

EXAMINATION REPORT OF
AMERICAN MUTUAL INSURANCE ASSOCIATION
CLINTON COUNTY, GRAND MOUND, IOWA
AS OF DECEMBER 31, 2019

Grand Mound, 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

AMERICAN MUTUAL INSURANCE ASSOCIATION

CLINTON COUNTY, GRAND MOUND, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 903 DeWitt Street, Grand Mound, 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 1878 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 Grand Mound, Iowa on the first Saturday of February at 1:00 p.m. Special meetings may be called by the Board of Directors and upon petition of one-fourth of the members. 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. Nine members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of eight 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. In both 2018 and 2019 the Board had a total of nine directors instead of eight.

Directors serving at December 31, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Bernard Lindsey, Jr.	Calamus, Iowa	2020
James Banowetz	Spragueville, Iowa	2020
Donald Schmidt	Delmar, Iowa	2020
Joyce Boedeker	Calamus, Iowa	2021
David King	Park View, Iowa	2021
Daniel Burke	DeWitt, Iowa	2021
Paul Ketelsen	Grand Mound, Iowa	2022
Wayne Whitman	Grand Mound, Iowa	2022
Dale Claussen	Bettendorf, Iowa	2022

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 \$250 for each meeting attended and \$150 for each committee 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 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, 2019 were:

<u>Name</u>	<u>Office</u>
Donald Schmidt	President
Wayne Whitman	Vice President
Mark Schmidt	Secretary/Treasurer
Carolyn Heathman	Assistant Secretary/Treasurer

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

CONFLICT OF INTEREST

The Association has a policy in place to have conflict of interest statements signed annually by all officers, directors and key employees. The Association did not have all officers, directors, and key employees sign conflict of interest statements in 2018 and 2019.

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, 2016 was reviewed and accepted at the December 7, 2017 Board meeting.

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

In 2017, full-time eligible employees were provided medical insurance with premiums paid by the Association. In 2018 and most of 2019, full-time eligible employees were provided medical insurance with premiums paid 80% by the Association and 20% by the employee. In late 2019, the Association began to offer a Health Reimbursement Account (HRA), which included health insurance premiums paid 80% by the Association and 20% by the employee. Total HRA reimbursement by the Association in 2019 was \$7,044.

Term life insurance and disability coverage are also provided by the Association. Employees receive an annual bonus of twelve percent of eligible compensation in lieu of a retirement program. Total bonus paid to employees in 2017, 2018 and 2019 was \$36,890, \$24,353, and \$40,087, respectively.

Several employees received Health Savings Account (HSA) reimbursements from 2017 to 2019. Total HSA contributions by the Association in 2017, 2018 and 2019 were \$5,635, \$11,667, and \$12,626, respectively. In 2019, there were still HSA contributions while the transition was completed. Beginning in 2020, the Association will no longer have any HSA contributions.

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 five counties in the State of Iowa. The permitted writing territory is composed of the following counties: Clinton, Jackson, Jones, Cedar, and Scott. 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 one-year period with premiums payable quarterly, annually or semi-annually. The Association underwrites these policies every three years.

At December 31, 2019, business is produced by forty-two licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	<u>\$1,585,918</u>	<u>\$1,749,256</u>	<u>\$1,890,403</u>	<u>\$5,225,577</u>
Incurred deductions:				
Losses	\$1,025,540	\$ 543,587	\$1,178,011	\$2,747,138
Loss adjustment expenses	62,435	76,699	83,826	222,960
Commissions	217,348	323,625	414,539	955,512
Salaries	268,264	287,440	275,755	831,459
Taxes, licenses and fees	48,864	53,291	54,684	156,839
Other underwriting expenses	<u>284,465</u>	<u>336,738</u>	<u>334,796</u>	<u>955,999</u>
Total deductions	<u>\$1,906,916</u>	<u>\$1,621,380</u>	<u>\$2,341,611</u>	<u>\$5,869,907</u>
Underwriting gain (loss)	<u>\$ (320,998)</u>	<u>\$ 127,876</u>	<u>\$ (451,208)</u>	<u>\$ (644,330)</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>
Incurred deductions:				
Losses	64.67 %	31.08 %	62.32 %	52.57 %
Loss adjustment expenses	3.94	4.38	4.43	4.27
Commissions	13.70	18.50	21.93	18.29
Salaries	16.92	16.43	14.59	15.91
Taxes, licenses and fees	3.08	3.05	2.89	3.00
Other underwriting expenses	<u>17.93</u>	<u>19.25</u>	<u>17.71</u>	<u>18.29</u>
Total deductions	<u>120.24 %</u>	<u>92.69 %</u>	<u>123.87 %</u>	<u>112.33 %</u>
Underwriting gain (loss)	<u>(20.24) %</u>	<u>7.31 %</u>	<u>(23.87) %</u>	<u>(12.33) %</u>

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 \$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 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 \$650,000 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. 100% of ultimate net loss in excess of retention is covered by the reinsurer.

Aggregate Excess of Loss

The first \$1,500,000 of ultimate net losses in aggregate, net of all other reinsurance 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 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

While facultative reinsurance was available, the Association does not have any facultative contracts in place.

Reinsurance - General

The Association complies with current statutory standards relative to surplus exposure and reinsurance coverage.

CLAIMS

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 Legacy Insurance Group, Inc.

Legacy Insurance Group, Inc. is 100 percent owned by Mark Schmidt, who became Secretary/Treasurer of the Association during 2016 and is also the Association's manager. Legacy Insurance Group, Inc. produced approximately 35 percent of the Association's business during 2019.

Legacy Insurance Group, Inc. paid \$1,350 monthly rent to the Association during 2019. The Association and agency have separate phone lines and computers. Other expenses also appear to be allocated on a reasonable basis.

The Association's Board approved the establishment of a subsidiary insurance agency in September 2013. American Mutual Insurance Agency, Inc. (AMIA) is inactive currently. Once active, AMIA will issue stock and Association will purchase the stock.

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 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, 2019, the gross risk in force for the Association was \$691,136,126. The Association's statutory minimum surplus level as of December 31, 2019 was \$691,136. It is noted the Association's surplus level to minimum surplus level ratio was 6.8/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

SUBSEQUENT EVENTS

As of January 1, 2020, the Association filed Amended & Substituted Articles of Incorporation and Bylaws to convert to a state mutual insurance association organized under Iowa Code Chapter 518A.

Also effective January 1, 2020, five counties were approved by the Iowa Insurance Division. The additional counties authorized were: Delaware, Dubuque, Johnson, Linn, and Muscatine.

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>	<u>Nonledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$2,903,695	\$	\$ 124	\$2,903,571
Stocks	1,617,683	667,001		2,284,684
Bank balances:				
Subject to check	157,001			157,001
On interest	172,654			172,654
Real estate	619,351			619,351
Cash in office	50			50
Unpaid premiums:				
Due after November 1		98		98
Accrued interest		26,583		26,583
Equipment and furniture	78,757		78,757	
EDP equipment	4,994		745	4,249
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$5,554,185	\$693,682	\$ 79,626	\$6,168,241

LIABILITIES AND SURPLUS

Losses	\$ 315,541
Unpaid adjusting expenses	1,145
Ceded reinsurance balances payable	40,809
Unpaid salaries and commissions	81,209
Amount withheld for the account of others	3,962
Taxes payable	4,529
Other unpaid expenses	10,318
Employee benefits payable	1,718
Premiums collected for other companies - not remitted	13,011
Premiums received in advance	35,678
Unearned premium reserve	<hr/> 953,000
Total liabilities	\$ 1,460,920
Surplus as regards policyholders	<hr/> 4,707,321
Total liabilities and surplus	<hr/> \$6,168,241

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		<u>\$5,471,159</u>
	<u>INCOME</u>	
Net premiums and fees		\$1,970,741
Net interest received on bonds		120,100
Increase (Decrease) by adjustment - bonds		(18,504)
Dividends received		67,898
Interest received on bank deposits		4,324
Other interest		48
Profit on sale of investments		39,058
Rents received		48,600
Premiums collected for other companies		222,372
Increase in ledger liabilities		11,459
Federal income tax refund		2,892
Total income		<u>\$2,468,988</u>
Total assets and income		<u>\$7,940,147</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 930,995
<u>Operating Expense</u>		
Loss adjusting expense	\$ 85,581	
Commissions	392,940	
Advertising	13,251	
Boards, bureaus and associations	8,722	
Inspection and loss prevention	72,028	
Salaries of officers	72,346	
Expenses of officers	1,481	
Salaries of office employees	203,409	
Employee welfare	73,532	
Insurance	15,705	
Directors' compensation	9,900	
Directors' expenses	955	
Rent and rent items	32,400	
Equipment	60,587	
Printing, stationery and supplies	7,877	
Postage, telephone, telegraph and exchange	20,956	
Legal and auditing	13,445	
State insurance taxes	24,106	
Insurance Division licenses and fees	365	
Payroll taxes	29,333	
All other taxes	1,417	
Real estate expenses	20,416	
Real estate taxes	3,845	
Miscellaneous	630	
Annual meeting expense	5,786	
Donations/contributions	3,974	
Over and short	103	
Total operating expense		<u>\$1,175,090</u>
<u>Non-Operating Expense</u>		
Depreciation on real estate		28,280
Loss on sale of investments		39,335
Federal income tax		8,861
Premium collections transmitted to other companies		171,703
Commission paid agents for other companies		31,698
Total disbursements		<u>\$2,385,962</u>
Balance - ledger assets, December 31, 2019		<u>\$5,554,185</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,890,403
<u>Deductions</u>		
Losses incurred	\$1,178,011	
Loss expenses incurred	83,826	
Other operating expenses incurred	<u>1,079,774</u>	
Total underwriting deductions		<u>2,341,611</u>
Net underwriting gain (loss)		\$ (451,208)
<u>Investment Income</u>		
Net investment income earned		164,885
<u>Other Income</u>		
Premiums collected for other companies (net)		<u>18,470</u>
Net loss before Federal income tax		\$ (267,853)
Federal income tax incurred		<u>1,969</u>
Net loss		<u>\$ (269,822)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$4,637,577</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (269,822)
Change in not admitted assets		15,235
Change in net unrealized gains/losses		<u>324,331</u>
Change in surplus as regards policyholders for the year		<u>\$ 69,744</u>
Surplus as regards policyholders, December 31, 2019		<u>\$4,707,321</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$5,225,577
<u>Deductions</u>		
Losses incurred	\$2,747,138	
Loss expenses incurred	222,960	
Other operating expenses incurred	2,899,809	
Total underwriting deductions	<u>5,869,907</u>	<u>5,869,907</u>
Net underwriting gain (loss)		\$ (644,330)
<u>Investment Income</u>		
Net investment income earned		463,651
<u>Other Income</u>		
Premiums collected for other companies (net)		56,704
Miscellaneous income		<u>3,946</u>
Net loss before Federal income tax		\$ (120,029)
Federal income tax incurred		<u>10,449</u>
Net loss		<u>\$ (130,478)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$4,422,321</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (130,478)
Change in not admitted assets		(69,545)
Change in net unrealized gains/losses		<u>485,023</u>
Change in surplus as regards policyholders for the period		<u>\$ 285,000</u>
Surplus as regards policyholders, December 31, 2019		<u>\$4,707,321</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	\$ 281,917	\$ 315,541	\$ (33,624)
Unpaid adjusting expenses	8,100	1,145	6,955
Taxes payable	3,904	4,529	<u>(625)</u>
Net change to surplus			\$ (27,294)
Surplus per Association			<u>\$4,734,615</u>
Surplus per examination			<u>\$4,707,321</u>

During the period under review, surplus funds increased \$285,000 from the amount of \$4,422,321 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

Losses \$ 315,541

Losses increased by \$33,624 to reflect actual loss development.

Unpaid adjusting expenses \$ 1,145

The liability was decreased by \$6,955 to reflect the actual amount paid in 2020.

Taxes payable \$ 4,529

The liability was increased by \$625 due to the recalculation of the premium taxes payable.

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 & Co., LLP
Representing the State of Iowa