

EXAMINATION REPORT OF  
BREMER MUTUAL INSURANCE ASSOCIATION  
BREMER COUNTY, WAVERLY, IOWA  
AS OF DECEMBER 31, 2020

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

Waverly, Iowa  
June 10, 2022

Commissioner Ommen:

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

BREMER MUTUAL INSURANCE ASSOCIATION

BREMER COUNTY, WAVERLY, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 111 First Avenue Southeast, Waverly, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Bremer Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2017. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2018 to December 31, 2020. 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, 2020.

HISTORY

The Association was incorporated in 1884 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 1954.

Effective July 1, 2013, the Articles of Incorporation were restated to change the corporate structure to a state mutual insurance association under Chapter 518A, Code of Iowa. In 2013, the name of the Association changed from Bremer County Mutual Insurance Association to Bremer Mutual Insurance Association and was approved by the Iowa Insurance Division.

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 Tripoli, Iowa on the second Saturday in March at 1:00 p.m. Special meetings may be called by the Board of Directors or by one-fourth of the members of the Association 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. One more member present

than the number of Directors fixed by resolution of the Board of Directors 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 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, 2020 were:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term</u>
Michael Cafaro Waterloo, Iowa	Insurance Agent	2021
Wayne Tjernagel Fairbank, Iowa	Insurance Agent	2021
Dan Erskine Waverly, Iowa	Insurance Agent	2022
Melvin Ohlendorf Sumner, Iowa	Insurance Agent	2022
Jerry Calease Waverly, Iowa	Farmer	2023
Scott Fish Waverly, Iowa	Food Operations Manager	2023
Ron Knutson Fredericksburg, Iowa	Retired	2023

The annual meeting of the Board shall be held immediately following the annual meeting of the members, and thereafter on the call of the President or Chairman. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$170 for each meeting attended.

The salaries and remuneration of directors are shown in Exhibit A immediately following the signature page of the report.

OFFICERS

At its annual meeting, the Board of Directors elects a Chairman, President, Vice Chairman, Treasurer, and Secretary for a one-year term, and may elect such other officers as specified in the Bylaws or as it may deem advisable. Any of such offices may be combined except that of President and Secretary. In its discretion, it may leave unfilled for any such period as it may fix by resolution, any office except that of President, Treasurer, and Secretary.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
Ron Knutson	Chairman
Jerry Calease	Vice Chairman
Craig Moerer	President/Treasurer
Wayne Tjernagel	Secretary

The salaries and remuneration of officers are shown in Exhibit A immediately following the signature page of the report.

#### CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. All conflicting interests were properly 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, noted and approved. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2017 was reviewed and accepted at the September 27, 2018 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 one-year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation
- Employers' liability
- Professional liability
- Officers' and directors' liability
- Building and business personal property
- Automobile liability
- Equipment breakdown
- Employment practices liability
- Cyber 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 reimbursement of \$675 per month. Retirement benefit contributions were made to a Simple IRA Plan. Association matches up to three percent of the full-time eligible employee's salary. The employee may choose to contribute more than the employer match of three percent. Contributions to the Plan that were paid by the Association of \$13,250; \$17,994 and \$23,413 for 2018 and 2019, and 2020 respectively.

#### REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2020 with an authorized insurer which provide the following:

### Per Risk Excess of Loss

The first \$150,000 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 \$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

The first \$800,000 ultimate net loss incurred per loss occurrence is retained by Association. Loss occurrence is the sum of all individual losses or series of losses. 100 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.

### Aggregate Excess of Loss

\$2,000,000 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 coverage is unlimited. 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 Operations

The permitted writing territory is composed of the following twenty counties: Allamakee, Bremer, Chickasaw, Floyd, Benton, Butler, Black Hawk, Buchanan, Cerro Gordo, Clayton, Delaware, Fayette, Franklin, Grundy, Hardin, Howard, Linn, Mitchell Tama, and Winneshiek.

### Producer Licensing

Operations are conducted by 18 independent licensed and appointed agents from 12 insurance agencies who solicit the Association's business.

### Policy Forms and Underwriting Practices

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.

Policies are written or renewed for a one-year period with premiums payable annually, semi-annually, quarterly or monthly. Monthly payments are by EFT only.

## TREATMENT OF POLICYHOLDERS

### Claims

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel. Numerous claim files were reviewed to determine adequacy of loss reserves and 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

The Association is compliant with utilization of a complaint register as promulgated by rules set forth in Iowa Administrative Code 191-15.13.

GROWTH OF ORGANIZATION

<u>YEAR</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2018	\$6,482,629	\$4,772,184	\$2,102,598	\$ 977,850	\$227,147
2019	7,436,290	5,623,246	2,327,649	970,311	247,832
2020	7,584,690	5,647,600	2,483,279	1,402,696	248,050

UNDERWRITING EXPERIENCE

Three-YEAR PERIOD ENDED DECEMBER 31, 2020

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	\$2,102,598	\$2,327,649	\$2,483,279	\$6,913,526
<u>Incurred Deductions</u>				
Losses	977,850	970,311	1,424,633	3,373,873
Loss adjustment expenses	44,081	46,143	58,518	144,144
Commissions	502,443	560,858	579,850	1,643,151
Salaries	228,385	256,387	291,314	776,086
Taxes, licenses and fees	47,873	32,837	35,028	115,738
Other underwriting expenses	176,294	189,517	184,071	529,876
Total deductions	\$1,976,926	\$2,056,053	\$2,573,414	\$6,582,868
Net underwriting gain (loss)	\$ 125,672	\$ 271,596	\$ (90,135)	\$ 330,658

Expressed in % of incurred deductions to earned premium

<u>Incurred deductions</u>				
Losses	46.5%	41.7%	57.4%	48.8%
Loss adjustment expenses	2.1	2.0	2.4	2.1
Commissions	23.9	24.1	23.4	23.8
Salaries	10.9	11.0	11.7	11.2
Tax, licenses and fees	2.3	1.4	1.4	1.7
Other underwriting expenses	8.4	8.1	7.4	7.7
Total deductions	94.0	88.3	103.6	95.2
Net underwriting gain (loss)	6.0%	11.7%	(3.6%)	4.8%

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with BCM Agency, Inc. (The Agency). The Agency is 100 percent owned by the Association. The Agency produced nine percent of the Association's business during 2017. Agency paid \$2,000 monthly rent to the Association. Board members of the Association were also selected and served on the Agency Board of Directors for 2020.

The President/Treasurer of the Association is also the Agency Manager. He is paid a management fee of \$1,000 per quarter and the fee is approved by the agency board each year.

#### 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 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 monthly bank statements.

The Association and Agency was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2020 relative to security custodial requirements.

There were twenty eight outstanding checks older than ten years totaling \$3,791 and Forty-three outstanding checks five to ten years old totaling \$19,274 which were not cashed or escheated to the State of Iowa Treasurer. It is recommended that Association follow state escheat laws and develop an outstanding check policy. This was noted in the prior examination report.

In accordance with Section 518A.37, Code of Iowa, surplus must be maintained at a level of not less than two hundred thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2020, the gross risk in force for the Association was \$1,303,814,527. The Association's statutory minimum surplus level at December 31, 2017 was \$1,303,815. It is noted the Association's surplus level to minimum surplus level ratio was 4.4/1. The reported surplus/statutory minimum ratio average for Chapter 518A licensed industry at December 31, 2020 was 8.4/1.

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, 2020 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>Non- Admitted</u>	<u>Admitted Assets</u>
Bonds	\$3,515,184	\$	\$3,515,184
Preferred stocks	847,643		847,643
Common stocks	2,453,773		2,453,773
Real estate occupied by the Association	23,830		23,830
Cash holdings	376,275		376,275
Investment income due and accrued	31,513		31,513
Premiums and considerations:			
Uncollected premiums in collection	301,608	5,941	295,667
Amounts recoverable from reinsurers	40,805		40,805
Furniture and equipment	<u>64,448</u>	<u>64,448</u>	<u>        </u>
 Total Assets	 <u>\$7,655,079</u>	 <u>\$ 70,389</u>	 <u>\$7,584,690</u>

LIABILITIES AND SURPLUS

Losses		\$ 194,805
Loss adjusting expenses		7,745
Commissions payable		185,488
Other expenses		5,005
Taxes, licenses and fees		9,249
Unearned premiums		1,376,458
Advance premiums		53,801
Ceded reinsurance premiums payable		79,405
Amounts withheld for account for others		<u>25,134</u>
 Total liabilities		 \$1,937,090
 Surplus as regards policyholders		 <u>\$5,647,600</u>
 Total Liabilities and Surplus		 <u>\$7,584,690</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FOR THE ONE YEAR PERIOD DECEMBER 31, 2017  
STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	<u>\$2,483,279</u>
Deductions:	
Losses incurred	\$1,424,633
Loss expenses incurred	58,518
Commissions	579,850
Salaries	291,314
Taxes, licenses and fees	35,028
Other underwriting expenses incurred	<u>184,071</u>
Total underwriting deductions	<u>2,573,414</u>
Net underwriting gain (loss)	\$ ( 90,135)
<u>Investment Income</u>	
Net investment income earned	247,050
Net realized capital gain (loss)	(11,691)
<u>Other Income</u>	
Finance and service charges not included in premiums	1,463
Aggregate write-ins for miscellaneous income:	19,455
Miscellaneous	<u>(151)</u>
Net income before federal income taxes	165,991
Federal income taxes incurred	<u>38,968</u>
Net income	<u>\$ 127,023</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	<u>\$5,623,246</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 127,023
Net unrealized capital gains (losses)	(6,057)
Change in non-admitted assets	<u>(96,612)</u>
Change in surplus as regards policyholders for the period	<u>\$ 24,354</u>
Surplus as regards policyholders, December 31, 2020	<u>\$5,647,600</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FOR THE THREE YEAR PERIOD DECEMBER 31, 2020  
STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	<u>\$6,913,526</u>
 <u>Deductions</u>	
Losses incurred	\$3,373,873
Loss expenses incurred	144,144
Commissions	1,643,151
Salaries	776,086
Taxes, licenses and fees	115,738
Other underwriting expenses incurred	<u>529,876</u>
Total underwriting deductions	<u>6,582,868</u>
 Net underwriting gain (loss)	 \$ 330,658
 <u>Investment Income</u>	
Net investment income earned	722,029
Net realized capital gain (loss)	(20,888)
 <u>Other Income</u>	
Finance and service charges not included in premiums	5,306
Aggregate write-ins for miscellaneous income:	
Miscellaneous	<u>80,289</u>
 Net income before federal income taxes	 \$1,117,394
 Federal and foreign income taxes incurred	 <u>169,575</u>
 Net income	 <u>\$ 947,819</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$4,605,038</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 947,819
Net unrealized capital gains (losses)	78,897
Change in non-admitted assets	<u>15,846</u>
 Change in surplus as regards policyholders for the period	 <u>\$1,042,562</u>
 Surplus as regards policyholders, December 31, 2020	 <u>\$5,647,600</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$2,536,392
Net investment income	247,595
Miscellaneous income	<u>20,767</u>

Total	<u>2,804,754</u>
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Benefit and loss related payments	1,376,378
Commissions, expenses paid and aggregate write-ins	1,150,206
Federal income taxes paid (recovered) net	<u>49,968</u>

Total	<u>2,576,552</u>
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Net cash from operations	<u>\$ 228,202</u>
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Cash from Investments

Proceeds from investments sold, matured and repaid:

Bonds	\$ 530,000
Stocks	<u>232,719</u>
Total	<u>762,719</u>

Cost of investments acquired (long-term) only:

Bonds	410,137
Stocks	<u>833,117</u>
Total investments acquired	<u>1,243,254</u>

Net cash from investments	<u>\$ (480,535)</u>
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Cash from Financing and Miscellaneous Sources:

Other cash provided (applied)	<u>\$ (11,658)</u>
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Net cash from financing and miscellaneous sources	<u>(11,658)</u>
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Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (263,991)
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Cash and short-term investments:

Beginning of year	<u>\$ 640,266</u>
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End of year	<u>\$ 376,275</u>
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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>LIABILITIES</u>			
Losses	172,868	194,805	(21,937)
Loss adjustment expenses	5,000	7,745	(2,745)
Other expenses	5,437	5,005	<u>432</u>
Net increase in surplus			<u>\$ (24,250)</u>
Surplus per Association			<u>5,671,850</u>
Surplus per examination			<u>\$5,647,600</u>

During the period under review, surplus funds increased \$1,042,562 from the amount of \$4,605,038 as shown in the last examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

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

Losses \$ 194,805

This liability increased \$21,937 after reviewing losses incurred in 2020 or before and paid in 2021.

Loss adjustment expenses \$ 7,745

An analysis of paid adjusting expenses to paid losses and compared to actual losses resulted an increase in this liability by \$2,745.

Other expenses \$ 5,005

This liability decreased \$432 due to actual expenses paid in 2021 for 2020 expenses

CONCLUSION

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

Respectfully submitted,

/S/ Jeffrey S. Payne  
JEFFREY S. Payne, CFE  
Examiner Specialist  
Insurance Division  
State of Iowa