

EXAMINATION REPORT OF
GERMAN MUTUAL INSURANCE ASSOCIATION
JONES COUNTY, MONTICELLO, IOWA
AS OF DECEMBER 31, 2020

Monticello, Iowa
November 16, 2021

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

JONES COUNTY, MONTICELLO, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 702 South Main Street, Monticello, 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 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, 2020.

HISTORY

The Association was incorporated in 1888 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 1954.

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 Monticello, Iowa on the third Saturday in March at 1:00 p.m. Special meetings shall 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 to the members. Each member present is entitled to one vote on any question to be decided. Voting by proxy is not permitted. A quorum shall consist of the number of directors, plus one, for the transaction of any business at any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of five to 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, 2020 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Keith Christensen	Center Junction, Iowa	2021
Pat Sperflage	Delhi, Iowa	2021
Jeff Von Behren	Wyoming, Iowa	2021
Glenn A. Tobiason	Center Junction, Iowa	2022
Todd Husmann	Center Junction, Iowa	2023
Kyle Ulferts	Anamosa, Iowa	2023
John Bader	Monticello, Iowa	2023

The annual meeting of the Board shall be 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.

Remunerations 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 it deems necessary.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
Todd Husmann	President
Kyle Ulferts	Vice President
Jamie M. Goedken	Secretary/Treasurer

Remunerations 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 amended during the period covered by this examination.

On July 22, 2020, the Articles of Incorporation were amended. The following changes were made.

- Provisions on director duties, removal, limitation on director's liability and indemnification and conflict of interests.
- A quorum shall consist of the number of directors, plus one, for the transaction of any business at any membership meeting.
- The number of directors which shall constitute the whole Board of Directors shall not be less than five, nor more than fifteen and, within such limits, shall be fixed from time to time by Resolution of the Board of Directors, except no decrease shall have the effect of shortening the term of any incumbent director.

- Upon death or resignation or expiration of term of office of any director, the Board of Directors may decrease the size of the Board by vacating the office, in which no successor shall be elected; but in no event shall the Board of Directors at any time consist of less than five members.
- A majority of the number of directors fixed by the Bylaws shall constitute a quorum for the transaction of business, unless a greater number is required by the By-Laws

On July 22, 2020, the Bylaws were amended. The following are the changes that were made.

- No licensed independent insurance producer, who is under contract with the Association, may serve on the Board of Directors at any time.
- No member shall be eligible for election as a director upon attaining the age of eighty. Directors who have attained the age of eighty or older, serving at the time of the adoption of the By-Laws, may serve out the term to which they were elected.
- The Board of Directors shall consist of between five to fifteen individuals who are also members of the Association

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 presented and approved at the January 8, 2019 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$50,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is non-cumulative. The current bond amount of \$50,000 does not provide adequate coverage for the Mutual.

Policies for other coverages are as follows:

Workers' compensation and employers' liability
 Officers' and directors' liability
 Business liability
 Business property and personal property
 Inland marine

Adequate insurance is placed with authorized insurers except officers' and directors' liability which is written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

Effective January 1, 2000, a SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) Plan Retirement Fund became available for employees who have worked at least one year and have earned at least \$5,000 in that year. The employee has the option to contribute up to \$500 per month or \$6,000 per year. The employer will contribute up to three percent of the employee's salary or wage to the selected fund by the employee if the employee participates. If the employee does not desire to participate in the Plan then the Association will not contribute to the Plan for the employee. The Board approves the participating percent the Association will contribute to the SIMPLE Plan each year. Contributions were paid by the Association of \$4,544, \$5,742 and \$6,009 in 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 seven counties: Cedar, Clinton, Delaware, Dubuque, Jackson, Jones, and Linn 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every five years.

At the present time, business is produced by thirty-two 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>\$ 631,341</u>	<u>\$ 635,375</u>	<u>\$ 623,695</u>	<u>\$1,890,411</u>
Incurred deductions:				
Losses	135,647	179,586	479,789	795,022
Loss adjustment expenses	29,493	30,394	62,152	122,039
Commissions	116,915	113,135	117,929	347,979
Salaries	131,649	135,098	137,928	404,675
Taxes, licenses and fees	22,755	22,902	23,600	69,257
Other underwriting expenses	<u>106,994</u>	<u>108,406</u>	<u>103,248</u>	<u>318,648</u>
Total deductions	<u>\$ 543,453</u>	<u>\$ 589,521</u>	<u>\$ 924,646</u>	<u>\$2,057,620</u>
Underwriting gain (loss)	<u>\$ 87,888</u>	<u>\$ 45,854</u>	<u>\$ (300,951)</u>	<u>\$ (167,209)</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	21.49%	28.26%	76.93%	42.06%
Loss adjustment expenses	4.67	4.78	9.97	6.46
Commissions	18.52	17.81	18.91	18.41
Salaries	20.85	21.26	22.11	21.41
Taxes, licenses and fees	3.60	3.60	3.78	3.66
Other underwriting expenses	<u>16.95</u>	<u>17.07</u>	<u>16.55</u>	<u>16.85</u>
Total deductions	<u>86.08%</u>	<u>92.78%</u>	<u>148.25%</u>	<u>108.85%</u>
Underwriting gain (loss)	<u>13.92%</u>	<u>7.22%</u>	<u>(48.25%)</u>	<u>(8.85%)</u>

REINSURANCE

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

CEDED

First Per Risk Excess of Loss Property

\$100,000 in excess of \$50,000 in respect to each and every risk resulting from one loss occurrence, including loss adjustment expense. The reinsurer's limit of liability shall be \$100,000 in respect to each and every loss occurrence.

Second Per Risk Excess of Loss Property

\$350,000 in excess of \$150,000 in respect to each and every risk resulting from one loss occurrence, including loss adjustment expense. The reinsurer's limit of liability shall be \$350,000 in respect to each and every loss occurrence.

Third Per Risk Excess of Loss Property

\$1,500,000 in excess of \$500,000 in respect to each and every risk resulting from one loss occurrence, including loss adjustment expense. The reinsurer's limit of liability shall be \$1,500,000 in respect to each and every loss occurrence.

First Surplus Property

\$2,000,000 in excess of \$1,000,000 or more in respect to a risk, ceded on a pro rata basis. Any single location, which is in excess of \$2,500,000 of property coverage, may be submitted to the reinsurer for special acceptance hereunder. The reinsurer reserves the right to accept or reject each such risk submitted.

When a cession has been made, the reinsurer shall be liable for the pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded.

A risk shall be defined as all property insurance provided on a policy, unless such policy covers more than one single location. The term single location means a separate legal description of a parcel of real estate, showing intent of detachment from other real estate, in a document or written instrument, customarily used in describing real estate premises to be covered under a policy on insurance. In the event of more than one policy covering a single location, the term risk shall be defined as all property insurance provided on a single location.

First Aggregate Excess of Loss Property

Seventy percent in excess of an amount equal to seventy percent of the Association's net premiums written, of the aggregate net losses (including loss adjustment expenses) which occur during any annual period. Net premiums written shall be defined as gross written premiums during an annual period before dividends or any other extraordinary payments to policyholders, less returns for cancellations and loss reinsurance premiums inuring to the benefit of this contract ceded during that annual period.

The reinsurer's limit of liability shall be seventy percent of seventy percent of the Association's net premiums written, in respect to net losses incurred by the Association during the annual period of this contract is in effect.

In respect to each annual period this contract is in effect, the Association shall retain net for its own account, an amount of net losses (including loss adjustment expenses) equal to not less than seventy percent of the Association's net written premium, subject to a retention of \$471,241.

In the event the paid loss ratio at any time exceeds the Association's retention of seventy percent of net premiums written. The Association shall have the option to make a provisional reinsurance recovery from the reinsurer. In the event the loss ratio exceeds the retention hereunder the reinsurer shall pay to the Association the difference between the actual loss ratio and the retention. This contract shall then be adjusted at each succeeding quarter during the annual period, and the balance due either party shall then be paid.

Second Aggregate Excess of Loss Property

One-hundred percent of all losses in excess of an amount equal to one-hundred-forty percent of the Association's net premiums written, if any, by which the aggregate net losses (including loss adjustment expenses) which occur during any annual period.

The reinsurer's limit of liability shall be one-hundred percent of all losses greater than one-hundred-forty percent of the Association's net premiums written, in respect to net losses incurred by the Association during the annual period of this contract is in effect.

In respect to each annual period of this contract is in effect, the Association shall retain net for its own account, an amount of net losses (including loss adjustment expenses) equal to not less than one-hundred-forty percent of the Association's net written premium.

In the event the paid loss ratio at any time exceeds the Association's retention of one-hundred-forty percent of net premiums written, the Association shall have the option to make a provisional reinsurance recovery from the reinsurer. In the event the loss ratio exceeds the retention hereunder the reinsurer shall pay to the Association the difference between the actual loss ratio and the retention. This contract shall then be adjusted at each succeeding quarter during the annual period, and the balance due either party shall then be paid.

Facultative

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2020, there were ten risks identified which warranted a facultative agreement.

Reinsurance - General

The Association appears to comply with current statutory standards relative to surplus exposure and reinsurance coverage.

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 facilities with its wholly owned subsidiary, GMIA Agencies, Inc.

The agency was incorporated in 1987 and has the same directors and officers as the Association. The GMIA agency has not been active during the last thirty-four years.

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, 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 \$203,699,807. The Association's statutory minimum surplus level as December 31, 2020 was \$203,700. It is noted the Association's surplus level to minimum surplus level ratio was 19.7/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2020 was 8.3/1.

It is suggested that greater care be exercised to ensure proper reporting of investment holdings, particularly years acquired and CUSIPs.

As of January 1, 2021 German Mutual Insurance Association and Cascade Mutual Insurance Association merged with German Mutual Insurance Association being the survivor.

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>
Stocks	\$1,863,764	\$1,660,580	\$	\$3,524,344
Bank balances:				
Subject to check	91,231			91,231
On interest	688,801			688,801
Real estate	76,109			76,109
Unpaid premiums:				
Due after November 1		1,543		1,543
Reinsurance receivable		56,911		56,911
Accrued interest		602		602
	<u>\$2,719,905</u>	<u>\$1,719,636</u>	<u>\$</u>	<u>\$4,439,541</u>
Total			0	

LIABILITIES AND SURPLUS

Losses		\$	3,742
Unpaid adjusting expenses			31,705
Ceded reinsurance balances payable			15,732
Unpaid salaries and commissions			14,624
Amounts withheld for the account of others			4,927
Taxes payable			7,686
Other unpaid expenses			1,607
Premiums collected for other companies - not remitted			4,123
Premiums received in advance			35,768
Unearned premium reserve			306,848
			<u>426,762</u>
Total liabilities		\$	426,762
Surplus as regards policyholders			<u>4,012,779</u>
Total liabilities and surplus			<u>\$4,439,541</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2019			\$2,940,816
	<u>INCOME</u>		
Net premiums and fees		\$	653,027
Dividends received			92,049
Interest received on bank deposits			22,595
Rents received			4,800
Premiums collected for other companies			66,663
Underwriting expense reimbursement			4,606
Miscellaneous income			3,966
Reinsurance refund			4,640
Total income			<u>\$ 852,346</u>
Total assets and income			<u>\$3,793,162</u>
	<u>DISBURSEMENTS</u>		
Losses paid		\$	567,575
<u>Operating Expense</u>			
Loss adjusting expense	\$ 32,878		
Commissions	114,163		
Advertising	784		
Boards, bureaus and associations	5,888		
Inspection and loss prevention	36,695		
Salaries of officers	73,085		
Salaries of office employees	64,843		
Employee welfare	5,914		
Insurance	10,415		
Directors' compensation	3,700		
Rent and rent items	19,808		
Equipment	862		
Printing, stationery and supplies	2,922		
Postage and telephone	7,465		
Legal and auditing	6,000		
Premium taxes	7,506		
Insurance Division licenses and fees	320		
Payroll taxes	15,508		
Real estate expenses	1,293		
Real estate taxes	782		
Miscellaneous	<u>6,900</u>		
Total operating expense			\$ 417,731
<u>Non-Operating Expense</u>			
Depreciation on real estate			3,525
Federal income tax			17,841
Premium collections transmitted to other companies			56,604
Commissions paid agents for other companies			9,981
Total disbursements			<u>\$1,073,257</u>
Balance - ledger assets, December 31, 2020			<u>\$2,719,905</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 623,695
<u>Deductions</u>		
Losses incurred	\$ 479,789	
Loss expenses incurred	62,152	
Other operating expenses incurred	<u>382,705</u>	
Total underwriting deductions		<u>924,646</u>
Net underwriting gain (loss)		\$ (300,951)
<u>Investment Income</u>		
Net investment income earned		109,144
<u>Other Income</u>		
Premiums collected for other companies (net)		(319)
Miscellaneous income		<u>3,966</u>
Net loss before Federal income tax		\$ (188,160)
Federal income tax incurred		<u>22,888</u>
Net loss		<u>\$ (211,048)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019		<u>\$3,769,784</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (211,048)
Change in net unrealized gains (losses)		<u>454,043</u>
Change in surplus as regards policyholders for the year		<u>\$ 242,995</u>
Surplus as regards policyholders, December 31, 2020		<u>\$4,012,779</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,890,411
<u>Deductions</u>		
Losses incurred	\$ 795,022	
Loss expenses incurred	122,039	
Other operating expenses incurred	<u>1,140,559</u>	
Total underwriting deductions		<u>2,057,620</u>
Net underwriting gain (loss)		\$ (167,209)
<u>Investment Income</u>		
Net investment income earned		286,337
<u>Other Income</u>		
Premiums collected for other companies (net)		1,380
Miscellaneous income		<u>6,206</u>
Net income before Federal income tax		\$ 126,714
Federal income tax incurred		<u>57,449</u>
Net income		<u>\$ 69,265</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$3,156,382</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 69,265	
Change in not admitted assets	571	
Change in net unrealized gains/losses	<u>786,561</u>	
Change in surplus as regards policyholders for the period		<u>\$ 856,397</u>
Surplus as regards policyholders, December 31, 2020		<u>\$4,012,779</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>Liabilities</u>			
Losses	\$62,411	3,742	\$ 58,669
Unpaid adjusting expenses	2,630	31,705	<u>(29,075)</u>
Net change to surplus			\$ 29,594
Surplus per Association			<u>3,983,185</u>
Surplus per examination			<u>\$ 4,012,779</u>

During the period under review, surplus funds increased \$856,397 from the amount of \$3,156,382 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 statement were due to the following:

Losses \$ 3,752

Losses decreased by \$58,669 to reflect actual loss development.

Loss adjustment expenses \$ 31,705

An analysis of paid adjusting expenses to paid losses increased the liability by \$29,075.

CONCLUSION

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

Respectfully submitted,

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