

EXAMINATION REPORT OF
DALLAS MUTUAL INSURANCE ASSOCIATION
DALLAS COUNTY, DALLAS CENTER, IOWA
AS OF DECEMBER 31, 2020

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Dallas Center, Iowa
September 20, 2021

Commissioner Ommen:

In accordance with your instructions and pursuant to Iowa statutory provisions, an examination has been made of the

DALLAS MUTUAL INSURANCE ASSOCIATION

DALLAS COUNTY, DALLAS CENTER, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 1410 Walnut Avenue, Dallas Center, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Dallas Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2017. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2018 to December 31, 2020. The examination was conducted in accordance with procedures established by the Iowa Insurance Division 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, 2020.

HISTORY

The Association was incorporated in 1895 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 Dallas Center, Iowa on the third Thursday in February 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. Ten members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association shall be vested in a Board of seven directors, each elected by a majority vote at the annual membership meeting 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, 2020 were:

| <u>Name</u> | <u>Address</u> | <u>Term Expires</u> |
|------------------|---------------------|---------------------|
| Robert L. German | Dallas Center, Iowa | 2021 |
| Mitch Hambleton | Dallas Center, Iowa | 2021 |
| Thomas W. Book | Adel, Iowa | 2022 |
| Benjamin Rouse | Grimes, Iowa | 2022 |
| Samuel G. Wise | Dallas Center, Iowa | 2022 |
| Scott Gustafson | Dallas Center, Iowa | 2023 |
| Ty Luellen | Minburn, Iowa | 2023 |

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

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 \$100 for each meeting attended and are reimbursed for travel expense.

COMMITTEE

The Board of Directors may establish permanent or temporary committees as it determines appropriate to assist in its work. The Compensation committee had the following appointments as of December 31, 2020, Scott Gustafson and Mitch Hambleton.

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, 2020 were:

| <u>Name</u> | <u>Office</u> |
|---------------------|---------------------|
| Samuel G. Wise | President |
| Robert L. German | Vice-President |
| Catherine M. Sheets | Secretary-Treasurer |

The Secretary-Treasurer and Manager is also a licensed agent of the Association, but did not receive any commissions from the Association. Remuneration of the officers is shown in Exhibit A immediately following the signature page of this report.

CONFLICT OF INTEREST

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

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 meeting reflected that the Examination Report as of December 31, 2017 was reviewed and approved at the Board meeting on February 21, 2019.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$500,000 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
- Building and business personal property
- General liability and umbrella
- Auto liability
- Cyber 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

Life, accidental death and dismemberment insurance and long-term disability insurance premiums are paid by the Association for full-time employees.

Full-time eligible employees may participate in the Simplified Employee Pension-Individual Retirement Account (SEP-IRA) whereby the Association will contribute yearly, three percent of each employee's salary. The employee has the option to make additional contributions to their plan. Contributions of \$6,006, \$6,269 and \$5,525 were paid annually by the Association for 2018 to 2020.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Dallas 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, or quarterly, with ETF payments may be made monthly. The Association underwrites these policies every three years. Of fifteen policies reviewed during the examination, six applications were not signed by policyholders and nine applications were not signed by agents.

The Association maintains a Services Sharing Agreement with another unaffiliated farm mutual whereby the Association will provide inspection services for a fee, the total of which was \$11,600 in 2020. The unaffiliated association provides business

cards, stationery and office assistance for the Association inspector. At the present time, business is produced by approximately 82 licensed agents.

UNDERWRITING EXPERIENCE
THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

| <u>Classification</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>Total</u> |
|-----------------------------|---------------------|--------------------|--------------------|---------------------|
| Premiums earned | \$1,091,739 | \$1,135,764 | \$1,236,140 | \$3,463,643 |
| <u>Incurred deductions:</u> | | | | |
| Losses | \$ 717,784 | \$ 433,150 | \$ 785,158 | \$1,936,092 |
| Loss adjustment expense | 25,799 | 37,941 | 43,086 | 106,826 |
| Commissions | 219,823 | 233,657 | 248,696 | 702,176 |
| Salaries | 127,522 | 109,044 | 69,336 | 305,902 |
| Taxes, licenses and fees | 31,306 | 32,830 | 31,295 | 95,431 |
| Other underwriting expenses | <u>203,258</u> | <u>190,014</u> | <u>130,162</u> | <u>523,434</u> |
| Total deductions | <u>\$1,325,492</u> | <u>\$1,036,636</u> | <u>\$1,307,733</u> | <u>\$3,669,861</u> |
| Underwriting gain or (loss) | <u>\$ (233,753)</u> | <u>\$ 99,128</u> | <u>\$ (71,593)</u> | <u>\$ (206,218)</u> |

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

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>Total</u> |
|-----------------------------|----------------|--------------|---------------|---------------|
| <u>Incurred deductions:</u> | | | | |
| Losses | 65.7% | 38.1% | 63.5% | 55.9% |
| Loss adjustment expense | 2.4 | 3.3 | 3.5 | 3.1 |
| Commissions | 20.1 | 20.6 | 20.1 | 20.3 |
| Salaries | 11.7 | 9.6 | 5.7 | 8.8 |
| Taxes, licenses and fees | 2.9 | 2.9 | 2.5 | 2.8 |
| Other underwriting expenses | <u>18.6</u> | <u>16.7</u> | <u>10.5</u> | <u>15.1</u> |
| Total deductions | <u>121.4%</u> | <u>91.3%</u> | <u>105.8%</u> | <u>106.0%</u> |
| Underwriting gain or (loss) | <u>(21.4)%</u> | <u>8.7%</u> | <u>(5.8)%</u> | <u>(6.0)%</u> |

REINSURANCE

The Association has ceded reinsurance contracts in force as of December 31, 2020 with an authorized insurer which provides the following:

Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by the Association. First layer up to \$1,000,000, the reinsurer will pay 100 percent of net loss in excess of retention. Second layer has a recovery of \$4,000,000 in excess of \$1,000,000. Third layer has a maximum recovery of \$15,000,000 in excess of \$5,000,000. Timely notification is required to reinsurer of any risks exceeding \$10,000,000. Any risk which exceeds \$20,000,000, at the time of the cession, is excluded.

Aggregate Excess of Loss

First \$800,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries, is retained by the Association. 100 percent of ultimate net loss in excess of retention is covered by the reinsurer. 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

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2019, there were no risks identified which warranted facultative agreements.

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 settlements which were in keeping with the terms of the policy contracts. Of fifteen claims examined, thirteen proof of losses were not signed by adjuster and nine were not signed by the claimant.

Claims are adjusted by an Association employee for most of the Examination period. Claims are also adjusted NCP Group, LLC, paid \$32,950 in 2020, and an independent contractor, paid \$8,400 in 2020.

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, 2020 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, 2020, the gross risk in force for the Association was \$454,354,885. The Association's statutory minimum surplus

level at December 31, 2020 was \$454,355. It is noted the Association's surplus level to minimum surplus level ratio was 4.4/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2020 was 8.4/1.

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, 2020 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 | 1,282,839 | | | \$1,282,839 |
| Stocks | 905,127 | \$248,066 | | 1,153,193 |
| Bank balances: | | | | |
| Subject to check | 246,438 | | \$ 1,482 | 244,956 |
| On interest | 9,523 | | | 9,523 |
| Real estate | 27,958 | | 9,892 | 18,066 |
| Cash in office | 78 | | | 78 |
| Unpaid premiums: | | | | |
| Due before November 1 | | 10 | 10 | |
| Due after November 1 | | 1,170 | | 1,170 |
| Reinsurance receivable on paid losses | | 16,945 | | 16,945 |
| Accrued interest | <u> </u> | <u>11,704</u> | <u> </u> | <u>11,704</u> |
| Total | <u>\$2,471,963</u> | <u>\$277,895</u> | <u>\$11,384</u> | <u>\$2,738,474</u> |

LIABILITIES AND SURPLUS

| | |
|---|--------------------|
| Ceded reinsurance balances payable | \$ 32,726 |
| Unpaid salaries and commissions | 409 |
| Amounts withheld for others | (132) |
| Taxes payable | 1,518 |
| Other unpaid expenses | 4,978 |
| Premiums collected for other companies - not remitted | 9,473 |
| Premiums received in advance | 48,728 |
| Unearned premium reserve | <u>633,945</u> |
| Total liabilities | <u>731,645</u> |
| Surplus as regards policyholders | <u>\$2,006,829</u> |
| Total liabilities and surplus | <u>\$2,738,474</u> |

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

| | | |
|--|----------------------|--------------------|
| Ledger assets, December 31, 2019 | | <u>\$2,454,850</u> |
| | <u>INCOME</u> | |
| Net premiums and fees | | \$1,273,716 |
| Net interest received on bonds | | 41,770 |
| Increase (Decrease) by adjustment - bonds | | 599 |
| Dividends received | | 34,792 |
| Interest received on bank deposits | | 368 |
| Profit on sale of investments | | 17,446 |
| Rents received | | 1,200 |
| Premiums collected for other companies | | 141,205 |
| Underwriting expense reimbursement | | 25 |
| Total income | | <u>\$1,511,121</u> |
| Total assets and income | | <u>\$3,965,971</u> |
| | <u>DISBURSEMENTS</u> | |
| Net losses paid | | \$ 814,839 |
| <u>Operating Expense</u> | | |
| Loss adjustment expenses | \$ 43,086 | |
| Commissions | 246,430 | |
| Advertising | 1,163 | |
| Boards, bureaus and associations | 8,480 | |
| Inspection and loss prevention | 29,908 | |
| Salaries of officers | 52,524 | |
| Expenses of officers | 223 | |
| Salaries of office employees | 16,812 | |
| Employee welfare | 8,067 | |
| Insurance | 20,528 | |
| Directors' compensation | 2,960 | |
| Directors' expenses | 617 | |
| Rent and rent items | 1,200 | |
| Equipment | 23,982 | |
| Printing, stationery and supplies | 7,141 | |
| Postage, telephone, telegraph and exchange | 7,558 | |
| Legal and auditing | 18,100 | |
| State insurance taxes | 17,274 | |
| Insurance Division licenses and fees | 145 | |
| Payroll taxes | 14,697 | |
| Real estate expenses | 14,824 | |
| Real estate taxes | 1,013 | |
| Miscellaneous | 3,838 | |
| Employee expenses | 751 | |
| Donations | 350 | |
| Investment Expenses | 2,498 | |
| Agency expense reimbursement | 501 | |
| Total operating expense | | 544,670 |
| <u>Non-Operating Expense</u> | | |
| Depreciation on real estate | | 1,413 |
| Premium collections transmitted to other companies | | 111,929 |
| Commissions paid agents for other companies | | 21,157 |
| Total disbursements | | <u>\$1,494,008</u> |
| Balance - ledger assets, December 31, 2020 | | <u>\$2,471,963</u> |

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,236,140

Deductions

Losses incurred \$785,158

Loss expenses incurred 43,086

Other operating expenses incurred 479,489

Total underwriting deductions 1,307,733

Net underwriting gain (loss) \$ (71,593)

Investment Income

Net investment income earned 78,498

Other Income

Premiums collected for other companies (994)

Net income \$ 5,911

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019 \$1,930,440

Gains and (Losses) in Surplus

Net income \$ 5,911

Change in not admitted assets (11,374)

Unrealized capital change 81,852

Change in surplus as regards policyholders for the year \$ 76,389

Surplus as regards policyholders, December 31, 2020 \$2,006,829

UNDERWRITING AND INVESTMENT EXHIBIT

THREE YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

| | |
|--|----------------------|
| <u>Underwriting Income</u> | |
| Premiums earned | \$3,463,643 |
| <u>Deductions</u> | |
| Losses incurred | \$1,936,092 |
| Loss expenses incurred | 106,826 |
| Other operating expenses incurred | <u>1,626,943</u> |
| Total underwriting deductions | <u>3,669,861</u> |
| Net underwriting gain (loss) | \$ (206,218) |
| <u>Investment Income</u> | |
| Net investment income earned | 232,182 |
| <u>Other Income</u> | |
| Premiums collected for other companies | <u>14,102</u> |
| Net income before federal income tax | \$ 40,066 |
| Federal income tax incurred | <u>(49,771)</u> |
| Net income | <u>\$ 89,837</u> |

CAPITAL AND SURPLUS ACCOUNT

| | |
|---|------------------------|
| Surplus as regards policyholders, December 31, 2017 | <u>\$1,820,201</u> |
| <u>Gains and (Losses) in Surplus</u> | |
| Net income | \$ 89,837 |
| Change in not admitted assets | (11,374) |
| Unrealized capital change | <u>108,165</u> |
| Change in surplus as regards policyholders for the year | <u>\$ 186,628</u> |
| Surplus as regards policyholders, December 31, 2020 | <u>\$2,006,829</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> | | | |
| Bank balances: Checking | \$246,438 | \$244,956 | \$ (1,482) |
| Real estate | 27,958 | 18,066 | (9,892) |
| Unpaid premiums: Due after Nov. 1 | 2,817 | 1,170 | (1,647) |
| Reinsurance recoverable | 4,446 | 16,945 | <u>12,499</u> |
| Net change in surplus | | | <u>\$ (522)</u> |
| Surplus per Association | | | <u>\$2,007,351</u> |
| Surplus per examination | | | <u>\$2,006,829</u> |

During the period under review, surplus funds increased \$186,628 from the amount of \$1,820,201 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:

Bank balances: Checking \$ 244,956

This asset was decreased by \$1,482 due to excluding an item included on the bank reconciliation as of December 31, 2020.

Real estate \$ 18,066

This asset was decreased by \$9,892 due to non-admitting the cost of certain improvements which were without required Insurance Division approval.

Unpaid premiums: Due after November 1 \$ 1,170

This asset was decreased by \$1,647 to reflect the actual amount of premiums received in 2021 and due as of December 31, 2020.

Reinsurance receivable \$ 16,945

This asset was increased by \$12,499 to reflect the actual amount of reinsurance recoverable for losses incurred before 2021.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry p. Cihota
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Insurance Company Examiner Specialist
Insurance Division
State of Iowa