stocks	1,361,287		1,361,287
Real estate	93,016		93,016
Cash	2,787,586		2,787,586
Investment income due and accrued	40,284		40,284
Premiums and considerations:			
Uncollected premiums	3,379		3,379
Deferred premiums	378,044		378,044
Current federal income tax recoverable	50,891		50,891
Electronic data processing equipment	8,002		8,002
Furniture and equipment	963	963	
Prepaid expenses	<u>7,563</u>	<u>7,563</u>	<u> </u>
 Total Assets	 <u>\$8,529,377</u>	 <u>\$ 6,127</u>	 <u>\$8,523,250</u>

LIABILITIES AND SURPLUS

Commissions payable			\$ 22,236
Other expenses			3,954
Taxes, licenses and fees			2,198
Unearned premiums			1,064,334
Advance premiums			53,517
Ceded reinsurance premiums payable			33,909
Amounts withheld for others			13,058
Aggregate write-ins for liabilities:			
Suspense			<u>1,466</u>
 Total liabilities			 \$1,194,672
 Surplus as regards policyholders			 <u>7,328,578</u>
 Total Liabilities and Surplus			 <u>\$8,523,250</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$1,850,937
 <u>Deductions</u>	
Losses incurred	\$1,694,885
Loss expenses incurred	19,177
Commissions	319,959
Salaries	189,891
Taxes, licenses and fees	24,233
Other underwriting expenses incurred	<u>137,068</u>
 Total underwriting deductions	 <u>2,385,213</u>
 Net underwriting gain (loss)	 \$ (534,276)
 <u>Investment Income</u>	
Net investment income earned	153,696
Net realized capital gain (loss)	38,751
 <u>Other Income</u>	
Finance and service charges not in premiums	101,558
Net premiums collected for others	40,108
Crop Hail Contingency	<u>200</u>
 Net income before federal income taxes	 \$ (199,963)
 Federal and foreign income taxes incurred	 <u>(4,891)</u>
 Net income	 <u>\$ (195,072)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	<u>\$7,448,364</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ (195,072)
Net unrealized capital gains (losses)	80,085
Change in non-admitted assets	<u>(4,799)</u>
 Change in surplus as regards policyholders for the year	 <u>(119,786)</u>
 Surplus as regards policyholders, December 31, 2017	 <u>\$7,328,578</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting income</u>		
Premiums earned		\$7,106,087
<u>Deductions</u>		
Losses incurred	\$4,530,499	
Loss expenses incurred	101,832	
Commissions	1,262,348	
Salaries	762,086	
Taxes, licenses and fees	93,197	
Other underwriting expenses incurred	<u>550,237</u>	
Total underwriting deductions		<u>7,300,199</u>
Net underwriting gain (loss)		\$ (194,112)
<u>Investment income</u>		
Net investment income earned		583,040
Net realized capital gain (loss)		66,208
<u>Other income</u>		
Finance and service charges not included in premiums		390,773
Net premiums collected for others		50,914
Crop hail contingency		619
Agency Income		<u>4,050</u>
Net income before federal income taxes		901,492
Federal income taxes incurred		<u>\$ 272,043</u>
Net income		<u>\$ 629,449</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$6,656,341</u>
<u>Gains and (losses) in surplus</u>		
Net income		\$ 629,449
Net unrealized capital gains (losses)		32,337
Change in non-admitted assets		<u>10,451</u>
Change in surplus as regards policyholders for the period		<u>\$ 672,237</u>
Surplus as regards policyholders, December 31, 2017		<u>\$7,328,578</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net increase 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	\$3,798,362	\$3,800,761	\$ 2,399
<u>Liabilities</u>			
Loss adjustment expenses	8,854		<u>8,854</u>
Net change to surplus			\$ 11,253
Surplus per Association			<u>7,317,325</u>
Surplus per examination			<u>\$7,328,578</u>

During the period under review, surplus funds increased \$672,237 from the amount of \$6,656,341 as shown in the last previous examination report.

COMMENTS

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

<u>Bonds</u>	<u>\$3,800,761</u>
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This asset increased by \$2,399 due to recalculation of amortization for bonds for 2017.

<u>Loss adjusting expenses</u>	<u>\$ 0</u>
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An analysis of paid adjusting expense to paid losses decreased this liability by \$8,854.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry Cihota
Jerry P Cihota, CFE, CPA
Insurance Company Specialist
Iowa Insurance Division