

EXAMINATION REPORT OF  
WHITE PIGEON MUTUAL INSURANCE ASSOCIATION  
MUSCATINE COUNTY, WILTON, IOWA  
AS OF DECEMBER 31, 2017

Wilton, Iowa  
September 28, 2018

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

WHITE PIGEON MUTUAL INSURANCE ASSOCIATION

MUSCATINE COUNTY, WILTON, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 105 West Fourth Street, Wilton, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

White Pigeon Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2014. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2015 to December 31, 2017. 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, 2017.

HISTORY

The Association was incorporated in 1872 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 1948.

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 Wilton, Iowa on the first Wednesday in February at 10:00 a.m. Special meetings shall be called by the President upon request of the majority of the Board of Director members or upon written request of one-fourth of the members of the Association. Due notice of the time and place of special meetings shall be given the members. Each member present is entitled to one vote regardless of the number of policies owned by the member on any question to be decided. Voting by proxy is not permitted. A quorum shall be one more member than the number of Board of Directors fixed by resolution of the Board of Directors.

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, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Steven Bockwoldt	Wilton, Iowa	2018
Ben Brown	Wilton, Iowa	2018
Gary Maurer	Wilton, Iowa	2018
Jared Marks	Tipton, Iowa	2019
Noah Coppess	Stanwood, Iowa	2019
William Petersen	Muscatine, Iowa	2019
Brad Daufeldt	West Liberty, Iowa	2020
Roger Sessler	Wilton, Iowa	2020
Rod Dietz	Walcott, Iowa	2020

The annual meeting of the Board shall be held immediately following the annual meeting of the members, and thereafter on the call of the President or Chairman. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$115 for each meeting attended and reimbursement of travel expense. The Chairman of the Board receives \$215 for each meeting.

The Association has procured director's voluntary accidental death and dismemberment coverage for each of the directors in the amount of \$10,000 with coverage automatically terminating when a director reaches the age of 85.

Salaries and remuneration of directors are shown on Exhibit A following this report.

COMMITTEE

The Board of Directors annually appoints an Executive Committee consisting of directors.

Serving on the committee at December 31, 2017, were:

Executive Committee

William Petersen - Chairman  
Roger Sessler - Vice Chairman  
Ben Brown - Secretary  
Steven Bockwoldt - Director

Directors serving on the committee receive a fee of \$115 per meeting attended and reimbursement of travel expense.

OFFICERS

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

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
William Petersen	Chairman
Mark Knouse	President/Treasurer
Roger Sessler	Vice-Chairman
Ben Brown	Secretary

Salaries and remuneration of officers are shown in 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 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 reviewed and accepted at the December 9, 2015 Board meeting.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$125,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is non-cumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property and contents
- Business liability
- Commercial liability umbrella
- Business automobile
- Employee theft and forgery
- Employers' 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

Regular full-time eligible employees are provided health, life and disability insurance with premiums partially paid by the Association. Employees contribute \$50 per month for single coverage and \$100 per month for family coverage.

Each year eligible full-time employees will receive five percent of their salary divided by the following method: (a) up to two percent matched by the Association in a 401(k) pension program, and (b) the remaining three percent as a bonus, paid the following January, for employees on the preceding December 31st payroll.

Contributions to the 401(k) were paid by the Association of \$4,980, \$4,989 and \$5,046 for 2015, 2016 and 2017, respectively.

Contributions to the employment bonus were paid by the Association of \$7,469 \$7,484 and \$7,890 for 2015, 2016 and 2017, respectively.

In addition to the regular salary/wage, a bonus may be paid each year based on the overall profitability of the White Pigeon Agency, Inc. The agency is owned 100 percent by the Association and provided approximately 32 percent of the Association's business in 2017. This bonus may be paid up to a maximum of \$1,000 per employee as an incentive to build a profitable agency for the Association.

Contributions to the incentive bonus were paid by the Association of \$4,000, \$0, and \$4,000 for 2015, 2016 and 2017, 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 five counties in the State of Iowa. The permitted writing territory is composed of the following counties: Muscatine, Cedar, Louisa, Johnson, and Scott 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by thirty-seven licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

<u>Classification</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	<u>\$1,526,910</u>	<u>\$1,581,689</u>	<u>\$1,614,701</u>	<u>\$4,723,300</u>
Incurred deductions:				
Losses	488,925	1,184,688	1,139,843	2,813,456
Loss adjustment expenses	40,475	51,594	76,343	168,412
Commissions	346,687	310,951	327,993	985,631
Salaries	165,716	166,835	172,612	505,163
Taxes, licenses and fees	41,046	42,053	42,826	125,925
Other underwriting expenses	<u>211,562</u>	<u>222,062</u>	<u>242,467</u>	<u>676,091</u>
Total deductions	<u>\$1,294,411</u>	<u>\$1,978,183</u>	<u>\$2,002,084</u>	<u>\$5,274,678</u>
Underwriting gain (loss)	<u>\$ 232,499</u>	<u>\$ (396,494)</u>	<u>\$ (387,383)</u>	<u>\$ (551,378)</u>

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Incurred deductions:				
Losses	32.02%	74.90%	70.59%	59.57%
Loss adjustment expenses	2.65	3.26	4.73	3.57
Commissions	22.71	19.66	20.31	20.87
Salaries	10.85	10.55	10.69	10.70
Taxes, licenses and fees	2.69	2.66	2.65	2.67
Other underwriting expenses	<u>13.85</u>	<u>14.04</u>	<u>15.02</u>	<u>14.29</u>
Total deductions	<u>84.77%</u>	<u>125.07%</u>	<u>123.99%</u>	<u>111.67%</u>
Underwriting gain (loss)	<u>15.23%</u>	<u>(25.07%)</u>	<u>(23.99%)</u>	<u>(11.67%)</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2017 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$150,000 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Catastrophe Excess of Loss

First \$550,000 of ultimate net loss per catastrophe, which is any period of 96 consecutive hours arising out of and directly occasioned by the same event, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

### Aggregate Excess of Loss

First \$1,125,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100 percent of ultimate net loss in excess of retention is covered by 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.

### Quota Share

As of December 31, 2017, two risks were identified which warranted Farm Property Quota Share Reinsurance. Each risk is ceded at 75 percent to the reinsurance company.

### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

### 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 White Pigeon Agency, Inc.

White Pigeon Agency, Inc., a wholly owned subsidiary, was formed in 1976 with the initial capitalization of \$35,000 representing 350 shares of common stock at \$100 par value. The subsidiary's officers and directors are the same as those for the Association.

The agency writes business directly with other insurers for coverages that the Association is not authorized to write. The agency produced approximately 32 percent of the Association's business during 2017. The manager for the agency received \$60,034 which included an employment bonus of \$1,000, a profit share bonus of \$0 and \$2,409 contribution to her 401(k) pension plan in 2017.

The agency paid \$400 monthly rent to the Association.

The business arrangement between the agency and the Association did not appear to be unreasonable.

### 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.

Selected 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, and authorized

signatures. Cash receipts and disbursements for selected months 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, 2017 relative to security custodial requirements.

Investment transactions do not appear to be properly classified and reported in the Association's filed annual statement. It is suggested that greater care be exercised to report the correct maturity dates and trade dates.

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, 2017, the gross risk in force for the Association was \$722,884,543. The Association's statutory minimum surplus level at December 31, 2017 was \$722,885. It is noted the Association's surplus level to minimum surplus level ratio was 3.99/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2017 was 8.4/1.

It is noted the Association paid \$100,598 in commissions and bonus/contingency commissions to its wholly owned agency during 2017. The examination value of the agency increased by \$127,911 and the agency paid dividends of \$4,025 to the Association during the examination period.



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, 2017 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	\$1,980,872	\$	\$ 5,324	\$1,975,548
Stocks	761,717	759,625		1,521,342
Bank Balances:				
Subject to check	66,042			66,042
On interest	350,997			350,997
Real Estate	52,095			52,095
Cash in office	100			100
Unpaid premiums:				
Due before November 1		339	339	
Due after November 1		3,262		3,262
Accrued interest		27,501		27,501
Equipment and furniture	3,546		3,546	
Automobiles	22,931		22,931	
EDP equipment	3,984		2,380	1,604
Suspense	2,938			2,938
Total	\$3,245,222	\$ 790,727	\$ 34,520	\$4,001,429

LIABILITIES AND SURPLUS

Losses	\$	847
Unpaid adjusting expenses		21,678
Ceded reinsurance balances payable		60,845
Unpaid salaries and commissions		26,889
Taxes payable		1,927
Other unpaid expenses		6,240
Employee benefits payable		6,738
Premiums collected for other companies - not remitted		11,294
Premiums received in advance		36,405
Unearned premium reserve		898,000
Accrued vacation and sick		49,657
Total liabilities		\$1,120,520
Surplus as regards policyholders		2,880,909
Total liabilities and surplus		\$4,001,429

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016			<u>\$3,142,956</u>
	<u>INCOME</u>		
Net premiums and fees			\$1,653,615
Net interest received on bonds			100,800
Increase (decrease) by adjustment - bonds			(12,410)
Dividends received			30,971
Interest received on bank deposits			485
Profit on sale of investments			160,355
Rents received			12,000
Borrowed money			50,000
Premiums collected for other companies			202,839
Federal income tax refund			80,031
Total income			<u>\$2,278,686</u>
Total assets and income			<u>\$5,421,642</u>
	<u>DISBURSEMENTS</u>		
Losses paid			\$1,091,144
<u>Operating Expense</u>			
Loss adjusting expense	\$ 55,512		
Commissions	327,006		
Advertising	15,943		
Boards, bureaus and associations	7,825		
Inspection and loss prevention	49,794		
Salaries of officers	81,450		
Officers' expenses	1,262		
Salaries of office employees	91,162		
Employee welfare	43,184		
Insurance	18,457		
Directors' compensation	6,365		
Directors' expenses	2,574		
Rent and rent items	7,200		
Equipment	47,506		
Printing, stationery and supplies	5,197		
Postage and telephone	11,423		
Legal and auditing	13,984		
State insurance taxes	23,317		
Insurance Division licenses and fees	320		
Payroll taxes	19,978		
Real estate expenses	7,788		
Real estate taxes	1,976		
Interest on borrowed money	349		
Miscellaneous	2,358		
Annual meeting and conventions	714		
Donations / contributions	357		
Over and short	41		
Total operating expense	<u>843,042</u>		\$ 843,042
<u>Non-Operating Expense</u>			
Borrowed money repaid			50,000
Depreciation on real estate			1,903
Premium collections transmitted to other companies			156,608
Commission paid agents for other companies			30,033
Decrease in ledger liabilities			3,690
Total disbursements			<u>\$2,176,420</u>
Balance - ledger assets, December 31, 2017			<u>\$3,245,222</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,614,701
<u>Deductions</u>		
Losses incurred	\$1,139,843	
Loss expenses incurred	76,343	
Other operating expenses incurred	<u>785,898</u>	
Total underwriting deductions		<u>2,002,084</u>
Net underwriting gain (loss)		\$ (387,383)
<u>Investment Income</u>		
Net investment income earned		279,105
<u>Other Income</u>		
Premiums collected for other companies (net)		<u>16,093</u>
Net income before Federal income tax		\$ (92,185)
Federal income tax incurred		<u>(80,031)</u>
Net loss		<u>\$ (12,154)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$2,801,072</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (12,154)
Change in not admitted assets		16,218
Change in net unrealized gains/losses		<u>75,773</u>
Change in surplus as regards policyholders for the year		<u>\$ 79,837</u>
Surplus as regards policyholders, December 31, 2017		<u>\$2,880,909</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$4,723,300
<u>Deductions</u>		
Losses incurred	\$2,813,456	
Loss expenses incurred	168,412	
Other operating expenses incurred	<u>2,292,810</u>	
Total underwriting deductions		<u>5,274,678</u>
Net underwriting gain (loss)		\$ (551,378)
<u>Investment Income</u>		
Net investment income earned		549,617
<u>Other Income</u>		
Premiums collected for other companies (net)		31,203
Miscellaneous income		<u>25</u>
Net income before Federal income tax		\$ 29,467
Federal income tax incurred		<u>63,257</u>
Net loss		<u>\$ (33,790)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$2,732,883</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (33,790)
Change in not admitted assets		(11,566)
Change in net unrealized gains/losses		<u>193,382</u>
Change in surplus as regards policyholders for the period		<u>\$ 148,026</u>
Surplus as regards policyholders, December 31, 2017		<u>\$2,880,909</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>			
Stocks	\$1,547,785	\$1,521,342	\$ (26,443)
Unpaid premiums due after November 1	4,167	3,262	(905)
<u>Liabilities</u>			
Unpaid adjusting expenses	7,600	21,678	(14,078)
Taxes payable	2,915	1,927	988
Other unpaid expenses	7,422	6,240	<u>1,182</u>
Net change to surplus			\$ (39,256)
Surplus per Association			<u>\$2,920,165</u>
Surplus per examination			<u>\$2,880,909</u>

During the period under review, surplus funds increased \$148,026 from the amount of \$2,732,883 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:

Stocks \$1,521,342

This asset was decreased by \$26,443 to reflect the proper valuation of the wholly owned subsidiary agency.

Unpaid premiums \$ 3,262

This asset was decreased by \$905 to reflect the actual amount of premiums received in 2017.

Unpaid adjusting expenses \$ 21,678

An analysis of paid adjusting expenses to paid losses increased the liability by \$14,078.

Taxes payable \$ 1,927

This liability decreased by \$988 to reflect the recalculation of real estate taxes payable.

Other unpaid expenses \$ 6,240

This liability was decreased by \$1,182 to reflect actual expenses paid in 2018 for 2017.

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