

EXAMINATION REPORT OF  
CHICKASAW MUTUAL INSURANCE ASSOCIATION  
CHICKASAW COUNTY, NEW HAMPTON, IOWA  
AS OF DECEMBER 31, 2020

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

New Hampton, Iowa  
December 21, 2021

Commissioner Ommen:

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

CHICKASAW MUTUAL INSURANCE ASSOCIATION

CHICKASAW COUNTY, NEW HAMPTON, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 25 W. Main Street, New Hampton, 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, 2020. The examination was conducted in accordance with procedures established by the Iowa Insurance Division and generally accepted insurance examination procedures.

The examination was conducted in accordance with procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed adequate. 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 1875 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 New Hampton, Iowa on the first Wednesday in February at 2:00 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 six 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, 2020 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Loren Mattke	Fredericksburg, Iowa	2021
*Ron Garbes	Nashua, Iowa	2021
Grant Anderson	New Hampton, Iowa	2022
James Geerts	Charles City, Iowa	2022
Carolyn Nelson	Ionia, Iowa	2023
Linus Kuhn	Waucoma, Iowa	2023

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

Directors receive a fee of \$100 for each meeting attended and reimbursement of travel expense.

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

\* Ron Garbes retired at the February 3, 2021 Annual Meeting.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a Chairman, President, and Secretary and such additional officers as it deems necessary.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
Grant Anderson	Chairman
Loren Mattke	Vice Chairman
Randy Nosbisch	President-Treasurer
Connie Boyd	Vice President-Secretary

Tom Ryan retired as President-Treasurer and was replaced by Randy Nosbisch in 2019.

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.

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, 2017 was presented and approved during the February 6, 2019 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
- Employment practices liability
- Employers' liability
- Professional liability
- Officers' and directors' liability
- Business property
- General liability
- Equipment breakdown
- Commercial liability umbrella

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 health insurance. The Association pays the premium of the employee's health insurance plus one-half of the additional family coverage, if applicable. The Association also pays 40 percent of the deductible to the employee's Health Savings Account.

The Association provides a short-term disability plan. The Association also provides individual term life insurance up to \$100,000 to its full-time employees with a maximum premium paid of \$600. A medical savings account plan on a non-contributory basis is provided.

Full-time eligible employees are also provided access to a Safe Harbor 401(k) retirement plan. The Association contributes three percent of the employee's salary. The Association will match up employee contributions up to an additional five percent. Contributions were \$8,419, \$6,663, and \$7,584 for 2018, 2019 and 2020, 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. The permitted writing territory is composed of the following eight counties: Bremer, Butler, Chickasaw, Fayette, Floyd, Howard, Mitchell, and Winneshiek 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 on a continuous basis with premiums payable annually or semi-annually. The Association underwrites these policies every five years.

At the present time, business is produced by fifteen 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	<u>\$1,020,295</u>	<u>\$1,064,016</u>	<u>\$1,110,550</u>	<u>\$3,194,861</u>
Incurred deductions:				
Losses	\$ 536,887	\$ 255,309	\$595,631	\$1,387,827
Loss adjustment expense	41,216	38,463	39,374	119,053
Commissions	186,381	204,168	219,519	610,068
Salaries	106,985	97,341	96,185	300,511
Taxes, licenses and fees	23,519	22,934	24,175	70,628
Other underwriting expenses	<u>122,615</u>	<u>125,013</u>	<u>111,108</u>	<u>358,736</u>
Total deductions	<u>\$1,017,603</u>	<u>\$ 743,228</u>	<u>\$1,085,992</u>	<u>\$2,846,823</u>
Underwriting gain or (loss)	<u>\$ 2,692</u>	<u>\$ 320,788</u>	<u>\$ 24,558</u>	<u>\$ 348,038</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>
Incurred deductions:				
Losses	52.62%	23.99%	53.63%	43.44%
Loss adjustment expense	4.04	3.61	3.55	3.73
Commissions	18.27	19.19	19.77	19.10
Salaries	10.49	9.15	8.66	9.41
Taxes, licenses and fees	2.31	2.16	2.18	2.21
Other underwriting expenses	<u>12.01</u>	<u>11.75</u>	<u>10.00</u>	<u>11.22</u>
Total deductions	<u>99.74%</u>	<u>69.85%</u>	<u>97.79%</u>	<u>89.11%</u>
Underwriting gain or (loss)	<u>0.26%</u>	<u>30.15%</u>	<u>2.21%</u>	<u>10.89%</u>

REINSURANCE

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

Property Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by the Association. First layer is reinsurer will pay 100 property 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Catastrophe Excess of Loss

First \$500,000 of ultimate net loss per loss occurrence net of all other reinsurance recoveries is retained by the Association. The reinsurer will pay 100 percent of net loss per loss occurrence in excess of retention. This reinsurance 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.

### Property Aggregate Excess of Loss

First \$1,100,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. This reinsurance 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.

### 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 Nosbisch Insurance, Inc. The agency is 100 percent owned by Randy Nosbisch, who is also the President-Treasurer of the Association. This agency produced approximately fifty-seven percent of the Association's business during 2020.

The agency occupied about twenty percent of the office space and paid \$200 monthly rent to the Association and was paid less in commissions than the outside agencies. The expense allocation between the agency and Association appears reasonable.

### 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, authorized signatures and proper endorsements. 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, 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 \$503,033,967. The Association's statutory minimum surplus level as December 31, 2020 was \$503,034. It is noted the Association's surplus level to minimum surplus level ratio was 16/2. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2020 was 8.3/1.

Investment transactions do not appear to be properly reported in the Association's filed annual statements. It is recommended that greater care be taken to report acquisition dates of investments. Also interest rates and maturity dates were not listed on the custodial statement; therefore, they could not be verified.

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	\$4,869,644	\$	\$ 1,475	\$4,868,169
Stocks	2,247,559	1,003,437		3,250,996
Bank balances:				
Subject to check	20,547			20,547
On interest	721,855			721,855
Real estate	14,952			14,952
Unpaid premiums:				
Due after November 1		4,147		4,147
Accrued interest		37,202		37,202
Equipment and furniture	3		3	
EDP equipment	525			525
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$7,875,085</u>	<u>\$1,044,786</u>	<u>\$ 1,478</u>	<u>\$8,918,393</u>

LIABILITIES AND SURPLUS

Losses	\$ 94,586
Unpaid adjusting expenses	3,967
Ceded reinsurance balances payable	27,248
Unpaid salaries and commissions	609
Taxes payable	1,351
Other unpaid expenses	1,437
Premiums collected for other companies - not remitted	7,808
Premiums received in advance	51,599
Unearned premium reserve	576,000
	<u>                    </u>
Total liabilities	\$ 764,605
Surplus as regards policyholders	<u>8,153,788</u>
Total liabilities and surplus	<u>\$8,918,393</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2019		\$7,549,256
	<u>INCOME</u>	
Net premiums and fees		\$1,144,906
Net interest received on bonds		140,227
Increase (Decrease) by adjustment - bonds		(10,086)
Dividends received		62,415
Interest received on bank deposits		5,551
Profit on sale of investments		49,808
Rents received		6,000
Premiums collected for other companies		116,960
Miscellaneous income		6
Total income		<u>\$1,515,787</u>
Total assets and income		<u>\$9,065,043</u>

	<u>DISBURSEMENTS</u>	
Losses paid		\$ 559,975
<u>Operating Expense</u>		
Loss adjustment expenses	\$ 40,507	
Commissions	219,849	
Advertising	4,109	
Boards, bureaus and associations	8,017	
Inspection and loss prevention	7,135	
Salaries of officers	67,077	
Expenses of officers	341	
Salaries of office employees	29,108	
Employee welfare	43,795	
Insurance	7,307	
Directors' compensation	1,600	
Directors' expenses	226	
Rent and rent items	5,662	
Equipment	10,627	
Printing, stationery and supplies	2,307	
Postage and telephone	6,841	
Legal and auditing	12,000	
State insurance taxes	14,761	
Insurance Division licenses and fees	180	
Payroll taxes	9,445	
Real estate expenses	2,451	
Real estate taxes	767	
Miscellaneous	23	
Donations/contributions	610	
Total operating expense	<u>494,745</u>	\$ 494,745

Non-Operating Expense

Depreciation on real estate	465
Federal income tax	21,222
Premium collections transmitted to other companies	92,332
Commissions paid agents for other companies	21,188
Decrease in ledger liabilities	31
Total disbursements	<u>\$1,189,958</u>
Balance - ledger assets, December 31, 2020	<u>\$7,875,085</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,110,550
<u>Deductions</u>		
Losses incurred	\$ 595,631	
Loss expenses incurred	39,374	
Other operating expenses incurred	<u>450,987</u>	
Total underwriting deductions		<u>1,085,992</u>
Net underwriting gain (loss)		\$ 24,558
<u>Investment Income</u>		
Net investment income earned		256,263
<u>Other Income</u>		
Premiums collected for other companies		3,471
Miscellaneous income		<u>6</u>
Net income before Federal income tax		\$ 284,298
Federal income tax incurred		<u>21,222</u>
Net income		<u>\$ 263,076</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019		<u>\$7,611,680</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 263,076	
Change in net unrealized gains(losses)		<u>279,032</u>
Change in surplus as regards policyholders for the year		<u>\$ 542,108</u>
Surplus as regards policyholders, December 31, 2020		<u>\$8,153,788</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,194,861
<u>Deductions</u>		
Losses incurred	\$1,387,827	
Loss expenses incurred	119,053	
Other operating expenses incurred	<u>1,339,943</u>	
Total underwriting deductions		<u>2,846,823</u>
Net underwriting gain (loss)		\$ 348,038
<u>Investment Income</u>		
Net investment income earned		836,893
<u>Other Income</u>		
Premiums collected for other companies		15,443
Miscellaneous income		<u>20</u>
Net income before federal income tax		\$1,200,394
Federal income tax incurred		<u>80,789</u>
Net income		<u>\$1,119,605</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$6,628,482</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$1,119,605
Change in not admitted assets		369
Change in net unrealized gains(losses)		<u>405,332</u>
Change in surplus as regards policyholders for the period		<u>\$1,525,306</u>
Surplus as regards policyholders, December 31, 2020		<u>\$8,153,788</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>			
Bonds	\$ 4,869,353	\$ 4,868,169	\$ (1,184)
<u>Liabilities</u>			
Losses	92,291	94,586	(2,295)
Unpaid adjusting expenses	5,800	3,967	<u>1,833</u>
Net change to surplus			\$ (1,646)
Surplus per Association			<u>8,155,434</u>
Surplus per examination			<u>\$8,153,788</u>

During the period under review, surplus funds increased \$1,525,306 from the amount of \$6,628,482 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 statements were due to the following:

Bonds \$4,868,169

This asset was decreased by \$1,184 due to the recalculation of amortization.

Losses \$ 94,586

Losses increased by \$2,295 to reflect actual loss development.

Unpaid adjusting expenses \$ 3,967

This liability was decreased by \$1,833 to reflect the actual amount paid in 2021.

CONCLUSION

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

Respectfully submitted,

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