

EXAMINATION REPORT OF
GERMAN MUTUAL INSURANCE ASSOCIATION
CALHOUN COUNTY, POMEROY, IOWA
AS OF DECEMBER 31, 2017

Pomeroy, Iowa
May 30, 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

GERMAN MUTUAL INSURANCE ASSOCIATION

CALHOUN COUNTY, POMEROY, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 500 Harrison Street, Pomeroy, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

German 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 period from January 1, 2015 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 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 1887 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 1951.

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 Pomeroy, Iowa on the third Tuesday in February at 1:00 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 nine 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>
Dean Holtorf	Pomeroy, Iowa	2018
Wayne Green	Manson, Iowa	2018
* Doug Lawton	Jefferson, Iowa	2018
Kriss Lightner	Lohrville, Iowa	2019
@ Joe Fritts	Dayton, Iowa	2019
Craig Aljets	Pomeroy, Iowa	2019
Randy Clough	Clare, Iowa	2020
% Douglas Wenell	Laurens, Iowa	2020
Steve Kier	Newell, 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 Secretary. A majority present constitutes a quorum for the transaction of business.

Directors currently receive a fee of \$200 for each meeting attended and reimbursement of travel expense at the rate of \$0.56 per mile.

* The Director is affiliated with an agency that received commissions of \$21,342 on business written for the Association during 2017.

@ The Director is affiliated with an agency that received commissions of \$23,735 on business written for the Association during 2017.

% The Director is affiliated with an agency that received commissions of \$37,973 on business written for the Association during 2017.

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>
Doug Lawton	President
Dean Holtorf	Vice President
William (Bill) Axman	Secretary-Treasurer
Scott Holland	Assistant Secretary-Treasurer

The salaries of the officers are 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 employees. General disclosures were indicated on the statements.

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 discussed and approved at the February 16, 2016 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 noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property
- Equipment Breakdown
- Commercial general liability
- Commercial employment practices liability
- Certified acts of terrorism
- Business automobile coverage

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 family major medical, and dental insurance with premiums, deductible, co-pay, or anything else medically related paid by the Association. At their regular December 10, 2014 Board of Directors meeting the Board approved a plan to have each employee responsible for the first \$1,000 contribution toward their health insurance deductible. Any amounts over the initial \$1,000 deductible are to be reimbursed to the employee at 90 percent by the Association.

The full-time eligible employees may participate in the Simplified Employee Pension-Individual Retirement Account (SEP-IRA) whereby the Association will contribute five percent of each employee's salary yearly. The employees have the option to make additional contributions to their SEP-IRA plan. Contributions were paid by the Association of \$14,484, \$14,619 and \$15,239 for 2015, 2016 and 2017, respectively.

The Association paid discretionary bonuses to all employees totaling \$2,707 in 2015, \$2,707 in 2016, and \$8,663 in 2017.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Calhoun, Pocahontas, Webster, Sac, Buena Vista, Carroll, and Greene 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, quarterly or monthly. The Association underwrites these policies every three years.

At the present time, business is produced by approximately 75 licensed agents. During the examination it was discovered that the Association had inadvertently failed to appoint the licensed agents and pay the corresponding fee to the State of Iowa. Upon discovery of this oversight, appropriate steps were taken to reinstate all agent appointments.

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	\$2,365,076	\$2,389,232	\$2,347,422	\$ 7,101,730
Incurred deductions:				
Losses	\$2,097,943	\$1,241,949	\$1,724,463	\$ 5,064,355
Loss adjustment expenses	102,520	101,855	101,010	305,385
Commissions	439,725	461,073	460,724	1,361,522
Salaries	236,701	237,301	250,833	724,835
Taxes, licenses and fees	59,964	72,259	61,248	193,471
Other underwriting expenses	<u>326,186</u>	<u>360,735</u>	<u>291,849</u>	<u>978,770</u>
Total deductions	\$3,263,039	\$2,475,172	\$2,890,127	\$ 8,628,338
Underwriting gain (loss)	\$ (897,963)	\$ (85,940)	\$ (542,705)	\$(1,526,608)

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	88.71%	51.98%	73.46%	71.31%
Loss adjustment expenses	4.33	4.26	4.30	4.30
Commissions	18.59	19.30	19.63	19.17
Salaries	10.01	9.93	10.69	10.21
Taxes, licenses and fees	2.53	3.02	2.61	2.73
Other underwriting expenses	<u>13.80</u>	<u>15.11</u>	<u>12.43</u>	<u>13.78</u>
Total deductions	137.97%	103.60%	123.12%	121.50%
Underwriting gain (loss)	<u>(37.97)%</u>	<u>(3.60)%</u>	<u>(23.12)%</u>	<u>(21.50)%</u>

REINSURANCE

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

Property Per Risk Excess of Loss

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

Property Catastrophe Excess of Loss

One hundred percent in excess of \$750,000 retention for an individual occurrence cause by tornadoes, cyclones, windstorms, hurricane, or hailstones. An occurrence is defined as the total of all losses arising from the same atmospheric disturbance and occurring during any continuous period of not more than 96 hours.

Property Aggregate Excess of Loss

First \$2,000,000 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. 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, 2017 there was one risk that had facultative coverage in place due to the type of risk being insured.

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 Axman Insurance Agency, also known as Home Office Agency.

The agency is 100 percent owned by Bill Axman, who is Secretary-Treasurer and Manager of the Association. This agency produced approximately 16 percent of the Association's business during 2017. The agency is not paid commission on Association business; However, this practice has not been memorialized in writing. The Association does not have a written contract with this agency.

The agency paid \$50 monthly rent to the Association.

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.

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 \$763,539,384. The Association's statutory minimum surplus level at December 31, 2017 was \$763,539. It is noted the Association's surplus level to minimum surplus level ratio was 5.6/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2017 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, 2017 and the assets and liabilities as of this date

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$3,047,078	\$	\$	\$3,047,078
Stocks	2,040,458	552,058		2,592,516
Bank balances:				
Subject to check	247,731			247,731
On interest	353,795			353,795
Real estate	110,402			110,402
Cash in office	200			200
Unpaid premiums:				
Due before November 1	(2,557)		(2,557)	0
Due after November 1	16,280		7,126	9,154
Reinsurance receivable on paid loss		550		550
Accrued interest		30,136		30,136
Equipment and furniture	750		750	0
Automobiles	14,160		14,160	0
Electronic data processing equipment	624			624
Total	<u>\$5,828,921</u>	<u>\$582,744</u>	<u>\$ 19,479</u>	<u>\$6,392,186</u>

LIABILITIES AND SURPLUS

Losses	\$ 403,481
Unpaid loss adjusting expenses	8,333
Ceded reinsurance balance payable	114,566
Unpaid salaries and commissions	34,596
Amounts withheld for others	4,321
Taxes payable	876
Other unpaid expenses	4,680
Premiums collected for other companies - not remitted	10,790
Premiums received in advance	75,487
Unearned premium reserve	<u>1,446,993</u>
Total liabilities	<u>\$2,104,123</u>
Surplus as regards policyholders	<u>4,288,063</u>
Total liabilities and surplus	<u>\$6,392,186</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016		<u>\$5,987,071</u>
	<u>INCOME</u>	
Net premiums and fees		\$2,345,075
Net interest received on bonds		122,618
Increase (Decrease) by adjustment - bonds		(16,425)
Dividends received		112,704
Interest received on bank deposits		2,783
Profit on sale of investments		139,322
Rents received		5,400
Premiums collected for other companies		122,053
Increase in ledger liabilities		12,528
Total income		<u>\$2,846,058</u>
Total assets and income		<u>\$8,833,129</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$1,673,234
<u>Operating Expense</u>		
Loss adjusting expense	\$101,010	
Commissions	460,724	
Advertising	11,907	
Boards, bureaus and associations	10,842	
Inspection and loss prevention	85,409	
Salaries of officers	88,826	
Officers' expenses	3,686	
Salaries of office employees	162,007	
Employee welfare	60,989	
Insurance	14,475	
Directors' compensation	7,400	
Directors' expenses	1,202	
Rent and rent items	4,800	
Equipment	27,283	
Printing, stationery and supplies	12,671	
Postage, telephone, telegraph and exchange	17,723	
Legal and auditing	13,700	
State insurance taxes	39,413	
Insurance Division licenses and fees	155	
Payroll taxes	24,005	
All other taxes	465	
Real estate expenses	17,141	
Real estate taxes	3,632	
Miscellaneous	4,220	
Investment Expense	18,853	
Donations	3,400	
Automobile Expense	6,850	
Total operating expense		\$1,202,788
<u>Non-Operating Expense</u>		
Depreciation on real estate		4,888
Loss on sale of investments		0
Federal income tax		0
Premium collections transmitted to other companies		97,635
Commissions paid agents for other companies		25,663
Decrease in ledger liabilities		0
Total disbursements		<u>\$3,004,208</u>
Balance - ledger assets, December 31, 2017		<u>\$5,828,921</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$2,347,422
<u>Deductions</u>		
Losses incurred	\$1,724,463	
Loss expenses incurred	101,010	
Other operating expenses incurred	<u>1,064,654</u>	
Total underwriting deductions		<u>2,890,127</u>
Net underwriting gain (loss)		\$ (542,705)
<u>Investment Income</u>		
Net investment income earned		340,946
<u>Other Income</u>		
Premiums collected for other companies (net)		(1,245)
Miscellaneous income (expense)		<u>(4,888)</u>
Net income (loss) before Federal income tax		\$ (207,892)
Federal income tax incurred		<u>0</u>
Net income (loss)		<u>\$ (207,892)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$4,280,180</u>
<u>Gains and (Losses) in Surplus</u>		
Net income (loss)		\$ (207,892)
Change in not admitted assets		13,524
Change in net unrealized gains/losses		<u>202,251</u>
Change in surplus as regards policyholders for the year		<u>\$ 7,883</u>
Surplus as regards policyholders, December 31, 2017		<u>\$4,288,063</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 7,101,730
<u>Deductions</u>	
Losses incurred	\$ 5,064,355
Loss expenses incurred	305,385
Other operating expenses incurred	3,258,598
Total underwriting deductions	<u>8,628,338</u>
Net underwriting gain (loss)	\$(1,526,608)
<u>Investment Income</u>	
Net investment income earned	922,400
<u>Other Income</u>	
Premiums collected for other companies (net)	1,906
Miscellaneous income (expense)	<u>(14,664)</u>
Net income (loss) before Federal income tax	\$ (616,966)
Federal income tax incurred	<u>0</u>
Net income (loss)	<u>\$ (616,966)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	\$ <u>4,875,154</u>
<u>Gains and (Losses) in Surplus</u>	
Net income (loss)	\$ (616,966)
Change in not admitted assets	20,009
Change in net unrealized gains/losses	<u>9,866</u>
Change in surplus as regards policyholders for the period	\$ <u>(587,091)</u>
Surplus as regards policyholders, December 31, 2017	\$ <u>4,288,063</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>			
Unpaid premiums due after November 1	\$ 16,280	\$ 9,154	\$ (7,126)
<u>Liabilities</u>			
Unpaid claims (net)	286,285	403,481	(117,196)
Unpaid salaries and commissions	44,763	34,596	10,167
Other unpaid expenses	1,896	4,680	(2,784)
Unearned premium reserve	1,449,843	1,446,993	<u>2,850</u>
Net change to surplus			\$ (114,089)
Surplus per Association			<u>4,402,152</u>
Surplus per examination			<u>\$4,288,063</u>

During the period under review, surplus funds decreased \$587,091 from the amount of \$4,875,154 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:

Unpaid premiums due after November 1 \$9,154

This asset was decreased by \$7,126 to reflect the actual premiums collected in 2018.

Unpaid claims (net) \$403,481

Net unpaid claims is being increased by \$117,196 to reflect actual claim development in 2018.

Unpaid salaries and commissions \$34,596

Unpaid salaries and commissions are being decreased by \$9,476 to reflect actual commissions paid in January 2018. The unpaid commissions is also being reduced by \$691 to reflect the commission due on unpaid premiums collected in 2018.

Other unpaid expenses \$4,680

Items paid during 2018 but incurred in 2017 were compared to the year-end accrual amount, increasing the liability by \$2,784.

Unearned premium reserve \$1,446,993

The unearned premium reserve is being decreased by \$2,850 to reflect exam changes.

CONCLUSION

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

Respectfully submitted,

/s/ Kris E. Sterler
Kris E. Sterler, CPA
Kris E. Sterler, CPA PLC
Representing the State of Iowa