

EXAMINATION REPORT OF  
HOME MUTUAL INSURANCE ASSOCIATION OF CARROLL COUNTY, IOWA  
CARROLL COUNTY, MANNING, IOWA  
AS OF DECEMBER 31, 2016

Manning, Iowa  
September 15, 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

HOME MUTUAL INSURANCE ASSOCIATION OF CARROLL COUNTY IOWA

CARROLL COUNTY, MANNING, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 721 Third Street, Manning, 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 1878 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 1966.

#### 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 2016 annual meeting of the members was held at Manning, Iowa on the fourth Tuesday in March at 10:00 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. Eight 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, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Tim Andersen	Audubon, Iowa	2017
Jean Neppl	Wall Lake, Iowa	2017
Merle Witt	Arcadia, Iowa	2017
Mark Petersen	Kimballton, Iowa	2018
Steve Vollstedt	Manilla, Iowa	2018
Josh Axman	Carroll, Iowa	2019
Don Holdsworth	Harlan, Iowa	2019

The annual meeting of the Board shall be held within 10 days 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 \$350 for each meeting attended and reimbursement of travel expense of 30 cents per mile.

Salaries and remunerations 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, 2016 were:

<u>Name</u>	<u>Office</u>
Don Holdsworth	President
Merle Witt	Vice President
Bradley Vollstedt	Secretary/Treasurer

Salaries and remunerations 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

During the prior exam period, an attempt was made to amend the Articles of Incorporation during the period covered by this examination. Membership voted to change the date of the annual membership meeting from the second Tuesday in March to the fourth Tuesday. During the current exam period, no action was taken, and consistent with the December 11, 2014 exam report, the amended Articles are not yet effective in that requisite regulatory approvals and filings have not been made.

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 December 11, 2014 Board meeting. An amendment to the 2013 report was made by the Iowa Insurance Division, relating to bond amortization. This was reviewed and approved at the March 20, 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 building and contents
- Commercial general liability
- Commercial umbrella
- Inland marine
- 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

Full-time eligible employees are provided health, vision, dental, disability and life insurance. The health insurance deductible is \$5,000. Employees are reimbursed for amounts over \$250 up to the deductible of \$5,000.

A Salary Reduction Simplified Employee Pension Plan (SAR-SEP) is also available. The Association contributes four percent of the employee's salary to the SAR-SEP Plan annually. Contributions by the Association of \$10,382, \$11,703 and \$11,996 were made to the Plan for 2014, 2015 and 2016, respectively.

Bonuses are paid to employees based on performance. Bonuses are a certain percentage per year and the same for each employee. Bonuses paid by the Association were 2.5% (\$7,074), 2.5% (\$7,315) and 5% (\$14,995) in 2014, 2015 and 2016, respectively.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Audubon, Calhoun, Carroll, Crawford, Greene, Guthrie, Sac, and Shelby 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 three-year period with premiums payable quarterly, annually or semi-annually. The Association underwrites these policies every three years.

At the present time, business is produced by 75 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	\$ 2,879,813	\$ 2,945,644	\$ 3,086,024	\$ 8,911,481
Incurred deductions:				
Losses	2,693,223	1,919,315	1,172,389	5,784,927
Loss adjustment expenses	48,711	60,201	25,750	134,662
Commissions	710,817	715,412	729,155	2,155,384
Salaries	281,034	301,480	316,408	898,922
Taxes, licenses and fees	63,601	64,933	66,845	195,379
Other underwriting expenses	226,589	200,114	238,873	665,576
Total deductions	\$ 4,023,975	\$ 3,261,455	\$ 2,549,420	\$ 9,834,850
Underwriting gain (loss)	\$(1,144,162)	\$ (315,811)	\$ 536,604	\$ (923,369)

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	93.52 %	65.16 %	37.99 %	64.91 %
Loss adjustment expenses	1.69	2.04	0.83	1.51
Commissions	24.68	24.29	23.63	24.19
Salaries	9.76	10.23	10.25	10.09
Taxes, licenses and fees	2.21	2.20	2.17	2.19
Other underwriting expenses	7.87	6.80	7.74	7.47
Total deductions	139.73 %	110.72 %	82.61 %	110.36 %
Underwriting gain (loss)	(39.73)%	(10.72) %	17.39 %	(10.36)%

REINSURANCE

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

CEDED

First Property Per Risk Excess of Loss

Reinsurer is liable up to \$150,000 in excess of \$150,000 ultimate net loss on any one risk involved in any one loss occurrence that is sustained by the Association. The liability of the reinsurer shall be limited to \$375,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Second Property Per Risk Excess of Loss

Reinsurer is liable up to \$200,000 in excess of \$300,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$200,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Combination Third Property Per Risk and Second Aggregate Excess of Loss

Reinsurer is liable up to \$1,000,000 in excess of \$500,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall not exceed \$1,000,000 with respect to any one risk involved in any one loss occurrence. The liability of the reinsurer shall also be limited to \$1,000,000 as respects of any one loss occurrence, irrespective of the number of risks involved.

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 90 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 130 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 90 percent of its gross net written premium income.

All Per Risk Excess of Loss Layers

Each loss reduces the amount of indemnity provided, however such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

It is warranted that the maximum limit of any one risk is \$1,500,000 and any amount greater than this maximum limit shall be reinsured elsewhere. In the event this additional reinsurance is done on a pro rata basis, any recoveries shall inure to the benefit of this agreement.

First Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 82 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 8 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 82 percent of its gross net written premium income.

It is warranted that the maximum limit of any one risk is \$1,500,000 and any amount greater than this maximum limit will be reinsured elsewhere on a pro rata basis or so deemed.

Third Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 220 percent of the Association's gross net written premium income in any one annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 220 percent of its gross net written premium income.

It is warranted that the maximum limit of any one risk is \$1,500,000 and any amount greater than this maximum limit will be reinsured elsewhere. If done on a pro rata basis, any recoveries shall inure to the benefit of this agreement.

Facultative

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2016, there was one risk identified which warranted 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.

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, 2016 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, 2016, the gross risk in force for the Association was \$1,281,598,966. The Association's statutory minimum surplus level as December 31, 2016 was \$1,281,599. It is noted the Association's surplus level to minimum surplus level ratio was 5.3/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2016 was 9.2/1.

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, 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	\$5,585,004	\$	\$	\$5,585,004
Stocks	2,307,170	579,216		2,886,386
Bank balances:				
Subject to check	31,442			31,442
On interest	204,644			204,644
Real estate	53,798			53,798
Cash in office	100			100
Unpaid premiums:				
Due before November 1	1		1	
Due after November 1	467,939		459,598	8,341
Accrued interest		54,021		54,021
Equipment and furniture	34,559		34,559	
Overwrite fee receivable		1,389		1,389
Electronic data processing equipment	8,316			8,316
Total	\$8,692,973	\$ 634,626	\$494,158	\$8,833,441

LIABILITIES AND SURPLUS

Losses	\$ 177,186
Unpaid adjusting expenses	4,089
Ceded reinsurance balances payable	7,851
Unpaid salaries and commissions	79,546
Amounts withheld for others	(317)
Taxes payable	2,472
Other unpaid expenses	4,671
Premiums collected for other companies - not remitted	19,308
Advance premiums	101,776
Unearned premium reserve	1,607,130
Total liabilities	\$2,003,712
Surplus as regards policyholders	6,829,729
Total liabilities and surplus	\$8,833,441

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015 \$ 8,361,645

INCOME

Net premiums and fees		\$ 3,137,610
Net interest received on bonds		207,632
Decrease by adjustment - bonds		(32,543)
Dividends received		123,591
Interest received on bank deposits		691
Profit on sale of investments		447
Rents received		1,200
Underwriting expense reimbursement		20,138
Total income		<u>\$ 3,458,766</u>
Total assets and income		<u>\$11,820,411</u>

DISBURSEMENTS

Losses paid		\$1,311,703
<u>Operating Expense</u>		
Adjusting expense	\$ 24,161	
Commissions	727,366	
Advertising	12,366	
Boards, bureaus and associations	9,067	
Inspection and loss prevention	6,120	
Salaries of officers	86,651	
Officers' expenses	4,542	
Salaries of office employees	229,757	
Employee welfare	53,165	
Insurance	19,614	
Directors' expenses	17,743	
Rent and rent items	1,200	
Equipment	7,939	
Printing, stationery and supplies	49,501	
Postage and telephone	14,739	
Legal and auditing	18,000	
Premium taxes	42,120	
Insurance Division licenses and fees	510	
Payroll taxes	24,422	
Real estate expenses	3,590	
Real estate taxes	1,602	
Miscellaneous	564	
Association meeting expense	6,857	
Retirement	12,595	
Annual meeting	5,860	
Investment expenses	20,903	
Total operating expense	<u>20,903</u>	\$1,400,954
 Non-Operating Expense		
Loss on sale of investments		11,659
Depreciation on real estate		3,815
Decrease in ledger liabilities		399,307
Total disbursements		<u>\$3,127,438</u>
Balance - ledger assets, December 31, 2016		<u>\$8,692,973</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$3,086,024
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$1,172,389	
Loss expenses incurred	25,750	
Other operating expenses incurred	1,351,281	
Total underwriting deductions	<u>2,549,420</u>	
Net underwriting gain (loss)		\$ 536,604
<u>Investment Income</u>		
Net investment income earned		272,861
<u>Other Income</u>		
Premiums collected for other companies (net)		295
Miscellaneous income		<u>(34,745)</u>
Net income before Federal income tax		\$ 775,015
Federal income tax incurred		<u>0</u>
Net income		<u>\$ 775,015</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015		<u>\$5,948,525</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 775,015	
Change in not admitted assets	(30,517)	
Change in net unrealized gains/losses	<u>136,706</u>	
Change in surplus as regards policyholders for the year		<u>\$ 881,204</u>
Surplus as regards policyholders, December 31, 2016		<u>\$6,829,729</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$8,911,481
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$5,784,927	
Loss expenses incurred	134,662	
Other operating expenses incurred	<u>3,915,261</u>	
Total underwriting deductions		<u>9,834,850</u>
Net underwriting gain (loss)		\$ (923,369)
Investment Income		
Net investment income earned		1,119,440
Other Income		
Premiums collected for other companies (net)		(4,965)
Miscellaneous income		<u>385</u>
Net income before Federal income tax		\$ 191,491
Federal income tax incurred		<u>0</u>
Net income		<u>\$ 191,491</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$6,863,525</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 191,491	
Change in not admitted assets	(19,386)	
Change in net unrealized gains/losses	<u>(205,901)</u>	
Change in surplus as regards policyholders for the period		<u>\$ (33,796)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$6,829,729</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease 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>			
Unpaid premiums due after November 1	\$ 10,742	\$ 8,341	\$ (2,401)
<u>Liabilities</u>			
Losses	173,812	177,186	(3,374)
Unpaid adjusting expenses	1,500	4,089	<u>(2,589)</u>
Net change to surplus			\$ (8,364)
Surplus per Association			<u>6,838,093</u>
Surplus per examination			<u>\$6,829,729</u>

During the period under review, surplus funds decreased \$33,796 from the amount of \$6,863,525 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:

Unpaid premiums due after November 1 \$ 8,341

This asset was decreased by \$2,401 to reflect the actual amount of premiums received in 2017.

Losses \$ 177,186

Losses increased by \$3,374 to reflect actual loss development.

Unpaid adjusting expenses \$ 4,089

An analysis of paid adjusting expense to paid losses increased this liability by \$2,589.

CONCLUSION

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

Respectfully submitted,

/s/ Abby De Zeeuw  
ABBY DE ZEEUW, CPA, MBA  
Cain Ellsworth & Co., LLP  
Representing the State of Iowa