

EXAMINATION REPORT OF
WALCOTT MUTUAL INSURANCE ASSOCIATION
SCOTT COUNTY, WALCOTT, IOWA
AS OF DECEMBER 31, 2017

Walcott, Iowa
September 28, 2018

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

WALCOTT MUTUAL INSURANCE ASSOCIATION

SCOTT COUNTY, WALCOTT, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 102 West Otis Street, Walcott, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Walcott Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2013. The examination reported 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. 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 1856 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 1948.

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 Walcott, Iowa on the last Tuesday in January commencing at 1:00 p.m. 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 existing size of the Board of Directors at the time shall constitute 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 ten 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, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Rick Sorgenfrey	Durant, Iowa	2018
Randy Spies	Muscatine, Iowa	2018
Dave Madden	Donahue, Iowa	2018
Sandy Liebke	Walcott, Iowa	2019
Mike Paustian	Walcott, Iowa	2019
Terry Ralfs	Walcott, Iowa	2020
Brent Arp	New Liberty, Iowa	2020
Tyler Esbaum	Walcott, Iowa	2020
Gene Westphal	Davenport, Iowa	2020

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 \$100 for each meeting attended.

Salaries and 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, Chairman of the Board, Vice Chairman of the Board, Treasurer, and Secretary, and such additional officers as it deems necessary.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
Nancy Arp	President/Treasurer
Randy Spies	Chairman of the Board
Terry Ralfs	Vice-Chairman of the Board
Sandy Liebke	Secretary

Salaries and remuneration of officers are shown on Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. Greater care should be taken to ensure all proper interests and affiliations are 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 and noted. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2013 was reviewed and accepted at the November 12, 2014 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$75,000 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
- Commercial business automobile
- Business liability
- Employee practices 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 term life insurance with premiums paid by the Association for the employees only.

Full-time eligible employees and directors are covered by a \$10,000 accidental death and dismemberment insurance policy.

The Association makes contributions, based on five percent of full-time eligible employees' salaries, to a retirement plan. Retirement benefit contributions were made by the Association of \$3,003, \$3,255 and \$3,808, and \$4,020 in 2014, 2015, 2016 and 2017, respectively.

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 four counties: Scott, Cedar, Muscatine, and Clinton counties. 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 continuous period with premiums payable quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by twenty-one licensed agents.

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	\$764,900	\$ 761,782	\$777,536	\$ 799,828	\$3,104,046
Incurred deductions:					
Losses	305,588	607,977	405,502	558,645	1,877,712
Loss adjustment expense	27,103	39,369	24,585	37,070	128,127
Commissions	149,296	148,625	149,948	148,102	595,971
Salaries	84,341	100,768	105,774	112,429	403,312
Taxes, licenses and fees	14,952	18,972	19,449	20,868	74,241
Other underwriting expenses	87,549	68,059	76,945	80,103	312,656
Total deductions	\$668,829	\$ 983,770	\$782,203	\$ 957,217	\$3,392,019
Underwriting gain (loss)	\$ 96,071	\$(221,988)	\$ (4,667)	\$(157,389)	\$ (287,973)

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Incurred deductions:					
Losses	39.95%	79.81%	52.15%	69.85%	60.49%
Loss adjustment expenses	3.54	5.17	3.16	4.63	4.13
Commissions	19.52	19.51	19.29	18.52	19.20
Salaries	11.03	13.23	13.60	14.06	12.99
Taxes, licenses and fees	1.95	2.49	2.50	2.61	2.39
Other underwriting expense	11.45	8.93	9.90	10.01	10.08
Total deductions	87.44%	129.14%	100.60%	119.68%	109.28%
Underwriting gain (loss)	12.56%	(29.14%)	(0.60%)	(19.68%)	(9.28%)

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2017 with an authorized insurer which provides the following:

Per Risk Excess of Loss

First \$125,000 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 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.

Aggregate Excess of Loss

First \$618,000 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 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 Quota Share

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

CLAIMS

From a review of numerous claims, it appeared that the Association made equitable settlements which were in keeping with the terms of the policy contracts. It was noted that four claims were paid more than 40 days after the proof of loss had been signed.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Arp Insurance Inc. (the Agency).

The Agency is 100 percent owned by Brent Arp, who is the husband of the President and Treasurer of the Association. The Agency produced approximately 50 percent of the Association's business during 2017. (It should be noted this individual is not the "Brent Arp" serving on the Board.)

The Agency paid \$230 monthly rent to the Association. The agency also provides lawn care and snow removal services for the Association and pays 50 percent of the internet expense. No written agreement between the Association and the Agency exists.

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, 2017 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, 2017 the gross risk in force for the Association was \$391,363,342. The Association's statutory minimum surplus level as of December 31, 2017 was \$391,363. It is noted the Association's surplus level to minimum surplus level ratio was 10.4/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2017 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, 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>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$2,780,096	\$	\$	\$2,780,096
Stocks	750,246	318,418		1,068,664
Bank balances:				
Subject to check	292			292
On interest	585,569			585,569
Real estate	33,627			33,627
Cash in office	25			25
Unpaid premiums:				
Due before November 1		226	226	
Due after November 1		650		650
Accrued interest		35,784		35,784
Equipment and furniture	723		723	
EDP equipment	1,168		250	918
Subrogation receivable		67,055		67,055
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$4,151,746	\$ 422,133	\$ 1,199	\$4,572,680

LIABILITIES AND SURPLUS

Losses	\$ 500
Unpaid adjusting expenses	2,422
Ceded reinsurance balances payable	27,630
Taxes payable	2,085
Other unpaid expenses	1,528
Premiums collected for other companies - not remitted	6,139
Premiums received in advance	24,038
Unearned premium reserve	428,000
Pension payable	4,148
	<hr/>
Total liabilities	\$ 496,490
Surplus as regards policyholders	4,076,190
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Total liabilities and surplus	\$4,572,680

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016 \$4,252,744

INCOME

Net premiums and fees		\$ 823,600
Net interest received on bonds		133,988
Increase (decrease) by adjustment - bonds		(20,955)
Dividends received		26,419
Interest received on bank deposits		5,549
Profit on sale of investments		4,436
Rents received		8,760
Premiums collected for other companies		112,987
Increase in ledger liabilities		34
Total income		<u>\$1,094,818</u>
Total assets and income		<u>\$5,347,562</u>

DISBURSEMENTS

Losses paid		\$ 655,601
<u>Operating Expense</u>		
Loss adjusting expense	\$ 38,537	
Commissions	157,477	
Advertising	1,271	
Boards, bureaus and associations	6,570	
Inspection and loss prevention	11,633	
Salaries of officers	82,967	
Salaries of office employees	29,462	
Employee welfare	4,089	
Insurance	17,561	
Directors' compensation	4,555	
Rent and rent items	6,000	
Equipment	10,140	
Printing and stationery	4,227	
Postage and telephone	4,215	
Legal and auditing	8,830	
State insurance taxes	11,256	
Insurance Division licenses and fees	225	
Payroll taxes	9,257	
Real estate expenses	4,318	
Real estate taxes	1,559	
Donation/contributions	450	
Over and short	<u>4</u>	
Total operating expense		414,603

Non-Operating Expense

Depreciation on real estate		3,988
Federal income tax		16,426
Premium collections transmitted to other companies		88,483
Commissions paid agents for other companies		16,715
Total disbursements		<u>\$1,195,816</u>
Balance - ledger assets, December 31, 2017		<u>\$4,151,746</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 799,828
<u>Deductions</u>	
Losses incurred	\$ 558,645
Loss expenses incurred	37,070
Other operating expenses incurred	361,502
Total underwriting deductions	<u>957,217</u>
Net underwriting gain (loss)	\$ (157,389)
<u>Investment Income</u>	
Net investment income earned	147,786
<u>Other Income</u>	
Premiums collected for other companies (net)	<u>7,398</u>
Net income before Federal income tax	\$ (2,205)
Federal income tax incurred	<u>16,426</u>
Net income	<u>\$ (18,631)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	<u>\$3,978,202</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (18,631)
Change in not admitted assets	1,282
Change in net unrealized gains/losses	<u>115,337</u>
Change in surplus as regards policyholders for the year	<u>\$ 97,988</u>
Surplus as regards policyholders, December 31, 2017	<u>\$4,076,190</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,104,046
<u>Deductions</u>		
Losses incurred	\$ 1,877,712	
Loss expenses incurred	128,127	
Other operating expenses incurred	<u>1,386,180</u>	
Total underwriting deductions		<u>3,392,019</u>
Net underwriting gain (loss)		\$ (287,973)
<u>Investment Income</u>		
Net investment income earned		672,876
<u>Other Income</u>		
Premiums collected for other companies (net)		27,971
Miscellaneous income		<u>124</u>
Net income before Federal income tax		\$ 412,998
Federal income tax incurred		<u>156,114</u>
Net income		<u>\$ 256,884</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$3,712,011</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 256,884	
Change in not admitted assets	2,876	
Change in net unrealized gains/losses	<u>104,419</u>	
Change in surplus as regards policyholders for the period		<u>\$ 364,179</u>
Surplus as regards policyholders, December 31, 2017		<u>\$4,076,190</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>			
Subrogation receivable	\$ 9,022	\$ 67,055	\$ 58,033
<u>Liabilities</u>			
Losses	0	500	(500)
Unpaid adjusting expense	5,300	2,422	<u>2,878</u>
Net change to surplus			\$ 60,411
Surplus per Association			<u>\$4,015,779</u>
Surplus per examination			<u>\$4,076,190</u>

During the period under review, surplus funds increased \$364,179 from the amount of \$3,712,011 as shown in the last previous 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:

Subrogation receivable \$ 67,055

The asset was increased by \$58,033 to reflect the actual amount received in 2017.

Losses \$ 500

This liability was increased by \$500 to reflect current loss development.

Unpaid adjusting expense \$ 2,422

This liability was decreased by \$2,878 to reflect the actual amount paid in 2018.

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 & Company, LLP

Representing the State of Iowa