

EXAMINATION REPORT OF
FARMERS MUTUAL INSURANCE ASSOCIATION OF ROSELLE
CARROLL COUNTY, CARROLL, IOWA
AS OF DECEMBER 31, 2015

Carroll, Iowa
January 17, 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

FARMERS MUTUAL INSURANCE ASSOCIATION OF ROSELLE

CARROLL COUNTY, CARROLL, IOWA

AS OF DECEMBER 31, 2015

at its Home Office, 1424 North US Highway 71, Carroll, 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, 2015. 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 1876 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 1957.

Effective March 1, 2013, the Association merged with Calhoun Mutual Insurance Association of Calhoun, Iowa with the Association being the survivor.

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.

According to the Articles of Incorporation (Articles), the annual membership meeting is to be held at Carroll, Iowa on the second Monday in March at 1:00 p.m. Annual membership meetings in 2014 and 2015 were held on the last Monday of March. Articles were not amended to memorialize this change during the Examination Period. Special meetings may be called by the President as provided in the articles of Incorporation. Ten days written notice of the time and place of special meetings shall be given the membership. One more member than the number of directors in the bylaws 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 five nor more than eleven directors, each elected by a majority vote at the annual meeting of the members for terms of four 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, 2015 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Norbert Weitzl	Carroll, Iowa	2016
Dale Boes	Breda, Iowa	2017
Anthony Meiners	Carroll, Iowa	2017
Thomas Brincks	Carroll, Iowa	2017
Neil Sibenaller	Odebolt, Iowa	2017
Jeff Klocke	Carroll, Iowa	2018
Kenneth Sanders	Carroll, Iowa	2018

Salaries and remunerations of Directors are shown on Schedule A following this report.

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.

Directors receive a fee of \$100 for each meeting attended and reimbursement of travel expense.

OFFICERS

At the annual meeting of the directors, which is held immediately following the annual meeting of the members, the Board of Directors elects such officers as may be required for the proper conduct of the business of the Association. The elected officers serve for a term of one year.

Officers serving at December 31, 2015 were:

<u>Name</u>	<u>Office</u>
Jeff Klocke	President
Neil Sibenaller	Vice President
Thomas Brincks	Secretary-Treasurer

Salaries and remunerations of Officers are shown on Schedule A following this report.

At the Board of Directors meeting held on September 10, 2014, the Board accepted the resignation of Kelly Danner from the Board as a Director and as Secretary. The Board then elected Tom Brincks to the position of Secretary/Treasurer and Jeff Klocke to the position of President.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and directors. Conflicts were properly disclosed.

CORPORATE RECORDS

Articles were not amended or substituted during the period covered by this examination. Bylaws were amended during the Examination period.

Articles state that a quorum for an annual members meeting shall consist of one more member than the number of directors stated in the bylaws. Revised bylaws state that this number should be set by the Board resolution. No resolution of the number of directors was noted in the Board minutes during the Examination period.

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 read and an action plan addressing the Report was approved at the March 30, 2015 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 three year 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
- Agents and Brokers professional liability

Adequate insurance is placed with authorized insurers except professional liability, officers' and directors' liability and agents and brokers professional liability which are written by a surplus lines insurer permitted to write in Iowa.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Carroll County and contiguous counties. It was noted, from a review 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 monthly, quarterly, semi-annually or annually. The Association underwrites farm policies every three years and all other policies every five years. In 2015, business was produced by 30 licensed agents.

UNDERWRITING EXPERIENCE

TWO-YEAR PERIOD ENDED DECEMBER 31, 2015

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Premiums earned	\$901,114	\$ 916,889	\$1,818,003
Incurred deductions:			
Losses	\$538,761	\$ 650,153	\$1,188,914
Loss adjustment expense	7,714	22,936	30,650
Commissions	139,959	134,160	274,119
Salaries	53,808	91,940	145,748
Taxes, licenses and fees	20,567	32,057	52,624
Other underwriting expenses	<u>87,866</u>	<u>119,089</u>	<u>206,955</u>
Total deductions	<u>\$848,675</u>	<u>\$1,050,335</u>	<u>\$1,899,010</u>
Underwriting gain (loss)	<u>\$ 52,439</u>	<u>\$ (133,446)</u>	<u>\$ (81,007)</u>

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

	<u>2014</u>	<u>2015</u>	<u>Total</u>
Incurred deductions:			
Losses	59.79%	70.91%	65.40%
Loss adjustment expense	.86	2.50	1.69
Commissions	15.53	14.63	15.08
Salaries	5.97	10.02	8.02
Taxes, licenses and fees	2.28	3.50	2.89
Other underwriting expenses*	<u>9.75</u>	<u>12.99</u>	<u>11.38</u>
Total deductions	<u>94.18%</u>	<u>114.55%</u>	<u>104.46%</u>
Underwriting gain or (loss)	<u>5.82%</u>	<u>(14.55)%</u>	<u>(4.46)%</u>

*Other underwriting expenses include fee-based compensation for one inspector.

REINSURANCE

The Association had reinsurance contracts in force as of December 31, 2015 with an authorized insurer which provide the following:

Individual Occurrence of Loss Excess

Fire, Lightning and Extended Coverage (Other Than Windstorm and Hail)

One hundred percent in excess of \$150,000 at one location, arising out of one event, insured on one or more policies, up to the limit stated in the coverage schedule.

Windstorm and Hail (Excluding Hail on Growing Crops)

One hundred percent in excess of \$150,000 at one location, arising out of one windstorm or hailstorm, insured on one or more policies; and/or the total of losses occurring on items insured on one policy at multiple locations arising out of one windstorm or hailstorm.

Aggregate Excess of Loss

Fire, Windstorm and Extended Coverages:

One hundred percent of the amount in excess of \$867,295 for the net aggregate loss occurring during the 2015 contract year subject to the following limitations:

Livestock/Poultry/Horse Operations: including swine and poultry confinements, dairy, beef and veal operations and horse training and boarding facilities \$1,000,000

Commercial and Public property: including community halls, schools, churches, agribusiness risks and other commercial type risks \$1,000,000

Farm Product Storage Structures: excluding livestock, poultry, horse operations or farm machinery and equipment storage buildings \$1,000,000

Farm Machinery and Equipment Storage Buildings: includes farm outbuildings and other structures used to store mobile farm machinery and other farm equipment and tools \$2,000,000

Dwelling: including contents, additional living expense, other structures and scheduled personal property coverages \$1,000,000

Hail on Growing Crops

One hundred percent of each risk written.

Facultative Quota Share

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis.

The Association has four facultative policies in 2015.

The Association's facultative cession did not appear to be unreasonable.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

CLAIMS

Adjustment of property claims is handled primarily by a third party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for overage. The third party adjuster prepares and signs the proof of loss and home office personnel issue the claim proceeds.

Secretary-Manager handles some small claims. An inspector is shared with Mt. Carmel Mutual Insurance Association. Association reimburses Mt. Carmel Mutual Insurance Association the amount of 50% of inspector's pay package, mileage and business expenses.

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.

SUBSIDIARY AGENCY

The Association shares its Home Office with Roselle Insurance Agency, Inc. (Agency), a wholly owned subsidiary. Agency handles auto, commercial and crop insurance for two reinsurers. Seventy-eight percent of all commissions paid to the Agency are paid to the agents and twenty-two percent is retained by Agency. Commissions paid to Agency of \$96,956 were seventy-one percent Association business for 2015. The Agency pays annual rent of \$1,200.

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 and authorized signatures. Cash receipts and disbursements were proven by comparison and reconciliation to the monthly bank statements.

The Association has not addressed the following items that were noted in the Examination Reports dated December 31, 2011 and December 31, 2013 respectively:

- The Association is not in compliance with its investment policy. The Association's investment policy established by the Board of Directors in 2013 stated that the Association's investments shall have a fixed income (bonds) to equity (stocks) ratio of 80% to 20%. It was noted in 2013 Examination Report that the Association was not in compliance. In 2014, the Board revised the investment policy to allow a fixed income to equity ratio of 70% to 30%. As of December 31, 2015, the Association continues to be out of compliance with a ratio of 50% fixed income to 50% equity.
- Articles for the Association's 100% owned agency, Roselle Insurance Agency, need to be amended to change the par value of the initial capital stock reputed as issued in 2011. Also, the Agency needs to establish a stock register to formally recognize the 1,000 shares of stock represented to be issued and outstanding at inception. Signed bylaws have not been established for the agency.

- The Secretary/Manager rents space within the Association owned building. In 2013, the Board approved a rent amount of \$375 per month. No rental payment at all was made prior to 2014 as was noted in the 2013 Examination Report. Rental payments of only \$300 per month were received in both 2014 and 2015. No written real estate agreement has been executed, as directed by the Board's approved action plan dated March 30, 2015.
- Nine of twelve months of bank statements in calendar year 2015 had balances with at least three days in a month that were over \$250,000. Prudent business practices would dictate that no more than \$250,000 be held at any one depository in order to remain under the FDIC insured limit. This was also noted in both the 2011 and the 2013 Examination Reports.
- The Board approved a change in the date of the annual members meeting from the second Monday in March to during the month of March. Annual membership meetings in 2014 and 2015 were held on the last Monday in March. However, no revision of Articles to memorialize this change has been completed during the Examination Period. This was also noted in the 2013 Examination Report.

The following additional items were noted during the current examination:

- As stated in the "Corporate Records" section, the Association Articles effective April 1, 2010 define a quorum at annual membership meetings to be one more member than the number of directors stated in the bylaws. The revised bylaws approved July 22, 2015 state the number of Directors is to be set by Resolution of the Board of Directors. No evidence of a Board resolution was provided.
- Neither the Articles nor the Bylaws contain provisions for the nomination of directors by the policyholders.
- The Director that accepted the nomination for Secretary/Treasurer did not recuse himself from a vote on the position in March 2014 and March 2015.

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, 2015, the gross risk in force for the Association was \$274,966,540. The Association's statutory minimum surplus level as December 31, 2015 was \$274,967. It is noted the Association's surplus level to minimum surplus level ratio was 9.1/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2015 was 8.1/1.

SUBSEQUENT EVENTS

Association must annually appoint its producers pursuant to Iowa Administrative Code 191-10.6 and remit appropriate fees. The Association failed to timely renew producer appointments and remit appropriate fees for 2016. Subsequent to the as of date of this examination, the Association reappointed its producers and paid a reinstatement fee.

On March 31, 2016, a director, Tony Meiners, retired as an agent. Pursuant to an agreement with producers prior to the current examination period, he was paid one years' commissions on renewals for his retirement pay. The Agency has fulfilled its agreement with Meiners for payment of commissions as of March 31, 2017.

Articles were amended on January 17, 2017 to change the date of the annual members meeting from the second Monday in March to during the month of March. The time and date would be announced by mailing a notice to all current members on file at least 14 days prior. The Iowa Insurance Division has not granted approval of this amendment as of February, 2017.

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, 2015 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

	<u>ASSETS</u>			
	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$1,078,323	\$	\$	\$1,078,323
Stocks	1,045,388	32,970	5,937	1,072,421
Bank balances:				
Subject to check	111,089			111,089
On interest	704,157			704,157
Real estate	206,486			206,486
Cash in office	78	93		171
Unpaid premiums:				
Due before November 1		(25)	(25)	
Due after November 1		9,223		9,223
Reinsurance receivable on paid losses				
Accrued interest		14,225		14,225
Federal income tax recoverable		53,300		53,300
Electronic data processing equipment	<u>6,410</u>	<u> </u>	<u> </u>	<u>6,410</u>
Total	<u>\$3,151,931</u>	<u>\$109,786</u>	<u>\$5,912</u>	<u>\$3,255,805</u>
Losses				\$ 106,823
Unpaid adjusting expenses				2,778
Ceded reinsurance balances payable				22,442
Unpaid salaries and commissions				1,079
Amounts withheld for others				1,527
Taxes payable				3,643
Other unpaid expenses				3,515
Premiums collected for other companies - not remitted				4,216
Premiums received in advance				142,557
Unearned premium reserve				<u>476,081</u>
Total liabilities				\$ 764,661
Surplus as regards policyholders				<u>2,491,144</u>
Total liabilities and surplus				<u>\$3,255,805</u>

LIABILITIES AND SURPLUS
INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2014 \$3,299,515

INCOME

Net premiums and fees		\$ 869,999
Net interest received on bonds		48,741
Increase (decrease) in adjustment of bonds		(25,281)
Dividends received		30,879
Interest received on bank deposits		7,189
Profit on sale of investments		14,394
Rents received		17,700
Premiums collected for other companies		112,611
Total income		<u>\$1,076,232</u>
Total assets and income		<u>\$4,375,747</u>

DISBURSEMENTS

Losses paid		\$607,269
<u>Operation Expense</u>		
Loss adjustment expenses	\$ 24,383	
Commissions	133,081	
Advertising	2,131	
Boards, bureaus and associations	6,616	
Inspection and loss prevention	11,370	
Salaries of officers	80,000	
Salaries of office employees	11,940	
Employee welfare	60	
Insurance	9,136	
Directors' compensation	3,500	
Directors' expenses	431	
Rent and rent items	14,400	
Equipment	4,365	
Printing, stationery and supplies	13,889	
Postage and telephone	5,917	
Legal and auditing	17,947	
State insurance taxes	12,186	
Insurance Division licenses and fees	13,679	
Payroll taxes	8,505	
Real estate expenses	4,409	
Real estate taxes	2,863	
Interest on borrowed money	365	
Miscellaneous	751	
Travel, conventions	698	
Annual meeting	2,348	
Investment Expense	<u>25,773</u>	
Total operating expense		\$410,743
<u>Non-Operating Expense</u>		
Depreciation on real estate		5,411
Loss on sale of investment		34,464
Federal income tax		43,300
Premium collections transmitted to other companies		90,086
Commissions paid agents for other companies		10,539
Decrease in ledger liabilities		21,228
To establish prior year suspense		776
Total disbursements		<u>\$1,223,816</u>
Balance - ledger assets, December 31, 2015		<u>\$3,151,931</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2015
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 916,889
<u>Deductions</u>		
Losses incurred	\$650,153	
Loss expenses incurred	22,936	
Other operating expenses incurred	<u>377,246</u>	
Total underwriting deductions		<u>1,050,335</u>
Net underwriting gain (loss)		\$ (133,446)
<u>Investment Income</u>		
Net investment income earned		18,254
<u>Other Income</u>		
Premiums collected for other companies		<u>12,623</u>
Net income before Federal income tax		\$ (102,569)
Federal income tax incurred		<u>(10,000)</u>
Net income		<u>\$ (92,569)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$2,589,328</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (92,569)
Unrealized capital change		<u>(5,615)</u>
Change in surplus as regards policyholders for the year		<u>\$ (98,184)</u>
Surplus as regards policyholders, December 31, 2015		<u>\$2,491,144</u>

UNDERWRITING AND INVESTMENT EXHIBIT
TWO-YEAR PERIOD ENDED DECEMBER 31, 2015
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,818,003
<u>Deductions</u>		
Losses incurred	\$1,188,914	
Loss expenses incurred	30,650	
Other operating expenses incurred	<u>679,446</u>	
Total underwriting deductions		<u>\$1,899,010</u>
Net underwriting gain (loss)		(81,007)
<u>Investment Income</u>		
Net investment income earned		47,792
<u>Other Income</u>		
Premiums collected for other companies		22,859
Miscellaneous income		<u>289</u>
Net income before Federal income tax		\$ (10,067)
Federal income tax incurred		<u>(1,000)</u>
Net income		<u>\$ (9,067)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$2,102,933</u>
Gains and (Losses) in Surplus		
Net income		(9,067)
Unrealized capital change		<u>\$ 397,278</u>
Change in surplus as regards policyholders for the year		<u>\$ 388,211</u>
Surplus as regards policyholders, December 31, 2015		<u>\$2,491,144</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>			
Cash in office	\$ 78	\$ 171	\$ 93
Federal income tax recoverable		53,300	53,300
<u>Liabilities</u>			
Unpaid claims	120,512	106,823	13,689
Unpaid adjusting expenses	2,042	2,778	(736)
Other unpaid expenses	2,101	3,515	(1,414)
Unearned premium reserve	473,151	476,081	<u>(2,930)</u>
Net increase in surplus			\$ 62,002
Surplus per Association			<u>\$2,429,142</u>
Surplus per examination			<u>\$2,491,144</u>

During the period under review, surplus funds increased \$388,211 from the amount of \$2,102,933 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:

Federal income tax recoverable \$ 53,300

An asset of \$53,300 was established to reflect federal income tax refund received in 2016.

Unpaid claims \$ 106,823

An analysis of unpaid claims for calendar year 2015 decreased this liability \$13,689.

Unpaid adjusting expense \$ 2,778

An analysis of paid expenses to paid losses applied to the loss reserve increased this liability by \$736.

Other unpaid expenses \$ 3,515

This liability was increased \$1,414 to properly account for expenses accrued in 2015 and paid for in 2016.

Unearned premium reserve

\$ 476,081

This liability was increased \$2,930 to account for proper handling of service fees.

CONCLUSION

The cooperation and assistance extended by the officers and personnel of the Association is hereby acknowledged.

Respectfully submitted,

/s/ Jerry P. Cihota
Jerry P. Cihota, CPA, CFE
Insurance Company Examiner Specialist
Iowa Insurance Division
State of Iowa