

EXAMINATION REPORT OF
PRAIRIE MUTUAL INSURANCE ASSOCIATION
KEOTA, IOWA
AS OF DECEMBER 31, 2019

Keota, Iowa
July 27, 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

PRAIRIE MUTUAL INSURANCE ASSOCIATION

KEOKUK COUNTY, KEOTA, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 216 Broadway Avenue, Keota, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2017 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.

HISTORY

The Association was incorporated in 1886 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. The mutual was reorganized under Chapter 518A, Code of Iowa on January 1, 2006.

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 2:00 p.m. in Keota, Iowa on the third Thursday in February. Special meetings may be called by the Board of Directors 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 than the number of Directors present 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 seven 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. A person shall not be elected to serve as a director after he or she reaches age 75.

Directors serving at December 31, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Roger Fritchen	Sigourney, Iowa	2020
David Jackson	North English, Iowa	2020
Christopher Gentry	Ollie, Iowa	2020
Ronald C. Collins	What Cheer, Iowa	2021
Jeremiah Sheetz	Keota, Iowa	2021
Scott Grimm	Deep River, Iowa	2022
Bernard T. Hahn	Keota, Iowa	2022
Don R. Morrison	South English, 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 President. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$250 for each meeting attended. The President/Director receives a fee of \$450 for each meeting attended plus a \$200 mileage reimbursement per year. An illustration of compensation can be seen in Exhibit A following this report.

COMMITTEES

The Association may have an executive committee consisting of at least three members, selected by the Board, with such powers as may be delegated to it by the Board of Directors. The Board may also appoint any other committees as may be necessary to the business of the Association. Appointments for various committees as of December 31, 2019 were as follows:

Investment Committee
 Roger Fritchen, Chairman
 Jeremiah Sheetz
 Chris Gentry

Claims Committee
 Don R Morrison, Chairman
 Roger Fritchen
 Bernard T. Hahn

Agency Committee
 Jeremiah Sheetz, Chairman
 Bernard T. Hahn
 Don R. Morrison

Internal Operations Committee
 Christopher Gentry, Chairman
 Ronald C. Collins
 Scott Grimm

Nominating Committee
 Scott Grimm, Chairman
 Ronald C. Collins
 Don R. Morrison

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>
David Jackson	President
Christopher Gentry	Vice President
Donald Lindhart	Secretary-Treasurer

Remunerations of officers is shown on Exhibit A 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 the Bylaws were not amended or restated 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 February 15, 2018 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 a year 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
Commercial liability
Business Auto Equipment
breakdown Cyber liability
Cyber liability umbrella

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, \$20,000 group term life and accidental death and dismemberment, \$20,000 supplemental accidental death and dismemberment and up to \$10,000 per month long term disability insurance with premiums paid by the Association.

Also, a simplified employee pension was provided to full-time eligible employees with three years experience based on five percent of the eligible employee's salary. Contributions paid by Association were \$11,778, \$13,818, and \$0 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

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 \$10,000,000. The Association is required to provide a timely notification to the reinsurer of any risks exceeding \$10,000,000.

Aggregate Excess of Loss

First \$1,400,000 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.

Property Catastrophe Excess of Loss

The first \$600,000 ultimate net loss incurred, per loss occurrence, net of all other reinsurance recoveries is retained by the Association. One-hundred percent of ultimate net loss per loss occurrence, in excess of the Company retention is covered by the reinsurer. 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.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

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 authorized to transact business in seventeen counties in the State of Iowa.

The permitted writing territory is composed of the following counties: Keokuk, Jefferson, Iowa, Wapello, Mahaska, Washington, Poweshiek, Benton, Davis, Henry, Jasper, Johnson, Louisa, Marion, Monroe, Tama, and Van Buren.

PRODUCER LICENSING

Operations are conducted by approximately forty independent licensed and approved agents from eight insurance agencies who solicit the Association's business.

Policies are written or renewed for a continuous period with premiums payable annually, semi-annually, quarterly or monthly. Monthly payments are by electronic funds transfer only. The Association underwrites these policies every four years for Farmate and every six years for Homeguard.

RATING AND STATISTICAL REPORTING

The Association utilizes an Insurance Scoring rating system to establish premium rates at the time of application. A scoring report is run again on each anniversary date for any policy with a related insurance score assessment and premiums are adjusted accordingly. The Association is not a member of or subscriber to any other rating bureau or statistical reporting agency.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property, homeowners and renters property, and country homeowners classes in insurance covering fire, wind, 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

During the exam period, adjustment of claims was handled primarily by the Association's salaried Home Office personnel. The Association began using an outside adjuster in 2020. 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 maintains a complaint register as promulgated by rules set forth in Iowa Administrative Code 191-15.13 (507B) Complaint and Business Records. The Association had one complaint during the 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>Investment Income Earned</u>
2017	6,305,350	5,010,838	1,535,833	513,508	392,338
2018	6,605,035	5,368,060	1,556,388	294,745	133,303
2019	7,417,020	6,009,666	1,585,587	794,095	157,831

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>\$1,535,833</u>	<u>\$1,556,388</u>	<u>\$1,585,587</u>	<u>\$4,677,808</u>
<u>Incurred Deductions</u>				
Losses	\$ 493,384	\$ 294,745	\$ 748,218	\$1,536,347
Loss adjustment expenses	112,048	128,383	121,339	361,770
Commissions	323,650	315,348	364,384	1,003,382
Salaries	167,033	170,668	172,800	510,501
Taxes, licenses and fees	35,743	22,170	22,581	80,494
Other underwriting expenses	<u>159,455</u>	<u>158,850</u>	<u>134,803</u>	<u>453,108</u>
Total deductions	<u>\$1,291,313</u>	<u>\$1,090,164</u>	<u>\$1,564,125</u>	<u>\$3,945,602</u>
Net underwriting gain (loss)	<u>\$ 244,520</u>	<u>\$ 466,224</u>	<u>\$ 21,462</u>	<u>\$ 732,206</u>

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

<u>Incurred Deductions</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Losses	32.1%	18.9%	47.2%	32.8%
Loss adjustment expenses	7.3	8.2	7.7	7.7
Commissions	21.1	20.3	23.0	21.4
Salaries	7.8	11.0	10.9	10.9
Taxes, licenses and fees	2.3	1.4	1.4	1.7
Other underwriting expenses	<u>10.4</u>	<u>10.2</u>	<u>8.5</u>	<u>9.7</u>
Total deductions	<u>84.1%</u>	<u>70.0%</u>	<u>98.6%</u>	<u>84.3%</u>
Net underwriting gain (loss)	<u>15.9%</u>	<u>30.0%</u>	<u>1.4%</u>	<u>15.7%</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.

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, authorized signatures and proper endorsements. Cash receipts and disbursements 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 \$100,000 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 \$601,686,826. The Association's statutory minimum surplus level as December 31, 2016 was \$601,687. It is noted the Association's surplus level to minimum surplus level ratio was 10.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2019 was 8.5/1.

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, 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>Not Admitted</u>	<u>Admitted</u>
Bonds	\$4,418,542	\$	\$4,418,542
Stocks			
Common stocks	2,298,470		2,298,470
Real estate			
Properties occupied by the Association	19,700		19,700
Cash	296,842		296,842
Short-Term investments	32,097		32,097
Investment income due and accrued	40,986		40,986
Premiums and considerations:			
Uncollected premiums in course of collection	52,933	(30)	52,963
Deferred premiums	242,468		242,468
Other amounts receivable under reinsurance	14,952		14,952
Current federal income tax recoverable	66,000	66,000	
Furniture and equipmet	28,783	28,783	_____
Total	<u>\$7,511,773</u>	<u>\$94,753</u>	<u>\$7,417,20</u>

LIABILITIES AND SURPLUS

Losses		\$ 191,878
Commissions payable		94,226
Other expenses		6,830
Taxes, licenses and fees		4,022
Unearned premiums		977,049
Advance premium		56,668
Ceded reinsurance premiums payable		41,526
Amounts withheld for others		35,155
Total liabilities		<u>\$1,407,354</u>
Surplus as regards policyholders		<u>6,009,666</u>
Total liabilities and surplus		<u>\$7,417,020</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$1,585,587
 <u>Deductions</u>	
Losses incurred	\$748,218
Loss expenses incurred	121,339
Other underwriting expenses incurred	<u>694,568</u>
Total underwriting deductions	<u>\$1,564,125</u>
 Net underwriting gain	 \$ 21,462
 <u>Investment Income</u>	
Net investment income earned	157,831
Net realized capital gain (loss)	13,301
 <u>Other Income</u>	
Finance and service charges not included in premiums	71,213
Miscellaneous	<u>6,996</u>
 Net income before Federal income taxes	 \$ 270,803
 Federal and foreign income taxes incurred	 <u>10,766</u>
 Net income	 <u>\$ 260,037</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	\$5,368,060
 <u>Gains and (Losses) in surplus</u>	
Net income	\$ 260,037
Net unrealized gains (losses)	416,248
Change in non-admitted assets	<u>(34,679)</u>
 Change in surplus as regards policyholders	 <u>641,606</u>
 Surplus as regards policyholders, December 31, 2019	 <u>\$6,009,666</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 4,677,808
<u>Deductions</u>	
Losses incurred	\$1,536,347
Loss expenses incurred	361,770
Other underwriting expenses incurred	<u>2,048,053</u>
Total underwriting deductions	<u>3,946,170</u>
Net underwriting gain (loss)	\$ 731,638
<u>Investment Income</u>	
Net investment income earned	446,923
Net realized capital gain (loss)	276,557
<u>Other Income</u>	
Finance and service charges not included in premiums	216,328
Miscellaneous	<u>24,869</u>
Net income before Federal income taxes	\$1,696,315
Federal and foreign income taxes incurred	<u>341,282</u>
Net income	<u>\$1,355,033</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>	
Surplus as regards policyholders, December 31, 2017	<u>\$4,520,927</u>
<u>Gains and (Loses) in Surplus</u>	
Net income	\$1,355,033
Net unrealized capital gains (losses)	178,653
Change in non-admitted assets	<u>(44,947)</u>
Change in surplus as regards policyholders for the period	<u>\$1,488,739</u>
Surplus as regards policyholders, December 31, 2019	<u>\$6,009,666</u>

CASH FLOW STATEMENT
ONE YEAR PERIOD ENDED DECEMBER 31, 2019

Cash from Operations

Premiums collected net of reinsurance	\$1,575,046
Net investment income	164,310
Miscellaneous income	<u>78,208</u>

Total	<u>\$1,817,564</u>
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Benefit and loss related payments	\$ 413,351
Commissions, expenses paid and aggregate write-ins	776,139
Federal income taxes paid (recovered) net	<u>49,766</u>

Total	<u>\$1,239,256</u>
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Net cash from operations	<u>\$ 578,308</u>
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Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 185,000
Stocks	<u>347,616</u>

Total investment proceeds	<u>\$ 532,616</u>
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Cost of investments acquired (long-term) only	
Bonds	\$ 822,867
Stocks	424,207
Total investments acquired	<u>\$1,247,074</u>

Net cash from investments	<u>\$ (714,458)</u>
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Cash from Financing and Miscellaneous Sources

Other cash provided	10,202
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Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (125,948)
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Cash, cash equivalents and short-term investments:

Beginning of year	454,887
End of year	<u>\$ 328,939</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>			
<u>Liabilities</u>			
Losses	237,755	191,878	45,877
Commissions Payable	94,001	94,226	<u>(225)</u>
Net change to surplus			\$ 45,652
Surplus per Association			<u>\$5,964,014</u>
Surplus per examination			<u>\$6,009,666</u>

COMMENTS

During the period under review, surplus funds increased \$1,488,739 from the amount of \$4,520,927 shown in the previous examination report. An operating statement reflecting that increase is contained in the financial report.

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

Losses \$ 191,878

A review of incurred claims paid and outstanding in the subsequent period resulted in a loss reserve decrease of \$45,877.

Commissions Payable \$ 94,226

An analysis of the actual commissions and contingent commissions paid increased commission

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
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