EXAMINATION REPORT OF

FARMERS MUTUAL INSURANCE ASSOCIATION

GREENE COUNTY, JEFFERSON, IOWA

AS OF DECEMBER 31, 2017

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

Jefferson, Iowa
October 2, 2018

Commissioner Ommen:

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

FARMERS MUTUAL INSURANCE ASSOCIATION

GREENE COUNTY, JEFFERSON, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 108 North Vine, Jefferson, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Farmers 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 1888 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 1946.

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 Jefferson, Iowa on the second Thursday in February at 1 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. Ten members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of nine 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:

Name	Address	Term Expires
Mike Benson	Jefferson, Iowa	2018
Jerry Peckumn	Jefferson, Iowa	2018
Amy Youngblood	Jefferson, Iowa	2018
Steve Fisher	Grand Junction, Iowa	2019
Paul Quam	Jefferson, Iowa	2019
Tim Robbins	Scranton, Iowa	2019
Jean Finch	Jefferson, Iowa	2020
John Guess	Scranton, Iowa	2020
Steve Haupert	Jefferson, Iowa	2020

The reorganization meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the Secretary upon the request of five directors. A majority or five present constitutes a quorum for the transaction of business.

Directors were paid a fee of $250 for each meeting attended and reimbursement of travel expense. Directors are paid $350 per meeting upon completion of the National Association of Mutual Insurance Companies (NAMIC) Farm Mutual Director Certification program.

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

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Vice President, Treasurer and Secretary and such additional officers as it deems necessary. One person may hold more than one office, but cannot hold the offices of president and secretary simultaneously.

Officers serving at December 31, 2017 were:

Name	Office
Steve Fisher	President
Paul Quam	Vice-President
Mike Wolterman	Secretary/Manager
Amy Youngblood	Treasurer

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

CONFLICT OF INTEREST

Conflict of interest statements were signed by all officers and directors. The Association was not able to provide the conflict of interest statements for 2016 and 2017.

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 accepted at the December 11, 2014 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by employee dishonesty coverage in the amount of $50,000. NAIC guidelines, based on the size and operations of the Association, recommend coverage of $75,000. This comment was included in the prior exam report.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Umbrella liability
- Equipment breakdown
- Data breach 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 offered health insurance with premiums paid by the Association. The Association will cover one-half of the premium for immediate family members covered under a separate policy that is equivalent or equal to what the Association offers its employees.

Life insurance and short and long term disability insurance are available to eligible employees with premiums paid by the Association. A Wellness membership to a recreation center is provided for employees' families.

Retirement benefit contributions to a SIMPLE IRA are made by the Association based on three percent of the full-time eligible employee's salary. Contributions of $8,324, $7,684, $10,376 and $12,344 were paid by the Association for 2014, 2015, 2016 and 2017.

Complete Insurance Ltd. (Complete), a subsidiary of the Association, provides a Profit Sharing plan to its employees. Ten percent of the profit is divided by the number of Agency employees as of the year end to determine the amount received per employee. The profit share annual totals were $9,512, $8,700, $5,675 and $10,101 for 2014 to 2017.

Retirement benefit contributions to a SIMPLE IRA are made by Complete to Complete employees. Contributions annually were $7,154, $7,445, $6,522 and $7,926 from 2014 to 2017.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Greene, Guthrie, Carroll, Dallas, Boone, Calhoun, and Webster counties. It was noted, from a review of numerous applications of policies in force, that all risks are located in the proper authorized territory.

Policies are written or renewed for a continuous period with premiums payable monthly, quarterly, annually or semi-annually. The Association underwrites these policies every three years. At the present time, business is produced by nine licensed agents.

UNDERWRITING EXPERIENCE

FOUR-YEAR ENDED DECEMBER 31, 2017

Classification	2014	2015	2016	2017	Total
Premiums earned	$ 631,123	$691,134	$724,975	$752,460	$2,799,692
Incurred deductions:					
Losses	$ 559,852	$434,511	$345,454	$275,858	$1,615,675
Loss adjustment expense	6,708	2,155	13,448	(46)	22,265
Commissions	88,958	92,384	93,184	123,092	397,618
Salaries	93,435	98,776	98,721	102,920	393,852
Taxes, licenses and fees	(41,703)	18,163	17,004	18,611	12,075
Other underwriting expenses	130,556	93,949	86,986	87,296	398,787
Total deductions	$ 837,806	$739,938	$654,797	$607,731	$2,840,272
Underwriting gain or (loss)	$(206,683)	$(48,804)	$ 70,178	$144,729	$ (40,580)

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

	2014	2015	2016	2017	Total
Incurred deductions:					
Losses	88.71%	62.87%	47.65%	36.66%	57.71%
Loss adjustment expense	1.06	.31	1.85	(.01)	.80
Commissions	14.10	13.37	12.85	16.36	14.20
Salaries	14.80	14.29	13.62	13.68	14.07
Taxes, licenses and fees	(6.61)	2.63	2.35	2.48	.43
Other underwriting expenses	20.69	13.59	12.00	11.60	14.24
Total deductions	132.75%	107.06%	90.32%	80.77%	101.45%
Underwriting gain or (loss)	(32.75)%	(7.06)%	9.68%	19.23%	(1.45)%

REINSURANCE

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

Property Per Risk Excess of Loss

First $150,000 of ultimate net loss per risk is retained by the 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding $10,000,000.

Property Aggregate Excess of Loss

First $758,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. One-hundred 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.

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 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 its own agency, Complete, and another unaffiliated financial company, Peckum Real Estate. Complete is 100 percent owned by the Association. Complete produced ninety-seven percent of the Association’s business during 2017.

Complete paid $200 monthly rent to the Association in 2017. Utilities are shared between Agency and Association 50/50. The expense allocation between Complete and the Association appears reasonable.

The Association does not have a written lease for either tenant.

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.

Eleven checks were outstanding more than three years as of the Examination date. It is recommended that the Association follow State escheat laws.

The Association was not in compliance with the Commissioner's Bulletin 97-6 at December 31, 2017 relative to security custodial requirements. Complete, the affiliated subsidiary, has investments held by a broker.

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 $289,283,159. The Association's statutory minimum surplus level as of December 31, 2017 was $289,283. It is noted the Association's surplus level to minimum surplus level ratio was 15.3/1. 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

	Ledger	Nonledger	Not Admitted	Admitted
Bonds	$2,529,327	$(324,698)	$	$2,204,629
Stocks	1,358,538	645,077	(12,319)	2,015,934
Bank balances:				
Subject to check	234,014			234,014
On interest	171,209	362,999		534,208
Real estate	45,186			45,186
Cash in office	50			50
Unpaid premiums:				
Due after November 1		20,838	11,327	9,511
Accrued interest		20,916		20,916
Equipment and furniture		127	127	
Total	$4,338,324	$ 725,259	$ (865)	$5,064,448

LIABILITIES AND SURPLUS

Unpaid claims	$ 99,418
Unpaid adjusting expenses	1,331
Ceded reinsurance balances payable	19,254
Unpaid salaries and commissions	13,509
Amounts withheld for others	5,067
Taxes payable	65,246
Other unpaid expenses	2,500
Premiums collected for other companies - not remitted	6,936
Premiums received in advance	18,322
Unearned premium reserve	404,558
Total liabilities	$ 636,141
Surplus as regards policyholders	$4,428,307
Total liabilities and surplus	$5,064,448

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016		$3,825,790
INCOME		
Net premiums and fees		$ 795,062
Net interest received on bonds		72,223
Increase (Decrease) by adjustment - bonds		(4,107)
Dividends received		79,373
Interest received on bank deposits		1,765
Profit on sale of investments		105,556
Rents received		10,800
Increase in ledger liabilities		13,922
Miscellaneous		2,163
Total income		$1,076,757
Total assets and income		$4,902,547
DISBURSEMENTS		
Net losses paid		$ 161,080
Operating Expense		
Loss adjustment expenses	$ 2,833	
Commissions	109,583	
Advertising	3,965	
Boards, bureaus and associations	7,162	
Salaries of officers	57,256	
Salaries of office employees	45,664	
Employee welfare	9,933	
Insurance	21,152	
Directors' expenses	13,465	
Rent and rent items	3,600	
Equipment	9,000	
Printing, stationery and supplies	20,084	
Postage, telephone	5,505	
Legal and auditing	8,550	
State insurance taxes	9,476	
Insurance Division licenses and fees	155	
Payroll taxes	8,109	
Real estate expenses	27,319	
Real estate taxes	3,166	
Miscellaneous	7,533	
Travel	4,543	
Conventions	650	
Donations/contributions	6,151	
Total operating expense		384,854
Non-Operating Expense		
Depreciation on real estate		1,761
Loss on sale of investment		16,528
Total disbursements		$ 564,223
Balance - ledger assets, December 31, 2017		$4,338,324

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$ 752,460
Deductions		
Losses incurred	$275,858	
Loss expenses incurred	(46)	
Other operating expenses incurred	331,919	
Total underwriting deductions		607,731
Net underwriting gain (loss)		$ 144,729
Investment Income		
Net investment income earned		220,205
Other Income		
Premiums collected for other companies		(6,740)
Miscellaneous income		2,163
Net income before Federal income tax		$ 360,357
Federal income tax incurred		119,411
Net income		$ 240,946

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	$3,969,959
Gains and (Losses) in Surplus	
Net income	$ 240,946
Unrealized capital change	217,402
Change in surplus as regards policyholders for the year	$ 458,348
Surplus as regards policyholders, December 31, 2017	$4,428,307

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

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$2,799,692
Deductions		
Losses incurred	$1,615,675	
Loss expenses incurred	22,265	
Other operating expenses incurred	1,202,332	
Total underwriting deductions		2,840,272
Net underwriting gain (loss)		$ (40,580)
Investment Income		
Net investment income earned		805,384
Other Income		
Premiums collected for other companies		(6,632)
Miscellaneous income		5,539
Net income before Federal income tax		$ 763,711
Federal income tax incurred		59,411
Net income		$ 704,300

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	$3,350,398
Gains and (Losses) in Surplus	
Net income	$ 704,300
Unrealized capital change	373,609
Change in surplus as regards policyholders for the period	$1,077,909
Surplus as regards policyholders, December 31, 2017	$4,428,307

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease are shown in the following statement of differences:

Classification	Association Annual Statement	Examination Financial Statement	Surplus Increase (Decrease)
Assets			
Bonds	$2,567,748	$2,204,629	$ (363,119)
Stocks	2,003,616	2,015,935	12,319
Bank balances - On interest	171,209	534,208	362,999
Unpaid premiums - Due after November 1	20,838	9,511	(11,327)
Liabilities			
Unpaid claims	90,252	99,418	(9,166)
Unpaid adjusting expenses		1,331	(1,331)
Unpaid salaries and commissions	12,672	13,509	(837)
Taxes payable	65,435	65,246	189
Net change in surplus			$ (10,273)
Surplus per Association			$4,438,580
Surplus per examination			$4,428,307

During the period under review, surplus funds increased $1,077,909 from the amount of $3,350,398 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

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

Bonds $2,204,629

This asset was decreased $363,199 primarily to reclassify certificates of deposit that were classified as bonds.

Stocks $2,015,935

This asset was increased $12,319 to properly report subsidiary agency.

Bank balances - on interest $ 534,208

This asset was increased $362,999 primarily to reclassify certificates of deposit that were classified as bonds.

Unpaid premiums - Due after November 1 $ 9,511

This asset was decreased $11,327 to properly account for premiums due as of the Examination date.

Unpaid claims $ 99,418

This liability was increased by $9,166 to reflect actual loss development.

Unpaid adjusting expenses $ 1,331

An analysis of paid adjusting expenses to paid losses applied to the unpaid claim reserve increased this liability by $1,331.

Unpaid salaries and commissions $ 13,509

This liability increased by $837 to account for the actual commissions due as of the December 31, 2017.

Taxes payable $ 65,246

This liability increased by $189 to properly reflect the actual federal income taxes due as of December 31, 2017.

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, CPA, CFE
Insurance Company Examiner Specialist
Iowa Insurance Division