

EXAMINATION REPORT OF
NORWEGIAN MUTUAL INSURANCE ASSOCIATION
WINNESHIEK COUNTY, DECORAH, IOWA
AS OF DECEMBER 31, 2018

Decorah, Iowa
August 20, 2019

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

NORWEGIAN MUTUAL INSURANCE ASSOCIATION

WINNESHIEK COUNTY, DECORAH, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 2333 Millennium Road, Decorah, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

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

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2015 to December 31, 2018. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa. 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, 2018.

HISTORY

The Association was incorporated in 1871 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518A, Code of Iowa. The corporate existence was made perpetual in 1951.

Effective July 1, 2017, the Articles of Incorporation were amended and substituted to change the corporate structure to a state mutual insurance association under the provisions of Chapter 518A of the Code of Iowa. In addition, territory of the Association was expanded to fourteen counties.

The Association purchased land on the southeast side of Decorah, Iowa and built a new home office on this land. The home office was completed in October, 2018.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of those persons or organizations having insurance written by the Association and shall cease as a member when such insurance is cancelled or terminated.

The annual meeting of the members is held at Decorah, Iowa on the fourth Thursday in March at 1:30 p.m. Special meetings may be called by the President upon request 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 as noted in the Bylaws. Each member present is entitled to one vote on any question to be decided. Voting by proxy is not permitted. One more member than the number of Directors present constitutes a quorum for any membership meeting.

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, 2018 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Donald Anderson	Cresco, Iowa	2021
James Kuennen	Fort Atkinson, Iowa	2021
Raymond Kvamme	Decorah, Iowa	2021
David Albertson	Decorah, Iowa	2019
Dennis Linderbaum	Ossian, Iowa	2019
Keith Sersland	Decorah, Iowa	2019
Randy Hanson	Decorah, Iowa	2020
Erik Wangsness	Decorah, Iowa	2020
Daniel Hageman	Ossian, Iowa	2020

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 \$145 in 2018 for each meeting attended and reimbursement of travel expense. Remuneration of directors is shown on Exhibit A following this report.

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 specified in the Articles of Incorporation.

Officers serving at December 31, 2018 were:

<u>Name</u>	<u>Office</u>
David Albertson	President
Erik Wangsness	Vice President
James A. Clarke	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. All conflicts were properly disclosed.

CORPORATE RECORDS

Amended and Substituted Articles of Incorporation were adopted effective on July 1, 2017, which in part, incorporated the following:

- Conversion from a county mutual insurance association to a state mutual insurance association governed by Iowa Code chapter 518A; and
- Reduced the minimum number of directors from seven to five.

Amended and Substituted Bylaws were adopted by the board on June 14, 2018.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors did not document the review of the Examination Report as of December 31, 2015.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$140,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative. The National Association of Insurance Commissioners guidelines recommend \$150,000 of coverage based on the size of and amount of premium written by the Association.

Policies for other coverages are as follows:

Workers' compensation and employers' liability
Professional liability
Officers' and directors' liability
Commercial umbrella
General liability
Business auto
Building and personal property
Employment practices 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

Accidental death and dismemberment benefits of \$30,000 are provided to employees and board members with all premiums paid by the Association. The Association provides a SEP retirement plan and contributes five percent of each employee's salary. Annual contributions were \$16,688, \$15,776, \$16,027 and \$16,783 for 2015 to 2018, respectively.

Employees pay premiums, net of commissions, for their own insurance policies obtained by the Association. Full-time employees were provided a monthly bonus. The amount was increased to \$850 per month in 2017. Part-time employees received a pro-rated bonus.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with an authorized insurer which provides the following:

Property Per Risk Excess of Loss

First \$250,000 of ultimate net loss per risk is retained by the Association. For the first layer, the reinsurer will pay 100 percent of net loss up to \$1,000,000 in excess of retention. Second layer has a maximum 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

The first \$1,000,000 ultimate net loss incurred per loss occurrence is retained by the Association, net of all other reinsurance recoveries. Loss occurrence is the sum of all individual losses or series of losses for one event. 100 percent of ultimate net loss per loss occurrence in excess of retention is covered by the reinsurer. 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 \$3,000,000 of ultimate net loss, net of all other reinsurance recoveries, is retained by Association. 100 percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance coverage is unlimited. 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.

Facultative

Facultative reinsurance was not obtained during 2018.

Reinsurance - Assumed

The Mutual has a quota share reinsurance agreement with an authorized company in which the Mutual assumes 30 percent of Home Protector Policies written premium.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATIONS

The Association was authorized to operate in the following counties: Allamakee, Clayton, Fayette, Howard, Chickasaw, and Winneshiek counties until 2017. The Association was authorized to transact business in an additional eight counties: Mitchell, Floyd, Butler, Bremer, Black Hawk, Buchanan, Delaware and Dubuque after an expansion of territory in 2017. It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

PRODUCER LICENSING

Operations are conducted by approximately 58 independent licensed and appointed agents from eleven insurance agencies who solicit the Association's business. Policies are underwritten every five years with premiums payable monthly, quarterly, annually, or semi-annually.

ADVERTISING

The Association's advertising material was reviewed during the examination period and found to be in compliance with statutes and regulations.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm, homeowners, rental, and mobile home classes of insurance covering fire, allied lines, inland marine, and equipment breakdown.

Policy and endorsement forms have been filed and approved. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

RATING AND STATISTICAL REPORTING

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

TREATMENT OF POLICYHOLDERS

Claims

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel. The Association contracted with an independent contractor to do adjusting for \$34,673 in 2018. Numerous claim files were reviewed, including closed by payment and closed without payment and to determine proper treatment of policyholders. Of the claims reviewed, 100 percent were paid within twenty days from the date sufficient information was received to pay the claim.

Complaint Register

The Association maintains a complaint register. The Association had three complaints during the examination period.

GROWTH OF THE ASSOCIATION

The following historical financial data, taken from annual statements for the years indicated, reflects the growth of the Association:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2015	\$10,903,711	\$9,030,337	\$2,387,953	\$1,232,778	\$443,296
2016	11,805,812	9,966,865	2,762,622	1,656,769	468,011
2017	12,071,316	9,688,694	3,278,784	2,979,767	396,123
2018	12,691,941	9,834,890	3,400,497	2,337,328	385,006

UNDERWRITING EXPERIENCE

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Premiums earned	\$2,265,688	\$2,571,007	\$3,278,784	\$3,400,496	\$11,515,975
Incurred Deductions:					
Losses	\$1,468,192	\$1,272,719	\$2,979,767	\$2,335,240	\$ 8,055,918
Loss adjustment expenses	36,083	31,859	136,354	168,630	372,926
Commissions	484,381	568,771	681,422	628,894	2,363,468
Salaries	197,045	218,519	248,596	267,527	931,687
Taxes, licenses and fees	55,764	62,338	43,645	40,088	201,835
Other underwriting expenses	<u>194,226</u>	<u>118,854</u>	<u>167,717</u>	<u>211,617</u>	<u>692,414</u>
Total deductions	<u>\$2,435,691</u>	<u>\$2,273,060</u>	<u>\$4,257,501</u>	<u>\$3,651,996</u>	<u>\$12,618,248</u>
Net underwriting gain (loss)	\$ (170,003)	\$297,947	\$ (978,717)	\$ (251,500)	\$ (1,102,273)

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

Incurred Deductions:					
Losses	64.8%	49.5%	90.9%	68.7%	70.0%
Loss adjustment expenses	1.6	1.2	4.2	5.0	3.2
Commissions	21.4	22.1	20.8	18.5	20.5
Salaries	8.7	8.5	7.6	7.8	8.1
Taxes, licenses and fees	2.4	2.5	1.2	1.2	1.8
Other underwriting expenses	<u>8.6</u>	<u>4.6</u>	<u>5.1</u>	<u>6.2</u>	<u>6.0</u>
Total deductions	<u>107.5%</u>	<u>88.4%</u>	<u>129.8%</u>	<u>107.4%</u>	<u>109.6%</u>
Underwriting gain (loss)	<u>(7.5)%</u>	<u>11.6%</u>	<u>(29.8)%</u>	<u>(7.4)%</u>	<u>(9.6)%</u>

AFFILIATED AGENCY

The Association is affiliated with N.M.I. Agency, Inc. (Agency) which is 100 percent owned by the Association. The Agency occupies four percent of the Home Office building, which is owned by the Association, and pays \$50 per month rent.

The Agency is managed by the Secretary of the Association and is governed by the Association's Board of Directors for which the Agency paid \$600 per month in management fees in 2018. The Agency has been listed as a named insured on Association's insurance.

The Agency produced approximately four percent of the Association's business in 2018. The Agency paid a \$12,000 dividend to the Association in 2015. The Association paid \$83,080 commissions to the Agency in 2018.

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, 2018 relative to security custodial requirements.

Two checks were outstanding over three years as of December 31, 2018. It is recommended that the Association follow state escheat regulations to resolve these outstanding checks.

The checking account balance for the Association was over the Federal Deposit Insurance Corporation limit of \$250,000 for 23 of 30 days of June of 2018.

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, 2018, the gross risk in force for the Association was \$1,321,343,949. The Association's statutory minimum surplus level as December 31, 2018 was \$1,321,344. 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 the Chapter 518A licensed industry at December 31, 2018 was 7.9/1.

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, 2018 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>Assets</u>	Not <u>Admitted</u>	Net <u>Admitted</u>
Bonds	\$7,910,981	\$	\$7,910,981
Preferred stocks	457,541		457,541
Common stocks	2,666,339		2,666,339
Real estate properties occupied	858,703	53,685	805,018
Cash	117,887		117,887
Investment income due and accrued	86,203		86,203
Uncollected premiums	109,780	(771)	110,551
Deferred premiums	463,088		463,088
Amounts recoverable from reinsurers	50,893		50,893
Current federal income tax recoverable	98,310		98,310
Electronic data processing equipment	9,100		9,100
Furniture and equipment	24,381	24,381	
Aggregate write-ins:			
Homeowners premium receivable	712		712
IMT overwrite receivable	268		268
Total Assets	<u>\$12,854,186</u>	<u>\$77,295</u>	<u>\$12,776,891</u>

LIABILITIES AND SURPLUS

Losses		\$	581,541
Loss adjusting expenses			34,109
Commissions payable and contingent commissions			113,093
Other expenses			11,698
Taxes, licenses and fees			5,053
Borrowed money			300,000
Unearned premiums			1,650,713
Advance premiums			69,979
Ceded reinsurance premiums payable			65,897
Amounts withheld for others			<u>18,644</u>
Total liabilities			<u>\$ 2,850,727</u>
Surplus as regards policyholders			<u>9,926,164</u>
Total Liabilities and Surplus			<u>\$12,776,891</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$3,400,496
 <u>Incurred Deductions</u>		
Losses incurred	\$2,335,240	
Loss expenses incurred	168,630	
Other underwriting expenses incurred	<u>1,148,126</u>	
Total underwriting deductions		<u>3,651,996</u>
 Net underwriting gain (loss)		 \$ (251,500)

Investment Income

Net investment income earned		385,006
Net realized capital gain (loss)		89,506

Other Income

Finance or service charges		5,137
Net premiums collected for others		<u>59,778</u>

Net income before federal income taxes		\$ 287,927
 Federal income taxes		 <u>(231,098)</u>
 Net income		 <u>\$ 519,025</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$9,688,694</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 519,025
Net unrealized capital gains (losses)		(218,573)
Change in non-admitted assets		<u>(62,982)</u>
 Change in surplus as regards policyholders		 <u>\$ 237,470</u>
 Surplus as regards policyholders, December 31, 2018		 <u>\$9,926,164</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FOUR-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$11,515,975
 <u>Incurred Deductions</u>		
Losses incurred	\$8,055,918	
Loss expenses incurred	372,926	
Other operating expenses	<u>4,189,404</u>	
Total underwriting deductions		<u>12,618,248</u>
Net underwriting gain (loss)		\$(1,102,273)

Investment Income

Net investment income earned		1,771,255
Net realized capital gain (loss)		200,009

Other Income

Finance or service charges		52,941
Net premiums collected for others		144,062
Miscellaneous income		<u>(202)</u>
Net income before federal income taxes		\$ 1,065,792
Federal income taxes		<u>(98,696)</u>
Net income		<u>\$ 1,164,488</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$ 9,017,939</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 1,164,488
Net unrealized capital gains (losses)		(68,933)
Change in non-admitted assets		<u>(187,330)</u>
Change in surplus as regards policyholders		<u>908,225</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 9,926,164</u>

CASH FLOW STATEMENT

DECEMBER 31, 2018

Cash from Operations

Premiums collected net of reinsurance	\$ 3,281,136
Net investment income	396,430
Miscellaneous income	<u>73,117</u>
Total	<u>\$ 3,750,683</u>

Benefit and loss related payments	\$ 2,159,282
Commissions, expenses paid and aggregate write-ins	1,295,440
Federal income taxes paid (recovered) net	<u>(132,788)</u>
Total	<u>\$ 3,321,934</u>
Net cash from operations	<u>\$ 428,749</u>

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$ 637,024
Stocks	14,985
Real estate	<u>161,750</u>
Total investment proceeds	<u>\$ 813,759</u>

Cost of investments acquired (long-term) only:

Bonds	\$ 1,003,499
Stocks	118,086
Real estate	705,160
Miscellaneous proceeds	<u>7,598</u>
Total investments acquired	<u>\$ 1,834,343</u>
Net cash from investments	<u>\$(1,020,584)</u>

Cash from Financing and Miscellaneous Sources

Borrowed funds	\$ 300,000
Other cash provided (applied)	<u>(44,702)</u>
Net cash from financing	<u>\$ 255,298</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (336,537)
Cash and short-term investments:	
Beginning of year	<u>\$ 454,424</u>
End of year	<u>\$ 117,887</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>			
Preferred stock	\$ 396,386	\$ 457,541	\$ 61,155
Common Stock	2,706,874	2,666,339	(40,535)
Real Estate	848,098	805,018	(43,080)
Federal income tax recoverable		98,310	98,310
Electronic data processing equipment		9,100	9,100
<u>Liabilities</u>			
Losses	583,629	581,541	2,088
Loss adjusting expenses	34,674	34,109	565
Other expenses	14,419	11,698	2,721
Taxes, licenses, fees	3,452	5,053	(1,601)
Amounts withheld for others	21,195	18,644	<u>2,551</u>
Net increase in surplus			<u>\$ 91,274</u>
Surplus per Association			<u>\$9,834,890</u>
Surplus per examination			<u>\$9,926,164</u>

During the period under review, surplus funds increased \$908,225 from the amount of \$9,017,939. 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:

Preferred stock \$ 457,541

The asset was increased \$61,155 to reclassify an asset from common stock to preferred stock.

Common stock \$2,666,339

The asset was decreased \$40,535 to reclassify an asset from preferred stock to common stock and to revalue subsidiary stock.

Real estate \$ 805,018

The asset was decreased by \$43,080 to non-admit the portion of real estate acquired in excess of dollar amount approved by the Iowa Insurance Division.

Current federal income tax recoverable \$ 98,310

This asset was increased by \$98,310 for income tax refund in 2018 that was received in 2019.

Electronic data processing equipment \$ 9,100

The asset was increased by \$9,100 to properly report the cost of electronic data processing equipment less accumulated depreciation.

Losses \$ 581,541

This liability was decreased \$2,088 to reflect the actual loss development of claims outstanding as of December 31, 2018.

Loss adjusting expenses \$ 34,109

An analysis of paid expenses to paid losses applied to the loss reserve decreased this liability by \$565.

Other expenses \$ 11,698

The liability was decreased \$2,721 to reflect actual expenses incurred in 2018, but paid in 2019.

Taxes, licenses and fees \$ 5,053

The liability was increased \$1,601 due to accounting for all expenses incurred in 2018 and paid in 2019.

Amounts withheld for the account of others \$ 18,644

The liability was decreased \$2,551 to reflect premiums for insurance written by another insurer in 2018, but paid in 2019.

CONCLUSION

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

Respectfully submitted,

 /s/ Jerry Cihota
JERRY CIHOTA, CPA, CFE
Insurance Company Examiner Specialist
State of Iowa