

EXAMINATION REPORT OF
NEW VIENNA MUTUAL INSURANCE ASSOCIATION
DUBUQUE COUNTY, NEW VIENNA, IOWA
AS OF DECEMBER 31, 2018

New Vienna, Iowa
September 17, 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

NEW VIENNA MUTUAL INSURANCE ASSOCIATION

DUBUQUE COUNTY, NEW VIENNA, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 7218 Columbus Street, New Vienna, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2014 to December 31, 2018. 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, 2018.

HISTORY

The Association was incorporated in 1916 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 1958.

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 New Vienna, Iowa on the second Tuesday in February at 2:00 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 vacancy on the Board may be filled for

the unexpired term by a majority vote of the remaining directors. A majority of directors shall constitute a quorum.

Directors serving at December 31, 2018 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Walter Welling	New Vienna, Iowa	2020
John Hoeger	New Vienna, Iowa	2021
Ken Helle	New Vienna, Iowa	2019
Ron Gundekauf	New Vienna, Iowa	2019
Roger Steffen	New Vienna, Iowa	2020
Randy Riniker	Guttenburg, Iowa	2021
Jeff Deutmeyer	Anamosa, Iowa	2020

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 \$140 for each meeting attended. Directors were reimbursed \$200 for insurance purchased written by the Association.

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, 2018 were:

<u>Name</u>	<u>Office</u>
Walter Welling	President
Ron Gundekauf	Vice President
John Hoeger	Treasurer
Jeff Deutmeyer	Secretary

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors, and key employees. Disclosures were indicated on the statements.

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 by board. The minutes were silent in regard to the approval of the report.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$400,000 for any one loss occurrence. The bond indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Employment practices liability
- Commercial property and business personal property
- General 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

Eligible employees paid to \$1,000 for premiums on property insurance by the Association. Insurance reimbursements paid annually by the Association were \$2,840, \$2,886, \$3,139, \$4,000 and \$3,989 for 2014 to 2018, respectively.

Discretionary year-end bonuses paid by the Association. Bonuses paid in lieu of health insurance. Bonuses paid annually by the Association were \$12,442, \$0, \$0, 15,478 and \$11,071 for 2014 to 2018, respectively.

The full-time eligible employees may participate in the 401(K) Simple IRA plan whereby the Association will match up to three percent of each employee's contribution. Contributions for the 401k paid annually by the Association were \$888, \$4,152, \$2,993, \$3,270 and \$3,506 for 2014 to 2018, respectively.

Directors provided an annual 7.5 percent discount on Association insurance coverage. The percentage discount was replaced with a flat amount of \$150 in 2016. The discount increased to \$200 in 2017. Annual contributions to directors by the Association were \$813, \$557, \$926, \$1,175 and \$1,050 for 2014 to 2018, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Dubuque County and contiguous counties. From a review of numerous policies in force, risks appeared to be located within the authorized territory.

Policies are written or renewed for a one-year period with premiums payable annually, semi-annually or quarterly. The Association underwrites these policies every three years.

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

UNDERWRITING EXPERIENCE

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2018

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Premiums earned	<u>\$918,031</u>	<u>\$894,912</u>	<u>\$902,252</u>	<u>\$931,534</u>	<u>\$ 968,083</u>	<u>\$4,614,812</u>
Incurred deductions:						
Losses	\$364,114	\$309,031	\$560,642	\$282,132	\$ 392,528	\$1,908,447
Loss adjustment expenses	38,321	31,492	34,989	36,591	34,147	175,540
Commissions						
Salaries	193,932	188,055	195,371	205,286	220,749	1,003,393
Taxes, licenses and fees	32,409	34,179	27,610	28,598	30,216	153,012
Other underwriting expenses	<u>88,443</u>	<u>127,698</u>	<u>127,592</u>	<u>158,008</u>	<u>128,709</u>	<u>630,450</u>
Total deductions	<u>\$717,219</u>	<u>\$690,455</u>	<u>\$946,204</u>	<u>\$710,615</u>	<u>\$ 806,349</u>	<u>\$3,870,842</u>
Underwriting gain or (loss)	<u>\$200,812</u>	<u>\$204,457</u>	<u>\$(43,952)</u>	<u>\$220,919</u>	<u>\$ 161,734</u>	<u>\$ 743,970</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Incurred deductions:						
Losses	39.7%	34.5%	62.1%	30.3%	40.5%	41.4%
Loss adjustment expense	4.2	3.5	3.9	3.9	3.5	3.8
Commissions						
Salaries	21.1	21.0	21.7	22.0	22.8	21.7
Taxes, licenses and fees	3.5	3.9	3.1	3.1	3.1	3.3
Other underwriting expenses	<u>9.6</u>	<u>14.3</u>	<u>14.1</u>	<u>17.0</u>	<u>13.3</u>	<u>13.7</u>
Total deductions	<u>78.1%</u>	<u>77.2%</u>	<u>104.9%</u>	<u>76.3%</u>	<u>83.3%</u>	<u>83.9%</u>
Underwriting gain or (loss)	<u>21.9%</u>	<u>22.8%</u>	<u>(4.9)%</u>	<u>23.7%</u>	<u>16.7%</u>	<u>16.1%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with an authorized insurer which provide the following:

Property Per Risk Excess of Loss

First \$175,000 of ultimate net loss per risk is retained by 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 \$930,000 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.

Facultative

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2018, no risks identified which warranted facultative coverage.

Reinsurance - General

The Association's reinsurance coverage 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.

AFFILIATED AGENCY

The Association owns its home office building and shares <1% of the space with its wholly owned subsidiary, New Vienna Insurance, Inc. Association business is produced entirely by salaried Association employees. The effective date of the incorporation of the Agency is June 15, 1993. Of the 10,000 authorized shares of common stock at a par value of \$10, 1,500 issued and completely owned by the Association. The officers and directors for the Agency are the same as the Association.

The Agency production is accomplished utilizing salaried Association employees. The agency paid \$10,800 annual rent to the Association. The rental fee includes all utilities and non-miscellaneous expenses associated with its business. The Agency reimburses the 2.75 percent of the Association for miscellaneous expenses. The amount was \$987 in 2018.

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 compared to the disbursement records and 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, 2018 relative to security custodial requirements.

The Association pays an immaterial amount in commissions, as nearly all agents are salaried employees of the Association. The expenditure item reported as "commissions" by the Association reclassified as "salaries" on the examination financials. Prospectively, this item should be reported as salaries to accurately reflect the Association's operations. This was also noted in the 2013 Examination Report.

In accordance with Section 518.25, Code of Iowa, surplus is required to be not less than fifty thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2018, the gross risk in force for the Association was \$370,550,222. The Association's statutory minimum surplus level at December 31, 2018 was \$370,550. The Association's surplus level to minimum surplus level ratio was 17.8/1. The surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2018 was 7.9/1.

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, 2018 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>Non- ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$5,503,882	\$	\$ 4,400	\$5,499,482
Stocks	1,138,977	201,851		1,340,828
Bank balances:				
Subject to check	13,497			13,497
On interest	778,683	2,231		780,914
Real estate	57,055			57,055
Cash in office	110			110
Unpaid premiums:				
Due before November 1		(12)	(12)	
Due after November 1		6,624		6,624
Accrued interest		45,924		45,924
Equipment and furniture	3,247		3,247	
Electronic data processing equipment	1,113			1,113
Service Fees & misc. rec	<u> </u>	<u>15,578</u>	<u> </u>	<u>15,578</u>
Total	<u>\$7,496,564</u>	<u>\$272,196</u>	<u>\$ 7,635</u>	<u>\$7,761,125</u>

LIABILITIES AND SURPLUS

Net unpaid claims			\$ 48,871
Unpaid adjusting expenses			4,446
Ceded reinsurance balances payable			25,989
Unpaid salaries and commissions			1,735
Taxes payable			11,203
Other unpaid expenses			2,622
Premiums collected for other companies - not remitted			4,051
Premiums received in advance			18,112
Unearned premium reserve			515,009
Service fees and employee benefits payable			8,242
Miscellaneous liabilities			<u>40,000</u>
Total liabilities			\$ 680,280
Surplus as regards policyholders			<u>7,080,845</u>
Total liabilities and surplus			<u>\$7,761,125</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		\$7,064,562
	<u>INCOME</u>	
Net premiums and fees		\$ 944,213
Net interest received on bonds		183,335
Increase (Decrease) by adjustment - bonds		(12,343)
Dividends received		28,547
Interest received on bank deposits		9,298
Profit on sale of investments		55,962
Rents received		13,875
Premiums collected for other companies		61,868
Total income		<u>\$1,284,755</u>
Total assets and income		<u>\$8,349,317</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 346,457
<u>Operating Expenses</u>		
Loss adjustment expenses	\$ 32,901	
Commissions	123,694	
Advertising	16,286	
Boards, bureaus and associations	9,002	
Inspection and loss prevention	1,131	
Salaries of officers	81,742	
Expenses of officers	194	
Salaries of office employees	13,578	
Employee welfare	8,908	
Insurance	11,919	
Directors' compensation	12,270	
Directors' expenses	1,116	
Rent and rent items	4,800	
Equipment	29,170	
Printing, stationery and supplies	3,378	
Postage, telephone, and exchange	8,447	
Legal and auditing	23,567	
State insurance taxes	13,645	
Insurance Division licenses and fees	238	
Payroll taxes	16,412	
Real estate expenses	7,796	
Real estate taxes	2,418	
Miscellaneous	506	
Annual and agent meeting expense	650	
Donations/Contributions	657	
Travel	6,317	
Over and short	<u>836</u>	
Total operating expense		431,578
<u>Non-Operating Expense</u>		
Depreciation on real estate		2,910
Loss on sale of investment		1,401
Federal income tax		10,743
Premium collections transmitted to other companies		51,193
Commissions paid agents for other companies		5
Loss on sale of equipment		8,466
Total disbursements		<u>\$ 852,753</u>
Balance - ledger assets, December 31, 2018		<u>\$7,496,564</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 968,083

Deductions

Losses incurred \$392,528

Loss expenses incurred 34,147

Other operating expenses incurred 379,674

Total underwriting deductions 806,349

Net underwriting gain (loss) \$ 161,734

Investment Income

Net investment income earned 256,639

Other Income

Premiums collected for other companies 10,601

Miscellaneous income 833

Net income before Federal income tax \$ 429,807

Federal income tax incurred 13,743

Net income \$ 416,064

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017 \$6,851,723

Gains and (Losses) in Surplus

Net income \$ 416,064

Change in not admitted assets (1,875)

Unrealized capital change (185,067)

Change in surplus as regards policyholders for the year \$ 229,122

Surplus as regards policyholders, December 31, 2018 \$7,080,485

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$4,614,812
 <u>Deductions</u>	
Losses incurred	\$1,908,447
Loss expenses incurred	175,540
Other operating expenses incurred	<u>1,786,855</u>
 Total underwriting deductions	 <u>3,870,842</u>
 Net underwriting gain (loss)	 \$ 743,970
 <u>Investment Income</u>	
Net investment income earned	1,047,358
 <u>Other Income</u>	
Premiums collected for other companies	81,089
Loss on sale of equipment	<u>(16,144)</u>
 Net income before Federal income tax	 \$1,856,273
 Federal income tax incurred	 <u>23,473</u>
 Net income	 <u>\$1,832,800</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	<u>\$5,182,762</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$1,832,800
Change in not admitted assets	(2,292)
Unrealized capital change	<u>67,575</u>
 Change in surplus as regards policyholders for the period	 <u>\$1,898,083</u>
 Surplus as regards policyholders, December 31, 2018	 <u>\$7,080,845</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>			
Bonds	\$5,503,882	\$5,499,482	\$ (4,400)
Bank balances:			
On interest	778,683	780,914	2,231
<u>Liabilities</u>			
Net unpaid claims	\$ 22,690	\$ 48,871	\$ (26,181)
Unpaid adjusting expenses	3,200	4,446	(1,246)
Unearned premiums	511,000	515,009	<u>(4,009)</u>
Net change in surplus			(33,605)
Surplus per Association			<u>\$7,114,450</u>
Surplus per examination			<u>\$7,080,845</u>

During the period under review, surplus funds increased \$1,898,083 from the amount of \$5,182,762 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:

<u>Bonds</u>	<u>\$5,499,482</u>
Asset decreased \$4,400 to non-admit the difference between amortized cost and market value on a bond that became less than investment grade during the examination period.	
<u>Bank balances: On interest</u>	<u>\$ 780,914</u>
Asset increased \$2,231 due to adjusting the valuation of a Certificate of Deposit held by the Association.	
<u>Net unpaid claims</u>	<u>\$ 48,871</u>
Liability increased \$26,181 to reflect development of losses incurred prior to 2019.	

Unpaid adjusting expenses \$ 4,446

An analysis of paid loss adjusting expenses to paid losses relative to the amount of Net unpaid claims decreased the liability by \$1,246.

Unearned premiums \$ 515,009

A recalculation of unearned premium reserve using examination adjustments increased the liability by \$4,009.

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
Examiner Specialist
Iowa Insurance Division