

EXAMINATION REPORT OF  
GERMAN FARMERS MUTUAL INSURANCE ASSOCIATION  
SIOUX COUNTY, SIOUX CENTER, IOWA  
AS OF DECEMBER 31, 2016

Sioux Center, Iowa  
September 5, 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

GERMAN FARMERS MUTUAL INSURANCE ASSOCIATION

SIOUX COUNTY, SIOUX CENTER, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 116 North Main Street, Sioux Center, 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 1891 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 Sioux Center, Iowa on the second Monday in February at 1:30pm. Special meetings may be called by the Board of Directors or upon written request of one-fourth of the members 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. One more member than the number of Directors constitutes 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 fifteen 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>Term Expires</u>
David Borchers	Akron, Iowa	2017
Gaylen Tapper	Akron, Iowa	2017
Jim Staab	Remsen, Iowa	2017
Lawrence Warner	Larchwood, Iowa	2018
Jeff Kruse	Inwood, Iowa	2018
James Kennedy	Okoboji, Iowa	2018
Jerry Muilenburg	Orange City, Iowa	2019
Jeff Eilts	Ireton, Iowa	2019
Steve Rehder	Hawarden, 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 President. A majority present constitutes a quorum for the transaction of business. A quorum for the 2016 Members Meeting was not documented in the minutes.

Directors receive a fee of \$150 for each meeting attended and reimbursement of \$.56 per mile for travel expense. Directors attending the Annual Meeting were paid \$200.

#### OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Vice President, Treasurer and Secretary. Any of such offices may be combined, except that of President and Secretary.

Officers serving at December 31, 2016 were:

<u>Name</u>	<u>Office</u>
Jason Moeller	President-Treasurer
Bruce Koerselman	Vice President-Secretary

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

#### CONFLICT OF INTEREST

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

#### CORPORATE RECORDS

The Articles of Incorporation nor Bylaws were amended or substituted during the period covered by this examination. The Minutes were silent regarding the review or approval by the Board of Insurance Division Examination Report for 2013.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for any one loss occurrence. The bond is written every three years and is unlimited in the aggregate.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property and contents
- Commercial general liability
- Business automobile liability
- Business automobile property

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 and their dependents are provided health insurance, long-term disability, accidental death and dismemberment, and group life insurance with premiums paid by the Association. Association provides a 401K program for all full-time employees. A 3 percent match is paid by the Association. The Association offers employees a health savings plan.

The Association participates in the National Association of Mutual Insurance Companies (NAMIC) defined benefit pension plan. The plan provides benefits to eligible employees upon retirement based on years of service and compensation rates near retirement. A life insurance benefit is associated with this pension as well.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Sioux, Lyon, Osceola, O'Brien, Cherokee, and Plymouth counties.

From a review of policies in force, that risks are 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 these policies every three years.

Business is produced by sixty-nine 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>\$1,548,832</u>	<u>\$1,717,192</u>	<u>\$1,750,651</u>	<u>\$5,016,675</u>
Incurred deductions:				
Losses	\$1,194,094	\$ 668,620	\$1,377,625	\$3,240,339
Loss adjustment expense	45,329	48,686	49,258	143,273
Commissions	359,734	366,268	384,004	1,110,006
Salaries	108,112	114,050	121,108	343,270
Taxes, licenses and fees	35,679	44,519	37,719	117,917
Other underwriting expenses	<u>237,420</u>	<u>235,740</u>	<u>228,773</u>	<u>701,933</u>
Total deductions	<u>\$1,980,368</u>	<u>\$1,477,883</u>	<u>\$2,198,487</u>	<u>\$5,656,738</u>
Underwriting gain or (loss)	<u>\$ (431,536)</u>	<u>\$ 239,309</u>	<u>\$ (447,836)</u>	<u>\$ (640,063)</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	77.10%	38.94%	78.69%	64.59%
Loss adjustment expense	2.93	2.84	2.81	2.85
Commissions	23.23	21.33	21.93	22.13
Salaries	6.98	6.64	6.92	6.84
Taxes, licenses and fees	2.29	2.58	2.16	2.36
Other underwriting expenses	<u>15.33</u>	<u>13.73</u>	<u>13.07</u>	<u>13.99</u>
Total deductions	<u>127.86%</u>	<u>86.06%</u>	<u>125.58%</u>	<u>112.76%</u>
Underwriting gain or (loss)	<u>(27.86)%</u>	<u>13.94%</u>	<u>(25.58)%</u>	<u>(12.76)%</u>

## REINSURANCE

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

### Fire, Windstorm, Hail (Excluding Hail on Growing Crops) and Allied Lines

The maximum liability of the reinsurer is \$1,000,000 per risk.

#### Per Risk Excess:

##### First Risk Excess Layer:

Reinsurer liable for any one Loss Occurrence in excess of a \$150,000 retention not to exceed \$150,000 per location, per loss occurrence.

##### Second Risk Excess Layer:

Reinsurer liable for any one Loss Occurrence in excess of \$300,000 retention not to exceed \$200,000 per location, per loss occurrence.

##### Third Risk Excess Layer:

Reinsurer liable for any one Loss Occurrence in excess of \$500,000 retention not to exceed \$500,000 per location, per loss occurrence.

#### Aggregate Excess Loss:

##### First Excess:

One hundred percent in excess of 70 percent of gross net written premium for 2016 with an ultimate liability limit to the reinsurance of 30 percent of the annual gross net written premium.

##### Second Excess:

One hundred percent excess of 100 percent of gross net written premium for 2016 with an ultimate net loss to the reinsurer of 125 percent of the annual gross net written premium.

##### Third Excess:

One hundred percent excess of 225% of gross net written premium for 2016 with an ultimate net loss that is unlimited.

### Facultative Pro Rata

Risks in excess of the Association's reinsurance contract limits of \$1,000,000 per risk are ceded on facultative basis.

### Reinsurance - General

The Association appears to comply with the current statutory standards relative to surplus exposure and reinsurance coverage.

## CLAIMS

Thirty-four claims submitted prior to December 31, 2016 remained outstanding as of the date of this report. Subsequent to the date of this report the Association has taken steps to finalize these outstanding claims.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Moeller Insurance Agency, Inc.

The agency is 100 percent owned by Jason Moeller. Mr. Moeller is also the President-Treasurer of the Association. This agency produced approximately fifteen percent of the Association's business during 2016.

The agency paid \$100 monthly rent to the Association. The agency pays for own printer, paper and marketing.

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.

The Home Office was renovated for \$31,618 during 2016 and land of \$21,000 acquired in 2014 prior to discussion with the Division. The transactions were non-admitted on the Examination balance sheet due to not obtaining approval from the Division.

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 \$672,997,258. The Association's statutory minimum surplus level as December 31, 2016 was \$672,997. Association's surplus level to minimum surplus level ratio was 4.5/1. 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	\$2,025,619	\$ (5,186)	\$	\$2,020,433
Stocks	\$1,192,139	17,520		1,209,659
Bank balances:				
Subject to check	42,774			42,774
Real estate	212,290		52,618	159,672
Unpaid premiums:				
Due before November 1		689	689	
Due after November 1		15,402		15,402
Accrued interest		22,059		22,059
Equipment and furniture	29,439		29,439	
Automobile	9,821		9,821	
Overwrite fee receivable	<u>          </u>	<u>811</u>	<u>      </u>	<u>811</u>
Total	<u>\$3,512,082</u>	<u>\$ 51,295</u>	<u>\$ 92,567</u>	<u>\$3,470,810</u>

LIABILITIES AND SURPLUS

Net unpaid claims	\$ 186,016
Unpaid adjusting expenses	5,953
Ceded reinsurance balances payable	49,366
Unpaid salaries and commissions	32,463
Amounts withheld for others	4,586
Taxes payable	8,996
Other unpaid expenses	4,413
Premiums collected for other companies - not remitted	9,845
Premiums received in advance	35,272
Unearned premium reserve	<u>859,863</u>
Total liabilities	\$1,196,773
Surplus as regards policyholders	<u>2,274,037</u>
Total liabilities and surplus	<u>\$3,470,810</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015		<u>\$3,787,073</u>
	<u>INCOME</u>	
Net premiums and fees		\$1,830,537
Net interest received on bonds		91,309
Increase (Decrease) by adjustment - bonds		(13,246)
Dividends received		46,017
Profit on sale of investments		22,973
Rents received		2,740
Underwriting expense reimbursement		12,147
Miscellaneous income		20
Total income		<u>\$1,992,497</u>
Total assets and income		<u>\$5,779,570</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$1,370,709
<u>Operating Expense</u>		
Loss adjustment expenses	\$ 44,405	
Commissions	384,760	
Advertising	24,671	
Boards, bureaus and associations	19,663	
Inspection and loss prevention	11,071	
Salaries of officers	56,500	
Salaries of office employees	64,608	
Employee welfare	50,248	
Insurance	10,144	
Directors' compensation	8,435	
Rent and rent items	1,983	
Equipment	32,492	
Printing, stationery and supplies	5,375	
Postage and telephone	11,987	
Legal and auditing	21,105	
State insurance taxes	24,751	
Insurance Division licenses and fees	135	
Payroll taxes	12,943	
Real estate expenses	25,599	
Real estate taxes	7,673	
Miscellaneous	5,276	
Travel, conventions	9,513	
Donations/contributions	9,923	
Meals and entertainment	5,013	
Management fees	<u>10,586</u>	
Total operating expense		\$ 858,859
<u>Non-Operating Expense</u>		
Depreciation on real estate		15,240
Loss on sale of investment		21,070
Decrease in ledger liabilities		1,610
Total disbursements		<u>\$2,267,488</u>
Balance - ledger assets, December 31, 2016		<u>\$3,512,082</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$1,750,651
 <u>Deductions</u>	
Losses incurred	\$1,377,625
Loss expenses incurred	49,258
Other operating expenses incurred	<u>771,604</u>
Total underwriting deductions	<u>2,198,487</u>
 Net underwriting gain (loss)	 \$ (447,836)
 <u>Investment Income</u>	
Net investment income earned	74,757
 <u>Other Income</u>	
Premiums collected for other companies	3,723
Miscellaneous income	<u>20</u>
 Net income before Federal income tax	 \$ (369,336)
 Federal income tax incurred	 <u>0</u>
 Net income	 <u>\$ (369,336)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$2,677,747</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ (369,336)
Change in not admitted assets	(80,676)
Unrealized capital change	<u>46,302</u>
 Change in surplus as regards policyholders for the year	 <u>\$ (403,710)</u>
 Surplus as regards policyholders, December 31, 2016	 <u>\$2,274,037</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$5,016,675
Deductions		
Losses incurred	\$3,240,339	
Loss expenses incurred	143,273	
Other operating expenses incurred	<u>2,273,126</u>	
Total underwriting deductions		<u>5,656,738</u>
Net underwriting gain (loss)		\$ (640,063)
 <u>Investment Income</u>		
Net investment income earned		332,173
 <u>Other Income</u>		
Borrowed money		(28,500)
Premiums collected for other companies		471
Miscellaneous income		<u>(680)</u>
Net income before Federal income tax		(336,599)
Federal income tax incurred		<u>0</u>
Net income		<u>\$ (336,599)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$2,735,964</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ (336,599)
Change in not admitted assets		(71,463)
Unrealized capital change		<u>(53,865)</u>
Change in surplus as regards policyholders for the period		<u>\$ (461,927)</u>
Surplus as regards policyholders, December 31, 2016		<u>\$2,274,037</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	\$2,025,619	\$2,020,433	\$ (5,186)
Real estate	212,290	159,672	(52,618)
<u>Liabilities</u>			
Net unpaid claims	\$ 241,026	\$ 186,016	\$ 55,010
Unpaid adjusting expenses	4,500	5,953	(1,453)
Unpaid salaries and commissions	29,732	32,463	(2,731)
Premiums collected for others	13,941	9,845	<u>4,096</u>
Net change in surplus			\$ (2,882)
Surplus per Association			<u>\$2,276,919</u>
Surplus per examination			<u>\$2,274,037</u>

During the period under review, surplus funds decreased \$461,927 from the amount of \$2,735,964 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:

Bonds \$2,020,433

The asset decreased by \$5,186 to account for actual amortization for 2016.

Real estate \$ 159,672

The asset decreased by \$52,618 to account for capitalized items that were non-admitted due to the Association not obtaining approval prior to either making capital improvements or making a new acquisition.

Net unpaid claims \$ 186,016

The liability decreased by \$55,010 to reflect current loss development of unpaid claims as of December 31, 2016.

Unpaid adjusting expenses \$ 5,953

The liability increased \$1,453 after completing an analysis of paid expenses to paid losses applied to the net unpaid claims.

Unpaid salaries and commissions \$ 32,463

This liability increased by \$2,731 in order to include all commissions due as of December 31, 2016.

Premiums collected for others \$ 9,845

This liability decreased by \$4,096 in order to report the actual premiums collected from others that will be paid after December 31, 2016.

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  
Insurance Division  
State of Iowa