

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

Boone, Iowa  
July 1, 2019

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

BOONE FARMERS MUTUAL INSURANCE ASSOCIATION

BOONE COUNTY, BOONE, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 1500 South Story Street, Boone, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2017 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.

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 Boone, Iowa on the third Monday in February at 1:00 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 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>Address</u>	<u>Term Expires</u>
Pete Bergstrom	Ogden, Iowa	2020
Bernard Lewiston	Ogden, Iowa	2020
Craig Downs	Boone, Iowa	2020
Robert Johnson	Boone, Iowa	2021
William Judge	Ames, Iowa	2021
David Sheehan	Madrid, Iowa	2021
John Hunter	Grand Junction, Iowa	2022
Al Rasmus	Boone, Iowa	2022
Dennis Morgan	Ogden, 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.

One Director did not attend any Board Meetings in 2019 and two different Directors did not attend any Board Meetings in 2020.

Directors receive a fee of \$50 for each meeting attended and reimbursement of travel expense of \$0.57 per mile.

#### 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>
William Judge	President
Al Rasmus	Vice President
Brad Larson	Secretary
Pete Bergstrom	Treasurer

Remuneration for officers are reflected in Exhibit A immediately following this report.

#### CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, and directors. The Association did not provide conflict of interest forms for key employees.

Board President and Treasurer did not recuse themselves from board votes on salaries for said positions.

#### 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, 2016 was presented to and discussed by the Board and approved at the December 4, 2017 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 continuous period and the indemnity is noncumulative. The amount of the bond meets guidelines published by the National Association of Insurance Commissioners.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- Commercial general liability
- Cyber liability
- Equipment breakdown

Insurance appears to be adequate and was 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, dental, vision and life insurance with premiums paid by the Association. Life insurance benefit is twice the annual salary of employee.

A Simplified Employee Pension (SARSEP) retirement plan is provided to eligible employees with ten percent of their salaries contributed by the Association. The eligible employees may contribute an additional five percent. Contributions paid by the Association were \$11,679, \$12,287 and \$11,407 for 2017, 2018 and 2019, respectively.

The Association has provided a Reverse Split Dollar life insurance policy for Brad Larson, Secretary. It remains in effect while he is employed by the Association. The purpose of the policy is to provide insurance protection for the benefit of both the Association and the Secretary.

#### MARKETING

The Association is authorized to transact business in Boone County and contiguous 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 annually, semi-annually and quarterly. The Association reviews these policies every five years.

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

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$ <u>941,558</u>	\$ <u>1,069,675</u>	\$ <u>1,144,767</u>	\$ <u>3,156,000</u>
<u>Incurred Deductions</u>				
Losses	\$ 541,014	\$ 660,153	\$ 727,984	\$1,929,151
Loss Adjustment Exp	37,312	38,805	7,948	84,065
Commissions	205,499	203,108	218,729	627,336
Salaries	117,138	122,563	189,831	429,532
Taxes, License, Fees	24,807	25,414	31,865	82,086
Other underwriting Exp	<u>223,222</u>	<u>309,660</u>	<u>375,118</u>	<u>908,000</u>
Total Deductions	<u>\$1,148,992</u>	<u>\$1,359,703</u>	<u>\$1,551,475</u>	<u>\$4,060,170</u>
Underwriting Gain / (Loss)	\$ <u>(207,434)</u>	\$ <u>(290,028)</u>	\$ <u>(406,708)</u>	\$ <u>(904,170)</u>

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
<u>Incurred deductions</u>				
Losses	57.5%	61.7%	63.6%	61.1%
Loss adjustment expense	4.0	3.6	0.7	2.7
Commission	21.8	19.0	19.1	19.9
Salaries	12.4	11.5	16.6	13.6
Taxes, Licenses and fees	2.6	2.4	2.8	2.6
Other underwriting expenses	<u>23.7</u>	<u>28.9</u>	<u>32.8</u>	<u>28.8</u>
Total deductions	<u>122.0%</u>	<u>127.1%</u>	<u>135.5%</u>	<u>128.6%</u>
Underwriting Gain/(Loss)	<u>(22.0)%</u>	<u>(27.1)%</u>	<u>(35.5)%</u>	<u>(28.6)%</u>

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019

### Per Risk Excess of Loss

The first \$125,000 of ultimate net loss per risk is retained by 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

### Aggregate Excess of Loss

The first \$825,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100% 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 Quota Share

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2019, no facultative agreements were in place.

### Reinsurance - General

The Association complies with current statutory standards relative to surplus exposure and reinsurance coverage.

## CLAIMS

The Adjustment of property claims above \$50,000 is primarily handled by a third-party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for overage.

From a review of numerous claims, it appeared that the Association made equitable settlements which were in keeping with the terms of the policy contracts.

## AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with R.W. Larson Insurance Agency.

The agency is 100 percent owned by Brad Larson, who is also the Secretary of the Association. Brad Larson produced sixty-two percent of the Association's 2019 business and performed limited claims adjustment on business he has written. Informal parameters have been developed relative to claim adjustment practices by the Secretary.

The agency paid \$125 monthly rent to the Association.

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.

There were forty-nine checks that were outstanding for at least five years. It is recommended that the Association follow state escheat laws. This was an issue for the previous exam.

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, 2019, the gross risk in force for the Association was \$385,325,539. The Association's statutory minimum surplus level as December 31, 2019 was \$385,326. It is noted the Association's surplus level to minimum surplus level ratio was 6.3/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

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, 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	\$1,675,227	\$	\$	\$1,675,227
Stocks	1,069,801	604,242		1,674,043
Bank Balances:				
Subject to check	59,874			59,874
Real Estate	102,671			102,671
Cash in Office	100			100
Unpaid premiums				
Due before Nov 1	1,700		1,700	
Due after Nov 1	121,707		99,669	22,038
Accrued interest		15,350		15,350
Federal income tax				
Recoverable		4,000	4,000	
Contingency receivable	<u>                    </u>	<u>15,472</u>	<u>                    </u>	<u>15,472</u>
 Total Assets	 <u>\$3,031,080</u>	 <u>\$639,064</u>	 <u>\$ 105,369</u>	 <u>\$3,564,775</u>

LIABILITIES AND SURPLUS

Losses		\$ 212,119
Unpaid adjusting expenses		292
Ceded reinsurance balances payable		42,969
Unpaid salaries and commissions		33,359
Amounts withheld for others		227
Taxes payable		5,964
Other unpaid expenses		4,349
Premiums collected for other companies - not remitted		14,691
Premiums received in advance		40,293
Unearned premium reserve		<u>765,853</u>
 Total liabilities		 \$1,120,116
 Surplus as regards policyholders		 <u>2,444,659</u>
 Total liabilities and surplus		 <u>\$3,564,775</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		<u>\$3,184,070</u>
	<u>INCOME</u>	
Net premiums and fees		\$1,203,959
Net interest received on bonds		55,364
Increase (Decrease) by adjustment - bonds		(658)
Dividends received		66,697
Profit on sale of investments		39,870
Rents received		2,400
Premiums collected for other companies		143,205
Increase in ledger liabilities		2,983
Miscellaneous income		267
Total income		<u>\$1,514,087</u>
Total assets and income		<u>\$4,698,157</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$ 680,086
<u>Operation Expense</u>		
Loss adjustment expenses	\$ 10,890	
Commissions	216,288	
Advertising	14,184	
Boards, bureaus and associations	10,887	
Inspection and loss prevention	225	
Salaries of officers	54,500	
Salaries of office employees	135,331	
Employee welfare	111,008	
Insurance	10,510	
Directors' expenses	414	
Rent and rent items	3,468	
Equipment	42,904	
Printing, stationery and supplies	22,241	
Postage and telephone	14,322	
Legal and auditing	24,900	
State insurance taxes	16,282	
Insurance Division licenses and fees	135	
Payroll taxes	14,816	
Real estate expenses	15,294	
Real estate taxes	4,909	
Miscellaneous	36,081	
Service fees	<u>52,045</u>	
Total operating expense		\$ 811,634
<u>Non-Operating Expense</u>		
Depreciation on real estate		6,202
Loss on sale of investment		32,238
Premium collections transmitted to other companies		119,338
Commissions paid agents for other companies		17,579
Total disbursements		<u>\$1,667,077</u>
Balance - ledger assets, December 31, 2016		<u>\$3,031,080</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE YEAR PERIOD ENDED DECEMBER 31, 2019  
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums Earned		\$1,144,767
<u>Deductions</u>		
Losses incurred	\$ 735,111	
Loss expenses incurred	7,948	
Other operating expenses incurred	<u>816,048</u>	
Total underwriting deductions		<u>1,559,107</u>
Net Underwriting gain (loss)		(414,340)
<u>Investment Income</u>		
Net investment income earned		145,743
<u>Other Income</u>		
Premiums collected for other companies		<u>(581)</u>
Net income before Federal income tax		(269,178)
Federal income tax incurred		0
Net Income		<u>(269,178)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards to policyholders, December 31, 2018		<u>\$2,407,336</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		(269,178)
Unrealized capital change		<u>306,501</u>
Change in surplus as regards to policyholders for the year		<u>37,323</u>
Surplus as regards to policyholders December 31, 2019		<u>\$2,444,659</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
THREE YEAR PERIOD ENDED DECEMBER 31, 2019  
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums Earned		\$3,156,743
<u>Deductions</u>		
Losses incurred	\$1,936,278	
Loss expenses incurred	84,065	
Other operating expenses incurred	<u>2,047,459</u>	
Total underwriting deductions		<u>4,067,802</u>
Net Underwriting gain (loss)		(911,059)
<u>Investment Income</u>		
Net investment income earned		414,758
<u>Other Income</u>		
Premiums collected for other companies		10,384
Miscellaneous Income		<u>6,392</u>
Net income before Federal income tax		(479,525)
Federal income tax incurred		(45,584)
Net Income		<u>(433,941)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards to policyholders, December 31, 2018		<u>\$2,627,256</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		(433,941)
Unrealized capital change		321,385
Miscellaneous		<u>(70,041)</u>
Change in surplus as regards to policyholders for the year		<u>(182,597)</u>
Surplus as regards to policyholders December 31, 2019		<u>\$2,444,659</u>

UNDERWRITING AND  
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>Liabilities</u>			
Unpaid claims	\$204,992	212,119	(7,127)
Unpaid commissions	32,854	33,359	<u>(505)</u>
Net change in surplus			\$ (7,632)
Surplus per Association			<u>\$2,452,291</u>
Surplus per Examination			<u>\$2,444,659</u>

During the period under review, surplus funds decreased \$182,597 from the amount of \$2,627,256 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:

Unpaid claims \$ 212,119

This liability was increased by \$7,127 to properly account for actual loss development.

Unpaid commissions \$ 33,359

This liability was increased \$505 to reflect the actual amount of commissions owed.

CONCLUSION

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

Respectfully submitted,

          /s/ Jeffrey S. Payne  
Jeffrey S. Payne, CFE  
Examiner Specialist  
Insurance Division  
State of Iowa