

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

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

Muscatine, Iowa
June 26, 2018

Commissioner Ommen:

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

MUSCATINE MUTUAL INSURANCE ASSOCIATION

MUSCATINE COUNTY, MUSCATINE, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 200 Ford Avenue, Muscatine, 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, 2017. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

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, 2017.

HISTORY

The Association was incorporated in 1873 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 1946.

Effective January 1, 2013, the Articles of Incorporation were amended and substituted to change the corporate structure to a state mutual insurance association under Chapter 518A, Code of Iowa. At the same time the name was changed from Muscatine County Mutual Insurance Association to Muscatine Mutual Insurance Association.

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 Muscatine, Iowa on the second Saturday in February at 1:30 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. Fifteen members present constitute a quorum for 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 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 and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Scott Eichelberger Muscatine, Iowa	Farmer	2018
Robb Ewoldt Davenport, Iowa	Farmer	2018
James Collier Durant, Iowa	Farmer	2018
Aaron Duffe Moscow, Iowa	Farmer	2018
Rob Schmidt Wilton, Iowa	VP of Agency	2018
Kurt Van Nice Blue Grass, Iowa	Farmer	2018
William Reesink Muscatine, Iowa	Farmer	2018
Joe Van Zandt Muscatine, Iowa	Contractor	2019
Rodd McNeal Letts, Iowa	Farmer	2019
Chet Hafner Letts, Iowa	Retired Farmer	2019
L. Wayne Corriell Atalissa, Iowa	Retired Farmer	2020

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 \$125 for each meeting attended.

COMMITTEES

The Board of Directors shall be empowered to constitute and appoint such committees as they deem to be in the best interests of the Association. Committees and their respective members as of December 31, 2017 consisted of:

Executive Committee

Thomas Norton
Rodd McNeal
Kurt Van Nice

Nominating Committee

Thomas Norton
Rodd McNeal
Kurt Van Nice

Internal Operations Committee

Thomas Norton
Rodd McNeal
Kurt Van Nice

Investment Committee

Thomas Norton
Jason Norton
and all of the directors

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, 2017 were:

<u>Name</u>	<u>Office</u>
Rodd McNeal	President
Kurt Van Nice	Vice-President
Thomas Norton	Secretary-Treasurer-Manager
Jason Norton	Assistant Secretary-Treasurer-Manager

The salaries of the officers are shown in Exhibit A immediately following the signature page of the 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 and substituted during the Examination period.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors did not reflect that the Examination Report as of December 31, 2014 was reviewed and approved.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$100,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Business/personal property
- Commercial umbrella
- General liability
- Cyber liability
- Equipment breakdown

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

The Association pays their bookkeeper \$3,000 each year to use toward life and/or health insurance.

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 \$175,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer will pay 100% 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.

Aggregate Excess of Loss

First \$900,000 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 the reinsurer. Reinsurance recovery 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.

100% Quota Share

Association cedes to reinsurer all business written outside of the counties listed in Market Conduct section of this Report.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a state mutual insurance association under the provisions of Chapter 518A, Code of Iowa. The main territory is comprised of the following counties: Muscatine, Scott, Cedar, Johnson, Louisa, Des Moines, Henry, Washington, Iowa, Linn, Jones, and Clinton. The Association is authorized to transact business in all counties east of Interstate 35. Any business transacted within their writing territory, but outside the counties listed above is required to be written through their reinsurer as a 100 percent Quota share contract.

PRODUCER LICENSING

At the present time, business is produced by 26 licensed agents. Policies are written or renewed annually with premiums payable monthly, quarterly, annually or semi-annually. The Association underwrites these policies every five years.

TREATMENT OF POLICYHOLDERS

CLAIMS

Numerous claims files were reviewed, including closed by payment, closed without payment, and open files to determine adequacy of loss reserves and the treatment of policyholders. It appeared that Association made prompt and equitable settlements which were in keeping with the terms of the policy contracts.

COMPLAINT REGISTER

The Association did not receive any complaints during the examination period.

ADVERTISING

The Association's advertising material was reviewed during the examination with no material violations noted.

GROWTH OF THE ASSOCIATION

The following historical financial data was taken from office copies of filed annual statements for the years indicated.

<u>YEAR</u>	<u>ADMITTED ASSETS</u>	<u>SURPLUS TO POLICYHOLDERS</u>	<u>PREMIUMS EARNED</u>	<u>LOSSES INCURRED</u>	<u>INVESTMENT INCOME EARNED</u>
2015	4,050,068	3,103,570	1,064,523	412,722	59,610
2016	3,651,172	2,828,479	1,188,414	991,278	46,823
2017	3,753,515	2,812,987	1,226,152	894,373	70,503

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the three-year period ended December 31, 2017 was as follows:

<u>Classification</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	<u>\$1,064,523</u>	<u>\$1,188,414</u>	<u>\$1,245,960</u>	<u>\$3,498,897</u>
<u>Incurred Deductions:</u>				
Losses	\$ 412,722	\$ 991,278	\$ 894,373	\$2,298,373
Loss adjustment expenses	44,078	61,883	79,569	185,530
Commissions	261,594	271,039	355,708	888,341
Salaries	93,821	124,148	114,091	332,060
Taxes, licenses and fees	13,626	26,552	1,540	41,718
Other underwriting expenses	<u>65,766</u>	<u>131,196</u>	<u>135,137</u>	<u>332,099</u>
Total deductions	<u>\$ 891,607</u>	<u>\$1,606,096</u>	<u>\$1,580,418</u>	<u>\$4,078,121</u>
Net underwriting gain	<u>\$ 172,916</u>	<u>\$ (417,682)</u>	<u>\$ (334,458)</u>	<u>\$ (579,224)</u>

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<u>Incurred Deductions:</u>				
Losses	38.77%	83.41%	71.78%	65.69%
Loss adjustment expenses	4.14	5.21	6.39	5.30
Commissions	24.57	22.81	28.55	25.39
Salaries	8.81	10.45	9.16	9.49
Taxes, licenses and fees	1.29	2.23	0.11	1.19
Other underwriting expenses	<u>6.18</u>	<u>11.04</u>	<u>10.85</u>	<u>9.49</u>
Total deductions	<u>83.76%</u>	<u>135.15%</u>	<u>126.84%</u>	<u>116.55%</u>

AFFILIATED AGENCY

As of December 31, 2017, Lee Agency was owned 50 percent by Jason Norton and 50 percent by Nate Orvis. Lee Agency owns the Association home office. This agency produced 100 percent of the Association's business during 2017.

The Association paid \$600 monthly rent to the Agency. Utilities are paid by the Agency. In addition, the Association paid the Agency \$64,000 in 2017 for adjusting services. Lee Agency was sold by Tom Norton and his wife, C. Diane Norton, to Jason Norton and Nate Orvis on January 1, 2015.

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 not in compliance with the Commissioner's Bulletin 97-6 at December 31, 2017 relative to security custodial requirements. It is recommended that custodial agreement be revised to be compliant.

In accordance with Section 518A.37, Code of Iowa, surplus must be maintained at a level of not less than one hundred thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2017, the gross risk for the Association was \$471,484,809. The Association's statutory minimum surplus level at December 31, 2017 was \$471,484. It is noted the Association's surplus level to minimum surplus level ratio was 6.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2017 was 8.2/1.

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, 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>Assets</u>	Not <u>Admitted</u>	Net <u>Admitted</u>
Bonds	\$1,872,784	\$	\$1,872,784
Common stocks	1,263,473		1,263,473
Cash	354,178		354,178
Investment income due and accrued	18,335		18,335
Premiums and considerations:			
Uncollected premiums	37,877	(430)	38,307
Deferred premiums	150,853		150,853
Reinsurance amounts recoverable	55,585		55,585
Current federal and foreign income tax	54,750		54,750
Electronic data processing equipment	<u>1,167</u>	<u> </u>	<u>1,167</u>
 Total Assets	 <u>\$3,809,002</u>	 \$ (430)	 <u>\$3,809,432</u>

LIABILITIES AND SURPLUS

Commissions payable		\$ 64,444
Other expenses		1,860
Taxes, licenses and fees		3,803
Unearned premiums		736,926
Advance premium		22,959
Ceded reinsurance premiums payable		27,262
Amounts withheld for others		10,095
Aggregate write-ins for liabilities:		
Claims Free Discount Payable		<u>49,201</u>
 Total liabilities		 \$ 916,550
 Surplus as regards policyholders		 <u>\$2,892,882</u>
 Total Liabilities and Surplus		 <u>\$3,809,432</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,245,960

Deductions

Losses incurred \$ 894,373

Loss expenses incurred 79,569

Commissions 355,708

Salaries 114,091

Taxes, licenses and fees 1,540

Other underwriting expenses incurred 135,137

Total underwriting deductions \$1,580,418

Net underwriting gain (loss) \$ (334,458)

Investment Income

Net investment income earned 70,503

Net realized capital gain (loss) 229,738

Other Income

Premiums collected for others 17,158

Net income before Federal income taxes \$ (17,059)

Federal and foreign income taxes incurred (185,878)

Net income \$ 168,819

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$2,828,479

Gains and (Losses) in Surplus

Net income \$ 168,819

Net unrealized capital gains (losses) (53,499)

Change in non-admitted assets (50,917)

Change in surplus as regards policyholders for the year \$ 64,403

Surplus as regards policyholders, December 31, 2017 \$2,892,882

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	<u>\$3,452,593</u>
<u>Deductions</u>	
Losses incurred	\$2,268,004
Loss expenses incurred	177,297
Commissions	856,797
Salaries	332,060
Taxes, licenses and fees	41,718
Other underwriting expenses incurred	<u>332,099</u>
Total underwriting deductions	<u>\$4,007,975</u>
Net underwriting gain (loss)	\$ (555,382)
<u>Investment Income</u>	
Net investment income earned	176,936
Net realized capital gain (loss)	338,872
<u>Other Income</u>	
Miscellaneous	<u>17,158</u>
Net income before Federal income taxes	\$ (22,416)
Federal income taxes incurred	<u>(112,880)</u>
Net income	<u>\$ 90,464</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	<u>\$2,850,033</u>
<u>Gains and (Loses) in Surplus</u>	
Net income	\$ 90,464
Net unrealized capital gains (losses)	(35,402)
Change in non-admitted assets	(45,683)
Prior year adjustment	<u>33,470</u>
Change in surplus as regards policyholders for the period	<u>\$ 42,849</u>
Surplus as regards policyholders, December 31, 2017	<u>\$2,892,882</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>			
Current federal income tax	\$	\$54,750	\$ 54,750
Electronic data processing equipment		1,167	1,167
<u>Liabilities</u>			
Loss adjustment expenses	5,400		5,400
Other expenses	630	1,860	(1,230)
Aggregate write-ins for liabilities:			
Claims free premium refund	69,009	49,201	<u>19,808</u>
Net increase in surplus			\$ 79,895
Surplus per Association			<u>\$2,812,987</u>
Surplus per Examination			<u>\$2,892,882</u>

During the period under review, surplus funds increased \$42,849 from the amount of \$2,850,033 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

<u>Current federal income tax</u>	<u>\$ 54,750</u>
-----------------------------------	------------------

Asset was admitted due to the Association providing evidence of receipt of this receivable in 2018.

<u>Electronic data processing equipment and software</u>	<u>\$ 1,167</u>
--	-----------------

The asset increased by \$1,167 to reclassify from Furniture and equipment.

<u>Unpaid adjustment expenses</u>	<u>\$ 0</u>
-----------------------------------	-------------

An analysis of paid expenses to paid losses applied to the loss reserve decreased this liability by \$5,400.

<u>Other expenses</u>	<u>\$ 1,860</u>
-----------------------	-----------------

The liability was increased by \$1,230 to reflect actual amount of other expenses that were due at December 31, 2017.

Claims free premium refund

\$ 49,201

The liability was reduced by \$19,808 to revise an estimate to an actual discount.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry Cihota
Jerry Cihota, CFE
Examiner Specialist
Iowa Insurance Division