

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

Harlan, Iowa
September 25, 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

SHELBY COUNTY FARMERS MUTUAL INSURANCE ASSOCIATION

SHELBY COUNTY, HARLAN, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 1117 Seventh Street, Harlan, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2014 to December 31, 2019. 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, 2019.

HISTORY

The Association was incorporated in 1887 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 1947.

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 Harlan, Iowa on the second Saturday in February at 1:00 p.m. Special meetings may be called by the President and shall be called by him upon written request of the majority of the members of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of time and place of such special meetings shall be given to the members. Each member present at any meeting shall be entitled to one vote on each question to be decided. Voting by proxy is not permitted. One more member than there are members of the Board of Directors shall constitute a quorum for the transaction of any business at any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than nine nor more than thirteen, the exact number as stipulated by the Bylaws. In no event shall the directors at any time consist of less than nine members. As the term of the office of each director expires, the members of the Association at the

regular annual meeting shall elect for a term not to exceed three years members to the Board of Directors. Any vacancy on the Board may be filled by a majority of the remaining directors for the balance of the unexpired term, or the office may be declared vacant.

Directors serving at December 31, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Neal Gaul	Earling, Iowa	2020
Marguerite Tremel	Dunlap, Iowa	2020
Philip Wegner	Panama, Iowa	2020
Jeff Darling	Kirkman, Iowa	2021
Keith Fiscus	Kirkman, Iowa	2021
William Johnson	Avoca, Iowa	2021
Michael Feldman	Panama, Iowa	2022
Christian Larsen	Harlan, Iowa	2022
Kenneth Stein	Portsmouth, Iowa	2022

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

The annual meeting of the Board shall be held immediately after the adjournment of the annual meeting of the membership, and thereafter on the call of the President or Secretary. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$200 for each meeting attended except the President who receives \$250 for each meeting attended and are reimbursed for travel expense.

COMMITTEES

The President, Vice President, and one Director appointed by the President shall constitute an Executive Committee with powers specified by the Bylaws or as the Board of Directors may delegate to it. A Nominating Committee shall be selected by the Chairman consisting of directors whose terms are not expiring at the next annual meeting to submit a list of nominees for each vacancy. Serving on each committee at December 31, 2019 were:

Executive

Scholarship

Marguerite Tremel - President
 Neal Gaul - Vice President
 Kenneth Stein - Director
 Richard Rasmussen - Secretary/Treasurer

Marguerite Tremel - President
 Christian Larsen - Director
 Philip Wegner - Director
 Richard Rasmussen - Secretary/Treasurer

Auditing

Nominating

Marguerite Tremel - President
 Jeff Darling - Director
 Kenneth Stein - Director
 Richard Rasmussen - Secretary/Treasurer

Marguerite Tremel - President
 Michael Feldman - Director
 William Johnson - Director
 Christian Larsen - Director
 Richard Rasmussen - Secretary/Treasurer

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>
Marguerite Tremel	President
Neal Gaul	Vice President
Richard D. Rasmussen	Secretary/Treasurer

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

CONFLICT OF INTEREST

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

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, 2014 was discussed and approved at the December 3, 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. The bond is written for an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial general liability
- Business liability
- Business auto
- Building and contents

It appears adequate insurance is placed with authorized insurers except professional liability and officers' and directors' liability which are written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

Full-time eligible employees are reimbursed by the Association for the full annual premium on a single health insurance plan and fifty percent of the premium for a family plan. The Association also pays fifty percent of term life insurance premiums for eligible employees. The Association also pays up to \$1,000 of out of pocket medical expenses and up to forty percent of annual individual member fitness fees of the Secretary/Treasurer.

A retirement benefit contribution to a Simplified Employee Pension/Individual Retirement Account (SEP/IRA) fund was also provided to full-time eligible employees having completed three years of employment. The Association contributed five percent of the employee's salary to the selected retirement fund.

The contribution percentage was approved yearly by the Board of Directors. Contributions were paid by the Association to the employee selected plan for 2015, 2016, 2017, 2018 and 2019 of \$5,750, \$5,971, \$6,210, \$6,425 and \$6,632, 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: Crawford, Carroll, Harrison, Shelby, Audubon, Pottawattamie and Cass. 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by 56 licensed agents.

UNDERWRITING EXPERIENCE

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$1,062,069	\$1,064,994	\$1,079,451	\$1,071,598	\$1,115,246	\$5,393,358
Incurred deductions:						
Losses	\$ 209,625	\$ 572,999	\$1,093,786	\$ 901,685	\$ 566,952	\$3,345,047
Loss adjustment expenses	49,379	93,861	97,625	130,078	89,582	460,525
Commissions	102,022	100,785	102,504	115,034	125,810	546,155
Salaries	131,400	135,742	140,555	145,022	138,799	691,518
Taxes, licenses and fees	29,449	31,389	31,205	32,379	30,449	154,871
Other underwriting expenses	198,513	194,594	198,507	193,202	197,827	982,643
Total deductions	\$ 720,388	\$1,129,370	\$1,664,182	\$1,517,400	\$1,149,419	\$6,180,759
Underwriting gain (loss)	\$ 341,681	\$ (64,376)	\$ (584,731)	\$ (445,802)	\$ (34,173)	\$ (787,401)

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Incurred deductions:						
Losses	19.74%	53.80%	101.33%	84.14%	50.84%	62.02%
Loss adjustment expenses	4.65	8.81	9.04	12.14	8.03	8.54
Commissions	9.61	9.46	9.50	10.73	11.28	10.13
Salaries	12.37	12.75	13.02	13.53	12.45	12.82
Taxes, licenses and fees	2.77	2.95	2.89	3.02	2.73	2.87
Other underwriting expenses	18.69	18.27	18.39	18.04	17.73	18.22
Total deductions	67.83%	106.04%	154.17%	141.60%	103.06%	114.60%
Underwriting gain (loss)	32.17%	(6.04%)	(54.17%)	(41.60%)	(3.06%)	(14.60%)

REINSURANCE

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

CEDED

First Per Risk Excess

\$100,000 in excess of \$100,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$250,000 as respects any one loss occurrence, irrespective of the number of risks involved.

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 or so deemed.

Second Per Risk Excess

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

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 or so deemed.

Third Per Risk Excess

\$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 be limited to \$1,000,000 as respects any one loss occurrence, irrespective of the number of risks involved.

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 or so deemed.

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 85 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 45 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 85 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 or so deemed.

Second 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 130 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 130 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 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 260 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 260 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 or so deemed.

Property Pro Rata Facultative

The Association may cede an amount of facultative reinsurance on any one risk, on a pro rata basis, up to but not exceeding the reinsurer's limit of liability as stated on the facultative certificate.

The Association had one facultative certificate in place at December 31, 2019.

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 settlements which were in keeping with the terms of the policy contracts.

AFFILIATED AGENCY

Century Farm Insurance Agency is a fully-owned subsidiary of the Association. The purpose of this agency is to write insurance policies for the Association. The Association owns its Home Office building and shares a portion of the space with the agency. The agency paid \$2,000 monthly rent to the Association for the use of the building space during the exam period.

The agency produced approximately 53 percent of the Association's business during 2019 and experienced a loss ratio of 18 percent. In addition, the agency paid cash dividends to the Association in the amount of \$90,000, \$90,000, \$30,000, \$90,000 and \$30,000 for 2015, 2016, 2017, 2018 and 2019, respectively.

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.

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 \$386,012,973. The Association's statutory minimum surplus level as December 31, 2019 was \$386,013. It is noted the Association's surplus level to minimum surplus level ratio was 24.8/1. 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	\$6,128,165	\$	\$	\$ 6,128,165
Stocks	2,659,586	954,103		3,613,689
Bank balances:				
Subject to check	339,365			339,365
On interest	169,534			169,534
Real estate	67,900			67,900
Cash in office	50			50
Unpaid premiums:				
Due before November 1	512		512	
Due after November 1	152,866		142,949	9,917
Accrued interest		46,717		46,717
Equipment and furniture	26,064		26,064	
Federal income tax recoverable		20,000	20,000	
Overwrite fee receivable		912		912
Reinsurance premiums refundable		9,184		9,184
Prepaid reinsurance	<u>102,715</u>			<u>102,715</u>
Total	<u>\$9,646,757</u>	<u>\$1,030,916</u>	<u>\$189,525</u>	<u>\$10,488,148</u>

LIABILITIES AND SURPLUS

Losses	\$ 157,152
Unpaid adjusting expenses	19,889
Unpaid salaries and commissions	12,136
Taxes payable	1,255
Other unpaid expenses	11,525
Premiums collected for other companies - not remitted	11,123
Premiums received in advance	26,065
Unearned premium reserve	<u>679,013</u>
Total liabilities	\$ 918,158
Surplus as regards policyholders	<u>9,569,990</u>
Total liabilities and surplus	<u>\$10,488,148</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$ 9,106,753
	<u>INCOME</u>	
Net premiums and fees		\$ 1,159,104
Net interest received on bonds		208,768
Increase (Decrease) by adjustment - bonds		(20,771)
Dividends received		168,756
Interest received on bank deposits		3,340
Profit on sale of investments		17,994
Rents received		29,400
Increase in ledger liabilities		10,314
Underwriting expense reimbursement		10,168
Total income		<u>\$ 1,587,073</u>
Total assets and income		<u>\$10,693,826</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 459,300
<u>Operating Expense</u>		
Loss adjusting expenses	\$ 70,393	
Commissions	124,879	
Advertising	20,321	
Boards, bureaus and associations	7,345	
Inspection and loss prevention	2,153	
Salaries of officers	95,316	
Salaries of office employees	43,483	
Employee welfare	37,395	
Insurance	32,925	
Directors' compensation	10,203	
Rent and rent items	5,400	
Equipment	8,197	
Printing, stationery and supplies	9,076	
Postage and telephone	8,731	
Legal and auditing	13,874	
State insurance taxes	15,261	
Insurance Division licenses and fees	400	
Payroll taxes	14,610	
All other taxes	444	
Real estate expenses	14,742	
Real estate taxes	1,266	
Miscellaneous	3,763	
Data processing	11,835	
Investment expense	16,875	
Meals and entertainment	911	
Travel and meeting expense	<u>13,635</u>	
Total operating expense		\$ 583,433
<u>Non-Operating Expense</u>		
Depreciation on real estate		2,065
Loss on sale of investment		2,271
Total disbursements		<u>\$ 1,047,069</u>
Balance - ledger assets, December 31, 2019		<u>\$ 9,646,757</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$1,115,246
<u>Deductions</u>		
Losses incurred	\$566,952	
Loss expenses incurred	89,582	
Other operating expenses incurred	<u>492,885</u>	
Total underwriting deductions		<u>1,149,419</u>
Net underwriting gain (loss)		\$ (34,173)
<u>Investment Income</u>		
Net investment income earned		384,837
<u>Other Income</u>		
Premiums collected for other companies (net)		(436)
Miscellaneous income		<u>23</u>
Net income before Federal income tax		\$ 350,251
Federal income tax incurred		<u>0</u>
Net income		<u>\$ 350,251</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$8,695,582</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 350,251	
Change in not admitted assets	2,896	
Change in net unrealized gains/losses	<u>521,261</u>	
Change in surplus as regards policyholders for the year		<u>\$ 874,408</u>
Surplus as regards policyholders, December 31, 2019		<u>\$9,569,990</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$5,393,358
<u>Deductions</u>		
Losses incurred	\$3,345,047	
Loss expenses incurred	460,525	
Other operating expenses incurred	<u>2,375,187</u>	
Total underwriting deductions		<u>6,180,759</u>
Net underwriting gain (loss)		\$ (787,401)
<u>Investment Income</u>		
Net investment income earned		2,615,108
<u>Other Income</u>		
Premiums collected for other companies (net)		37,522
Miscellaneous income		<u>277</u>
Net income before Federal income tax		\$1,865,506
Federal income tax incurred		<u>226,752</u>
Net income		<u>\$1,638,754</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$8,033,260</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$1,638,754
Change in not admitted assets		(5,702)
Change in net unrealized gains/losses		<u>(96,322)</u>
Change in surplus as regards policyholders for the period		<u>\$1,536,730</u>
Surplus as regards policyholders, December 31, 2019		<u>\$9,569,990</u>

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>Assets</u>			
Stocks	\$3,616,005	\$3,613,689	\$ (2,316)
Unpaid premiums	11,800	9,917	(1,883)
<u>Liabilities</u>			
Losses	186,100	157,152	28,948
Unpaid adjusting expenses	700	19,889	(19,189)
Other unpaid expenses	9,325	11,525	(2,200)
Premiums collected for other companies - not remitted	8,770	11,123	<u>(2,353)</u>
Net change to surplus			\$ 1,007
Surplus per Association			<u>\$9,568,983</u>
Surplus per examination			<u>\$9,569,990</u>

During the period under review, surplus funds increased \$1,536,730 from the amount of \$8,033,260 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:

Stocks \$3,613,689

This asset was decreased by \$2,316 to reflect the proper valuation of the wholly owned subsidiary agency.

Unpaid premiums \$ 9,917

This asset was decreased by \$1,883 to reflect the actual amount of premiums received in 2020.

Losses \$ 157,152

Losses decreased by \$28,948 to reflect actual loss development.

Unpaid adjusting expenses \$ 19,889

An analysis of paid adjusting expenses to paid losses increased this liability by \$19,189.

Other unpaid expenses \$ 11,525

This liability was increased by \$2,200 to reflect actual expenses paid in 2020 for 2019.

