

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

Madrid, Iowa
December 15, 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

UNITED MUTUAL INSURANCE ASSOCIATION

BOONE COUNTY, MADRID, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 200 East Second Street, Madrid, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2016 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. 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, 2019.

HISTORY

The Association was incorporated in 1884 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 1953.

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 Madrid, Iowa on the first Wednesday in February of each year 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. Eleven members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of eight 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>
Chris Swanson	Madrid, Iowa	2020
Susan Nowels	Madrid, Iowa	2020
Kyle Schulz	Ankeny, Iowa	2020
Jay Van Wyk	Ankeny, Iowa	2021
Gloria Beebout	Ankeny, Iowa	2021
Karen Frey	Madrid, Iowa	2022
Richard Nelson	Huxley, Iowa	2022
James Brady	Polk City, 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.

Directors receive a fee of \$50 for each meeting attended.

Remuneration of directors is shown on Exhibit A following this report.

COMMITTEES

The Board of Directors appointed to the following committees as of December 31, 2019:

RATE AND SALARY COMMITTEE:

Karen Frey, Chair
Gloria Beebout
Chris Swanson
Jay Van Wyk
Susan Nowels

BOARD MEMBERSHIP COMMITTEE:

Richard Nelson, Chair
James Brady
Susan Nowels
Jay Van Wyk
Gloria Beebout

The minutes reflected that the Secretary/Manager abstained from voting on salary adjustments discussed at all annual meetings during the exam period.

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>
Gloria Beebout	President
Karen Frey	Vice President
Jay Van Wyk	Secretary/Treasurer

Remuneration of officers is shown on Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. Greater care should be taken to ensure all proper interests and affiliations are disclosed.

CORPORATE RECORDS

The Articles of Incorporation 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 reviewed and accepted at the August 10, 2017 board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$50,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Business personal property
- Business liability
- Cyber liability and data breach

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 long-term disability and term life insurance with premiums paid by the Association. The amount of coverage is two times the employee's salary.

Retirement benefit contributions to a traditional 401k plan were also provided to eligible employees whereby the Association matched up to six percent of the employee's gross salary or wage to the employee selected retirement fund. The Association contributed \$9,395, \$9,642, and \$9,748 in 2017, 2018, and 2019, respectively.

The Association also has a profit share 401k plan for employees. Contribution is made in March based on the profitability of the prior year up to nineteen percent of the employee's gross salary or wage. Profit share is paid when profit is over \$5,000 as reported on Annual Statement. The percentage of the profit share is based on the amount of profit over \$5,000. Profit share paid was \$29,752 and \$30,869 for 2017 and 2019, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a county mutual insurance association under the provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in seven counties in the State of Iowa. The permitted writing territory is composed of the following counties: Boone, Dallas, Greene, Hamilton, Polk, Story and Webster 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, or semi-annually. The Association reviews and underwrites these policies at the anniversary date.

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

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	<u>\$727,662</u>	<u>\$ 755,737</u>	<u>\$ 805,330</u>	<u>\$2,288,729</u>
Incurred deductions:				
Losses	100,667	452,716	265,166	818,549
Loss adjustment expense	4,500	3,000	7,500	15,000
Commissions	161,408	134,705	179,155	475,268
Salaries	156,589	160,696	162,470	479,755
Taxes, licenses and fees	20,997	21,700	22,450	65,147
Other underwriting expenses	<u>113,875</u>	<u>107,145</u>	<u>106,218</u>	<u>327,238</u>
Total deductions	<u>\$558,036</u>	<u>\$ 879,962</u>	<u>\$ 742,959</u>	<u>\$2,180,957</u>
Underwriting gain or (loss)	<u>\$169,626</u>	<u>\$(124,225)</u>	<u>\$ 62,371</u>	<u>\$ 107,772</u>

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Incurred deductions:				
Losses	13.83%	59.90%	32.93%	35.76%
Loss adjustment expense	0.62	0.40	0.93	0.66
Commissions	22.18	17.82	22.25	20.77
Salaries	21.52	21.26	20.17	20.96
Taxes, licenses and fees	2.89	2.87	2.79	2.85
Other underwriting expenses	<u>15.65</u>	<u>14.19</u>	<u>13.19</u>	<u>14.29</u>
Total deductions	<u>76.69%</u>	<u>116.44%</u>	<u>92.26%</u>	<u>95.29%</u>
Underwriting gain or (loss)	<u>23.31%</u>	<u>(16.44%)</u>	<u>7.74%</u>	<u>4.71%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$125,000 of ultimate net loss per risk is retained by the Association. First layer is reinsurer will pay 100 percent of net loss in excess of retention. The maximum recovery for the first layer is \$1,000,000 for each risk. Second layer has recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has 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.

Aggregate Excess of Loss

First \$475,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. One-hundred percent 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

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

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 a portion of the space with United Insurance Services (Agency). Agency is 100 percent owned by the Secretary/Manager of the Association. Agency produced approximately eighty-six percent of the Association's business during 2019. The agency paid \$365 monthly rent to the Association.

The agency rents forty percent of the building according to the terms of the month to month lease effective May 1, 2016. The lease provisions stipulate a monthly rental fee and forty percent of all regular utilities, including snow removal and lawn care costs paid by Agency. The costs of supplies, stationary, postage, ink and other expenses are borne by each party according to use.

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, 2019 relative to security custodial requirements. The Association does not own a bond or stock portfolio, only Certificates of Deposit which are held at various depositories. Therefore a custodial account is not required.

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 \$294,000,312. The Association's statutory minimum surplus level at December 31, 2019 was \$294,000. It is noted the Association's surplus level to minimum surplus level ratio was 7.4/1. The reported surplus/statutory minimum ratio average for 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>	Not <u>Admitted</u>	<u>Admitted</u>
Stocks	\$ 1,500	\$ 8,014	\$	\$ 9,514
Bank balances:				
Subject to check	165,308			165,308
On interest	2,312,438			2,312,438
Real estate	134,980			134,980
Cash in office	50			50
Unpaid premiums due after November 1		2,951		2,951
Accrued interest		1,152		1,152
Subrogation receivable		24,075		24,075
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$2,614,276	\$ 36,192	\$	\$2,650,468

LIABILITIES AND SURPLUS

Unpaid adjusting expense	\$ 625
Ceded reinsurance balances payable	10,708
Unpaid salaries and commissions	19,027
Taxes payable	5,673
Other unpaid expenses	2,703
Employee benefits payable	30,869
Premiums collected for other companies - not remitted	2,280
Premium received in advance	21,931
Unearned premium reserve	383,247
	<hr/>
Total liabilities	\$ 477,063
Surplus as regards policyholders	2,173,405
	<hr/>
Total liabilities and surplus	\$ 2,650,468

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018			\$2,479,208
	INCOME		
Net premiums and fees		\$	833,765
Interest received on bank deposits			49,294
Rents received			10,950
Premiums collected for other companies			47,452
Total income		\$	941,461
Total assets and income			\$3,420,669
	DISBURSEMENTS		
Losses paid		\$	289,241
<u>Operating Expense</u>			
Adjusting expense	\$	7,125	
Commissions	181,236		
Advertising	561		
Boards, bureaus and associations	6,409		
Salaries of officers	63,675		
Salaries of office employees	98,795		
Employee welfare	12,649		
Insurance	7,554		
Directors' compensation	1,650		
Directors' expenses	860		
Rent and rent items	6,570		
Equipment	11,614		
Printing, stationery and supplies	6,931		
Postage and telephone	10,016		
Legal and auditing	6,210		
State insurance taxes	9,466		
Insurance Division licenses and fees	150		
Payroll taxes	12,851		
Real estate expenses	9,154		
Real estate taxes	2,828		
Miscellaneous	538		
Donations	200		
Online payment fees	1,169		
Total operating expense			\$ 458,211
<u>Non-Operating Expense</u>			
Depreciation on real estate			4,733
Federal income tax			8,617
Premium collections transmitted to other companies			38,969
Commissions paid agents for other companies			5,845
Decrease in ledger liabilities			777
Total disbursements			\$ 806,393
Balance - ledger assets, December 31, 2019			\$2,614,276

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 805,330
<u>Deductions</u>	
Losses incurred	\$ 265,166
Loss expenses incurred	7,500
Other operating expenses incurred	470,293
Total underwriting deductions	<u>742,959</u>
Net underwriting gain (loss)	\$ 62,371
<u>Investment Income</u>	
Net investment income earned	44,681
<u>Other Income</u>	
Premiums collected for other companies	<u>2,560</u>
Net income before Federal income tax	\$ 109,612
Federal income tax incurred	<u>7,817</u>
Net income	<u>\$ 101,795</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$2,071,617</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 101,795
Change in net unrealized gains/losses	<u>(7)</u>
Change in surplus as regards policyholders for the year	<u>\$ 101,788</u>
Surplus as regards policyholders, December 31, 2019	<u>\$2,173,405</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$2,288,729
<u>Deductions</u>		
Losses incurred	\$ 818,549	
Loss expenses incurred	15,000	
Other operating expenses incurred	1,347,408	
Total underwriting deductions	<u>2,180,957</u>	<u>2,180,957</u>
Net underwriting gain (loss)		\$ 107,772
<u>Investment Income</u>		
Net investment income earned		101,414
<u>Other Income</u>		
Premiums collected for other companies		<u>4,952</u>
Net income before Federal income tax		\$ 214,138
Federal income tax incurred		<u>18,903</u>
Net income		<u>\$ 195,235</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$1,991,213</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 195,235	
Change in net unrealized gains/losses	<u>(13,043)</u>	<u>(13,043)</u>
Change in surplus as regards policyholders for the period		<u>\$ 182,192</u>
Surplus as regards policyholders, December 31, 2019		<u>\$2,173,405</u>

SURPLUS AS REGARDS POLICYHOLDERS

The change which resulted in the net increase is 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	\$ 4,042	\$ 2,951	\$ (1,091)
Subrogation receivable	0	24,075	24,075
<u>Liabilities</u>			
Other unpaid expenses	1,291	2,703	<u>(1,412)</u>
Net change in surplus			\$ 21,572
Surplus per Association			<u>\$2,151,833</u>
Surplus per Examination			<u>\$2,173,405</u>

During the period under review, surplus funds increased \$182,192 from the amount of \$1,991,213 as shown in the previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

Unpaid premiums due after November 1 \$ 2,951

The asset was decreased by \$1,091 to reflect the actual amount of premiums received in 2020.

Subrogation receivable \$ 24,075

This asset was increased by \$24,075 to reflect the actual amount received in 2020 for 2019.

Other unpaid expenses \$ 2,703

This liability was increased by \$1,412 to reflect actual expenses paid in 2020 for 2019.

CONCLUSION

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

Respectfully submitted,

/s/ Abby Kramer
Abby Kramer
Cain Ellsworth & Co., LLP
Representing the State of Iowa