

EXAMINATION REPORT OF
MARION COUNTY MUTUAL INSURANCE ASSOCIATION
MARION COUNTY, KNOXVILLE, IOWA
AS OF DECEMBER 31, 2016

Knoxville, Iowa
November 27, 2017

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

MARION COUNTY MUTUAL INSURANCE ASSOCIATION

MARION COUNTY, KNOXVILLE, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 303 East Main Street, Knoxville, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2013 to December 31, 2016. 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 1923 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 1964.

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 Knoxville, Iowa on the third Wednesday in February 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. 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 seven directors, each elected by a majority vote at the annual meeting of the members for terms of three years. Any person who has or will have attained the age of seventy-five years prior to the election of directors shall be ineligible. 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, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Norman Van Zante	Pella, Iowa	2017
Dale Miller	Knoxville, Iowa	2017
Jim Gosselink	Pella, Iowa	2017
Michael Beaty	Russell, Iowa	2018
Larry Ancell	Leighton, Iowa	2018
Bob Sytsma	Leighton, Iowa	2019
Barry Doschadis	Norwalk, Iowa	2019

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 \$150 for each meeting attended and reimbursement of travel expenses.

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

EXECUTIVE COMMITTEE

The President, Vice President, Treasurer and Secretary serve on this committee. Per the review of the Executive Committee minutes during the examination period, the meetings are held regularly on the same date as the Board of Directors regular meetings. Primary functions are to review and recommend payment of theft claims and review investment purchases. Committee members receive a fee of \$50 for each meeting attended plus reimbursement of travel expense.

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, 2016 were:

<u>Name</u>	<u>Office</u>
Norman Van Zante	President
Michael Beaty	Vice President
Mark Doschadis	Secretary
Dale Miller	Treasurer

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.

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 February 2, 2015 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 in an annual period.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property and business personal property
- Inland marine for electronic data processing
- Commercial general liability
- Commercial umbrella liability
- Business automobile

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

The Association also provides eligible employees with a Simplified Employee Pension (SEP) plan whereby the employee must be twenty-one years of age to become an active member. The Association contributed 10% the active member's salary/wage to the plan in each year of the Examination. An active member is not required to make contributions in order to participate in the plan, however, the active member is permitted to make voluntary contributions.

Contributions to SEP plan were paid by the Association of \$13,175, \$13,588, and \$14,141 for each year of 2014, 2015 and 2016, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Marion, Mahaska, Monroe, Lucas, Warren, Polk, and Jasper 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by 92 licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Premiums earned	<u>\$1,088,349</u>	<u>\$ 988,250</u>	<u>\$ 892,167</u>	<u>\$2,968,766</u>
Incurred deductions:				
Losses	\$ 772,260	\$ 415,630	\$ 157,336	\$1,345,226
Loss adjustment expenses	29,788	23,245	25,460	78,493
Commissions	224,883	212,015	188,160	625,058
Salaries	99,950	102,935	111,990	314,875
Taxes, licenses and fees	25,686	25,770	24,414	75,870
Other underwriting expenses	<u>141,940</u>	<u>154,761</u>	<u>154,543</u>	<u>451,244</u>
Total deductions	<u>\$1,294,507</u>	<u>\$ 934,356</u>	<u>\$ 661,903</u>	<u>\$2,890,766</u>
Underwriting gain (loss)	<u>\$ (206,158)</u>	<u>\$ 53,894</u>	<u>\$ 230,264</u>	<u>\$ 78,000</u>

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

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>Total</u>
Incurred deductions:							
Losses	70.96	%	42.06	%	17.64	%	45.31%
Loss adjustment expenses	2.74		2.35		2.85		2.64
Commissions	20.66		21.45		21.09		21.05
Salaries	9.18		10.42		12.55		10.61
Taxes, licenses and fees	2.36		2.61		2.74		2.56
Other underwriting expenses	<u>13.04</u>		<u>15.66</u>		<u>17.32</u>		<u>15.20</u>
Total deductions	<u>118.94</u>	%	<u>94.55</u>	%	<u>74.19</u>	%	<u>97.37%</u>
Underwriting gain (loss)	<u>(18.94)</u>	%	<u>5.45</u>	%	<u>25.81</u>	%	<u>2.63%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$100,000 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.

Aggregate Excess of Loss

First \$800,000 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 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 prompt and equitable settlements which were in keeping with the terms of the policy contracts.

AFFILIATED AGENCY

Marion County Mutual Agency, Inc, referenced hereinafter as "Agency" is 100 percent owned by the Association and did not produce any of the Association's business during 2016. The agency was formed to allow the Association's agents to have auto-home discounts available.

Agency paid no monthly rent or management fee to the Association during the exam period. There were no board meetings held by the agency during the exam period. Any actions taken regarding the Agency are included in the minutes of the Association.

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, 2016 relative to security custodial requirements.

Per review of Board minutes, it was observed some Board members failed to recuse themselves on matters where it may appear there is a conflict of interest.

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, 2016, the gross risk in force for the Association was \$430,110,000. The Association's statutory minimum surplus level as December 31, 2016 was \$430,110. It is noted the Association's surplus level to minimum surplus level ratio was 5.9/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2016 was 9.2/1.

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, 2016 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	\$ 946,197	\$	\$	\$ 946,197
Stocks	777,888	596,129	892	1,373,125
Bank balances:				
Subject to check	806,658			806,658
Real estate	16,514			16,514
Cash in office	222			222
Unpaid premiums:				
Due after November 1		7,843		7,843
Accrued interest		8,978		8,978
Equipment and furniture	3,679		3,679	
Federal income tax recoverable		16,143		16,143
EDP equipment	1,940		304	1,636
	\$2,553,098	\$ 629,093	\$ 4,875	\$3,177,316
Total				

LIABILITIES AND SURPLUS

Losses	\$	31,084
Unpaid adjusting expenses		1,767
Ceded reinsurance balances payable		41,332
Taxes payable		776
Other unpaid expenses		1,052
Premiums collected for other companies - not remitted		6,682
Premiums received in advance		17,545
Unearned premium reserve		550,000
		\$ 650,238
Total liabilities		
Surplus as regards policyholders		2,527,078
Total liabilities and surplus		\$3,177,316

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015 \$2,359,506

INCOME

Net premiums and fees		\$ 868,184
Net interest received on bonds		33,563
Decrease by adjustment - bonds		(4,189)
Dividends received		32,731
Profit on sale of investments		38,899
Rents received		3,600
Premiums collected for other companies		121,926
Federal income tax refund		10,000
Miscellaneous		23
Total income		<u>\$1,104,737</u>
Total assets and income		<u>\$3,464,243</u>

DISBURSEMENTS

Losses paid		\$ 188,752
<u>Operating Expense</u>		
Adjusting expense	\$ 24,943	
Commissions	202,170	
Advertising	4,357	
Boards, bureaus and associations	6,561	
Inspection and loss prevention	28,964	
Salaries of officers	47,745	
Salaries of office employees	64,245	
Employee welfare	48,602	
Insurance	12,266	
Directors' compensation	7,350	
Directors' expenses	1,089	
Rent and rent items	3,600	
Equipment	6,182	
Printing, stationary and supplies	10,181	
Postage and telephone	11,619	
Legal and auditing	9,220	
Premium taxes	13,839	
Insurance Division licenses and fees	795	
Payroll taxes	11,143	
Real estate expenses	293	
Real estate taxes	776	
Miscellaneous	655	
Travel and travel items	726	
Total operating expense	<u>517,321</u>	\$ 517,321

Non-Operating Expense

Depreciation on real estate		1,583
Loss on sale of investments		43,158
Federal income tax		43,400
Premium collections transmitted to other companies		97,557
Commissions paid agents for other companies		17,928
Decrease in ledger liabilities		1,446
Total disbursements		<u>\$ 911,145</u>
Balance - ledger assets, December 31, 2016		<u>\$2,553,098</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$ 892,167
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$157,336	
Loss expenses incurred	25,460	
Other operating expenses incurred	479,107	
Total underwriting deductions		<u>661,903</u>
Net underwriting gain (loss)		\$ 230,264
<u>Investment Income</u>		
Net investment income earned		60,627
<u>Other Income</u>		
Premiums collected for other companies (net)		7,201
Miscellaneous income		<u>24</u>
Net income before Federal income tax		\$ 298,116
Federal income tax incurred		<u>17,257</u>
Net income		<u>\$ 280,859</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$2,077,641</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 280,859	
Change in not admitted assets	(2,871)	
Change in net unrealized gains/losses		<u>171,449</u>
Change in surplus as regards policyholders for the period		<u>\$ 449,437</u>
Surplus as regards policyholders, December 31, 2016		<u>\$2,527,078</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$2,968,766
<u>Deductions</u>		
Losses incurred	\$1,345,226	
Loss expenses incurred	78,493	
Other operating expenses incurred	1,467,047	
Total underwriting deductions		<u>2,890,766</u>
Net underwriting gain (loss)		\$ 78,000
<u>Investment Income</u>		
Net investment income earned		191,221
<u>Other Income</u>		
Premiums collected for other companies (net)		19,090
Miscellaneous income		<u>24</u>
Net income before Federal income tax		\$ 288,335
Federal income tax incurred		<u>17,257</u>
Net income		<u>\$ 271,078</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$1,996,411</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 271,078	
Change in not admitted assets	(3,702)	
Change in net unrealized gains/losses		<u>263,291</u>
Change in surplus as regards policyholders for the period		<u>\$ 530,667</u>
Surplus as regards policyholders, December 31, 2016		<u>\$2,527,078</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>			
Stocks	\$ 1,374,017	\$1,373,125	\$ (892)
Federal income tax recoverable	0	16,143	16,143
<u>Liabilities</u>			
Losses	39,000	31,084	7,916
Unpaid adjusting expenses	780	1,767	<u>(987)</u>
Net change to surplus			\$ 22,180
Surplus per Association			<u>2,504,898</u>
Surplus per examination			<u>\$2,527,078</u>

During the period under review, surplus funds increased \$530,667 from the amount of \$1,996,411 as shown in the last previous examination report. An operating statement reflecting that change is contained in the financial section.

COMMENTS

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

Stocks \$ 1,373,125

The asset was decreased by \$892 to reflect the proper valuation of the wholly owned subsidiary agency.

Federal income tax recoverable \$ 16,143

The asset was established to reflect the income tax refund received of \$16,143.

Losses \$ 31,084

Losses decreased by \$7,916 to reflect actual loss development.

Unpaid adjusting expenses \$ 1,767

An analysis of paid adjusting expenses to paid losses increased the liability by \$987.

