

EXAMINATION REPORT OF
FARMERS MUTUAL INSURANCE ASSOCIATION
TAMA COUNTY, TRAER, IOWA
AS OF DECEMBER 31, 2019

Traer, Iowa
December 30, 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

FARMERS MUTUAL INSURANCE ASSOCIATION

TAMA COUNTY, TRAER, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 540 Second Street, Traer, 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 1877 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 1952.

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 Traer, Iowa on the third Tuesday in February at 10:30 a.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 not less than five nor more than 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, 2019 were:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Kent Aschenbrenner	Dysart, Iowa	2020
Jay Aschenbrenner	Dysart, Iowa	2021
Henry Horstmann	Gladbrook, Iowa	2021
Mark Tomlinson	Traer, Iowa	2021
R. Sam Young	Traer, Iowa	2022
Paul Wood	Clutier, 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 an annual fee of \$595 if all meetings are attended. The fee is reduced by \$75 per meeting that is missed.

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, 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>
R. Sam Young	President
Mark Tomlinson	Vice President
Daniel Dierks	Secretary/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 or 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 did not reflect that the Examination Report as of December 31, 2016 reviewed or accepted in the Board of Directors meeting minutes.

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 indefinite 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
- Cyber liability and data breach response coverage

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 an annual payment for reimbursement of health insurance premiums of \$5,250 in 2017, \$5,500 in 2018, and \$5,750 in 2019.

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 six counties in the State of Iowa. The permitted writing territory is composed of the following counties: Benton, Black Hawk, Grundy, Marshall, Poweshiek, and Tama 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 one year period with premiums payable quarterly, annually or semi-annually. Policies are underwritten every 1 to 2 years.

Inspections were performed by Secretary/Treasurer/Manager Daniel Dierks.

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

UNDERWRITING EXPERIENCETHREE-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$ 601,512	\$ 547,945	\$ 526,413	\$ 1,675,870
Incurred deductions:				
Losses	\$ 439,431	\$ 377,890	\$ 245,645	\$ 1,062,966
Loss adjustment expense	26,944	14,624	16,372	57,940
Commissions	140,880	131,052	120,333	392,265
Salaries	115,140	112,545	120,800	348,485
Taxes, licenses and fees	18,367	20,253	18,480	57,100
Other underwriting expenses	69,697	81,711	71,375	222,783
Total deductions	\$ 810,459	\$ 738,075	\$ 593,005	\$ 2,141,539
Underwriting gain or (loss)	\$ (208,947)	\$ (190,130)	\$ (66,592)	\$ (465,669)

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	73.05%	68.96%	46.66%	63.43%
Loss adjustment expenses	4.48	2.67	3.11	3.46
Commissions	23.42	23.92	22.86	23.41
Salaries	19.14	20.54	22.95	20.79
Taxes, licenses and fees	3.05	3.70	3.51	3.41
Other underwriting expenses	11.60	14.91	13.56	13.29
Total deductions	134.74%	134.70%	112.65%	127.79%
Underwriting gain or (loss)	(34.74%)	(34.70%)	(12.65%)	(27.79%)

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 \$100,000 of ultimate net loss per risk is retained by the 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Aggregate Excess of Loss

First \$450,000 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. 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

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2019, no facultative coverage was 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.

NON-AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with County Mutual Agency (Agency). The Agency pays \$100 per month rent. The Agency provides one ream of paper per year. All utilities are paid by the Association. The Agency is owned by Dan Dierks, Secretary/Treasurer of the Association. The Agency does not produce any of the Association's business.

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 not in compliance with the Commissioner's Bulletin 97-6 at December 31, 2019 relative to security custodial requirements. Cetera, whom the Association is contracted with to custody their investments, is a brokerage firm instead of a custodian.

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 \$212,955,439. The Association's statutory minimum surplus level as of December 31, 2019 was \$212,955. It is noted the Association's surplus level to minimum surplus level ratio was 16.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

The Association could not produce agent contracts. It is recommended the Association update the contracts before the next exam.

The Association does not have a suspension policy. It is recommended the Association adopt a suspension policy before the next exam.

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>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$2,619,833	\$	\$	\$2,619,833
Stocks	240,699	72,904		313,603
Bank balances:				
Subject to check	6,638			6,638
On interest	981,779		27,310	954,469
Real estate	9,952			9,952
Unpaid premiums:				
Due before November 1		13,285	13,285	
Due after November 1		24,392		24,392
Accrued interest		23,876		23,876
EDP equipment	1,454			1,454
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$3,860,355	\$ 134,457	\$ 40,595	\$3,954,217

LIABILITIES AND SURPLUS

Losses	\$ 17,024
Unpaid adjusting expenses	2,100
Ceded reinsurance balances payable	34,856
Unpaid salaries and commissions	4,413
Amounts withheld for the account of others	2,430
Taxes payable	1,667
Premiums collected for other companies - not remitted	2,409
Premiums received in advance	5,165
Unearned premium reserve	369,000
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Total liabilities	\$ 439,064
Surplus as regards policyholders	3,515,153
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Total liabilities and surplus	\$3,954,217

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$	3,919,967
	<u>INCOME</u>		
Net premiums and fees		\$	505,793
Net interest received on bonds			95,402
Increase (Decrease) by adjustment - bonds			(2,368)
Dividends received			3,488
Interest received on bank deposits			5,495
Profit on sale of investments			23,049
Rents received			3,600
Premiums collected for other companies			37,992
Increase in ledger liabilities			6,960
Miscellaneous income			157
Total income		\$	679,568
Total assets and income		\$	4,599,535
	<u>DISBURSEMENTS</u>		
Losses paid		\$	242,621
<u>Operating Expense</u>			
Loss adjustment expenses	\$		16,572
Commissions	128,655		
Advertising	2,506		
Boards, bureaus and associations	6,204		
Salaries of officers	38,792		
Expenses of officers	620		
Salaries of office employees	82,008		
Employee welfare	1,293		
Insurance	12,210		
Directors' compensation	3,420		
Rent and rent items	2,570		
Equipment	4,044		
Printing, stationery and supplies	2,768		
Postage and telephone	27,098		
Legal and auditing	9,500		
State insurance taxes	9,696		
Insurance Division licenses and fees	185		
Payroll taxes	8,601		
All other taxes	1,386		
Real estate expenses	5,223		
Real estate taxes	1,082		
Miscellaneous	46		
Donations/contributions	525		
Annual meeting expense	300		
Over and short	2,755		
Total operating expense		\$	368,059
<u>Non-Operating Expense</u>			
Depreciation on real estate			680
Loss on sale of investments			74,476
Federal income tax			15,269
Premium collections transmitted to other companies			32,063
Commissions paid agents for other companies			6,012
Total disbursements		\$	739,180
Balance - ledger assets, December 31, 2019		\$	3,860,355

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 526,413

Deductions

Losses incurred \$ 245,645

Loss expenses incurred 16,372

Other operating expenses incurred 330,988

Total underwriting deductions 593,005

Net underwriting gain (loss) \$ (66,592)

Investment Income

Net investment income earned 48,561

Other Income

Miscellaneous income 157

Premiums collected for other companies 37

Net loss before Federal income tax \$ (17,837)

Federal income tax incurred 15,623

Net loss \$ (33,460)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018 \$3,496,186

Gains and (Losses) in Surplus

Net loss \$ (33,460)

Change in net unrealized gains/losses 52,427

Change in surplus as regards policyholders for the year \$ 18,967

Surplus as regards policyholders, December 31, 2019 \$3,515,153

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,675,870
<u>Deductions</u>		
Losses incurred	\$1,062,966	
Loss expenses incurred	57,940	
Other operating expenses incurred	1,020,633	
Total underwriting deductions		<u>2,141,539</u>
Net underwriting gain (loss)		\$ (465,669)
<u>Investment Income</u>		
Net investment income earned		226,050
<u>Other Income</u>		
Miscellaneous income		157
Premiums collected for other companies		<u>5,091</u>
Net loss before Federal income tax		\$ (234,371)
Federal income tax incurred		<u>49,605</u>
Net loss		<u>\$ (283,976)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		\$3,765,168
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (283,976)
Change in not admitted assets		1,474
Change in net unrealized capital gains/losses		<u>32,487</u>
Change in surplus as regards policyholders for the period		<u>\$ (250,015)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$3,515,153</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	\$ 286,248	\$ 313,603	\$ 27,355
Bank balances - on interest	981,779	954,469	(27,310)
Unpaid premiums	4,254	24,392	20,138
<u>Liabilities</u>			
Losses	38,400	17,024	21,376
Unpaid salaries and commissions	3,728	4,413	(685)
Taxes payable	4,854	1,667	3,187
Premiums received in advance	6,194	5,165	1,029
Unearned premium reserve	362,000	369,000	<u>(7,000)</u>
Net change in surplus			\$ 38,090
Surplus per Association			<u>3,477,063</u>
Surplus per examination			<u>\$3,515,153</u>

During the period under review, surplus funds decreased \$250,015 from the amount of \$3,765,168 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:

Stocks \$ 313,603

This asset was increased by \$27,355 to reflect the correct balance and re-classify the short-term balance account from the Bank balances - on interest.

Bank balances - on interest \$ 954,469

This asset was decreased by \$27,310 to re-class the short-term balance to Stocks.

Unpaid premiums \$ 24,392

This asset was increased by \$20,138 to reflect the actual amount of premiums received in 2020.

Losses \$ 17,024

Losses decreased by \$21,376 to reflect actual loss development.

Unpaid salaries and commissions \$ 4,413

This liability was increased by \$685 to reflect the actual commissions paid on premiums receivable.

Taxes payable \$ 1,667

This liability decreased by \$3,187 due to an adjustment to federal taxes and real estate taxes payable.

Premiums received in advance \$ 5,165

This liability was decreased by \$1,029 to reflect actual premiums paid in 2020 for 2019.

Unearned premium reserve \$ 369,000

A recalculation of unearned premium reserve using examination adjustments increased the liability by \$7,000.

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