

EXAMINATION REPORT OF  
HAWKEYE MUTUAL INSURANCE ASSOCIATION  
NEWTON, IOWA  
AS OF DECEMBER 31, 2019

Newton, Iowa  
August 24, 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

HAWKEYE MUTUAL INSURANCE ASSOCIATION

NEWTON, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 315 South Second Avenue West, Newton, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Hawkeye Mutual Insurance Association, hereinafter referred to as "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 December 31, 2014 to December 31, 2019. 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 liabilities determined to present herein a statement of its financial condition as of December 31, 2019.

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 1954. On July 1, 1994, the Association amended its Articles of Incorporation to become a state mutual insurance association under Chapter 518A, Code of Iowa.

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 Newton, Iowa on the second Tuesday in April at 1:00 p.m. Special meetings may be called by President upon request of the majority of the Board of Directors or upon written request of one-fourth of the members of the Association. Five days 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 voted on regardless of the number of policies owned by the member. Voting by proxy is not permitted. A quorum shall be one more member than the number of Directors fixed by resolution of the Board of Directors.

#### BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five, nor more than fifteen, each elected by a majority vote at the annual meeting of the members for a term not to exceed 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, 2019:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Dennis Stratton	Collins, Iowa	2022
Arvin Vander Wilt	Pella, Iowa	2021
Doug Korte	Laurel, Iowa	2021
Ronald Hotger	Laurel, Iowa	2021
Jerald Thompson	Newton, Iowa	2020
TJ Dykstra	Altoona, Iowa	2020
Luanne Fitzpatrick	Newton, Iowa	2020

The annual meeting of the Board shall be held immediately following the adjournment of the annual meeting of the members, and thereafter on the call of the President. A majority of the number of directors fixed by resolution of the Board shall constitute a quorum.

Directors receive an annual fee of \$750 per year and receive \$100 for each meeting attended. Mileage reimbursement is \$.75 per mile.

#### OFFICERS

At its annual meeting, the Board of Directors shall elect for a term of one year a President, Treasurer, and Secretary. Any such offices may be combined except President and Secretary. Board may elect additional officers as it deems necessary. It may leave unfilled for any such period as it may fix by resolution any office except the offices of President, Treasurer, and Secretary.

Officers serving at December 31, 2019:

<u>Name</u>	<u>Office</u>
TJ Dykstra	President
Luanne Fitzpatrick	Secretary-Treasurer

The salaries of the officers are shown in Exhibit "A".

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and, directors. Directors that are also agents should disclose the status as an agent and key employees should also complete these forms.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination period.

The recorded minutes of the membership and Board of Directors meetings were read and approved. The minutes of the Board of Directors reflected that the examination report as of December 31, 2014 was reviewed and accepted during the board meeting of April 12, 2016.

AFFILIATED AGENCY

The Association owns its home office and shares it with Dykstra Insurance, Inc. (Agency). The Agency is owned 50% by TJ Dykstra, President, and 50% owned by Patty Dykstra, the mother of the President. The Agency produced 12 percent of the Association's business and \$107,564 in commissions were paid during 2019.

The Agency paid 50 percent of earned commissions as rent to the Association prior to 2018. Currently, the rent changed is the greater of 25% of earned commissions or approximately \$3,000 per month. The Agency paid rent of \$36,430 in 2019.

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
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Auto property and 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

Association provides health, dental, vision, life and disability insurance for full-time employees and 75% of the premiums for health, dental and vision for employee's spouses and children. One former employee participates in currently in the health, dental and vision coverage, yet the employee pays 100% of the premium.

A profit sharing retirement plan is provided to full-time employees. Overwrite fees from IMT Insurance for liability premiums finance this plan.

Payment to the plan based on employee salary as a percentage of total salaries. Amount contributed for profit share was \$29,790, \$39,930, \$44,647, \$53,529 and \$61,134 annually for years 2015 to 2019, respectively. During the same period, the Association paid bonuses annually to full time employees in the amounts of \$0, \$11,000, \$10,000, \$0, and \$10,000.

A defined benefit retirement plan was funded by Association for all full-time employees, who vest after seven years. Benefits are paid in the form of an annuity after the employee reaches the age of 65. The Association did not contribute to the plan during the examination period.

#### REINSURANCE

On January 1, 2015, Wisconsin Reinsurance Corporation was replaced by Farmers Mutual Hail Insurance Company of Iowa as an authorized reinsurer. The Association has reinsurance contracts in force provides the following as of December 31, 2019:

##### First Layer of Per Risk Excess of Loss:

\$250,000 of the ultimate net loss in excess of \$250,000 with respect to any one loss on any one risk.

##### Second Layer of Per Risk Excess of Loss:

\$1,500,000 of the ultimate net loss in excess of \$500,000 with respect to any one loss on any one risk.

##### First Layer of Aggregate Excess of Loss:

The ultimate net loss of 100% gross net written premium exceeding 100% of gross net written premium.

##### Second Layer of Aggregate Excess of Loss:

100% of the ultimate net loss exceeding 140% gross net written premium.

##### Facultative

Risks in excess of the Association's reinsurance contract limits are not ceded on a facultative basis during 2019.

##### Reinsurance - General

The Association's reinsurance coverage complies with current statutory standards relative to surplus exposure and reinsurance coverage.

#### MARKET CONDUCT

##### TERRITORY AND PLAN OF OPERATION

At the beginning of the examination period, the Association was authorized to transact business in the following counties: Benton, Boone, Hamilton, Hardin, Iowa, Jasper, Jefferson, Johnson, Keokuk, Linn, Madison, Mahaska, Marion, Marshall, Monroe, Polk, Poweshiek, Story, Tama, Wapello, Warren and Washington.

The Association expanded into the counties of Delaware, Jones and Louisa as of February 18, 2015. Black Hawk, Buchanan, Cedar, Muscatine, Des Moines, Lee and Van Buren were expanded into on April 24, 2015. Clayton, Dubuque, Jackson, Clinton and Scott were expanded into on April 24, 2015. Adair, Appanoose, Bremer, Butler, Carroll, Clarke, Decatur, Fayette, Franklin, Greene, Guthrie, Humboldt, Lucas, Ringgold, Union, Wayne, Webster and Wright were expanded into in April of 2018. Calhoun, Kossuth, Palo Alto and Pocahontas were expanded into on June 28, 2019.

Risks are located within the authorized territory based a review of numerous policies in force.

#### PRODUCER LICENSING

Business written by 200 licensed and approved agents.

#### POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and town security classes in insurance covering fire, wind, allied lines, and inland marine.

#### ADVERTISING

The Association's advertising was reviewed and found to be in compliance with statutory requirements.

#### TREATMENT OF POLICYHOLDERS

#### CLAIMS

The Association contracts with third party vendors to adjust property claims through a fixed fee contract up to a set limit of claims.

Numerous claims files were reviewed, including closed by payment, to determine adequacy of loss reserves and the treatment of policyholders. The Association made prompt settlements which were in keeping with the terms of the contracts. However, proof of losses were not provided for all claims reviewed. It is recommended that the Association have claimants sign proof of losses to provide confirmation of acceptance of settlement.

#### COMPLAINT REGISTER

A review was made of all written complaints received by the Association during the examination period. The three formal Iowa Insurance Division complaints were handled timely and in a manner consistent with the provisions of the policy.

#### CREDIT SCORES

Credit scoring is used for rating purposes. The Association should further document procedures for the Association's use of credit scoring.

GROWTH OF ASSOCIATION

The following historical 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>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Net Investment Income Earned</u>
2015	\$25,295,400	\$22,850,822	\$3,683,067	\$1,461,495	\$753,672
2016	27,660,244	24,535,561	4,647,807	1,509,216	771,587
2017	26,193,394	25,155,594	5,438,518	4,049,200	830,726
2018	30,017,588	26,193,394	6,301,022	3,848,682	889,469
2019	32,501,401	27,583,403	7,222,032	4,641,138	935,424

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the five-year period ended December 31, 2019 was as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	\$3,683,067	\$4,647,807	\$5,438,518	\$6,301,022	\$7,401,046	\$27,471,460
<u>Incurred Deductions</u>						
Losses	\$1,496,662	\$1,509,216	\$4,049,200	\$3,848,682	\$5,105,521	\$16,009,281
Loss adjustment expenses	211,639	287,600	434,916	470,223	576,807	1,981,185
Commissions	691,979	847,856	1,000,543	1,148,524	1,250,366	4,939,268
Salaries	102,588	110,393	113,819	116,043	158,828	601,671
Taxes, licenses and fees	57,022	57,653	68,444	78,169	91,131	352,419
Other underwriting expenses	<u>223,481</u>	<u>397,394</u>	<u>261,987</u>	<u>329,476</u>	<u>231,920</u>	<u>1,444,258</u>
Total deductions	\$2,783,371	\$3,210,112	\$5,928,909	\$5,991,117	\$7,414,573	\$25,328,082
Net underwriting gain (loss)	\$ 899,696	\$1,437,695	\$ (490,391)	\$ 309,905	\$ (13,527)	\$ 2,143,378

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

<u>Incurred Deductions</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Losses	40.6%	32.5%	74.5%	61.1%	69.0%	58.3%
Loss adjustment expenses	5.7	6.2	8.0	7.5	7.8	7.2
Commissions	18.8	18.2	18.4	18.2	16.9	18.0
Salaries	2.8	2.4	2.0	1.9	2.2	2.1
Taxes, licenses and fees	1.6	1.2	1.3	1.2	1.2	1.3
Other underwriting expenses	<u>6.1</u>	<u>8.6</u>	<u>4.8</u>	<u>5.2</u>	<u>3.1</u>	<u>5.3</u>
Total deductions	75.6%	69.1%	109.0%	95.1%	100.2%	92.2%
Net underwriting gain (loss)	24.4%	30.9%	(9.0)%	4.9%	(0.2)%	7.8%

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 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, 2019 relative to security custodial requirements.

Four checks outstanding over two years as of December 31, 2019. Association should consider escheating these funds to State Treasurer.

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, 2019, the gross risk in force for the Association was \$2,963,559,957. The Association's statutory minimum surplus level as December 31, 2019 was \$2,963,560. The Association's surplus level to minimum surplus level ratio was 9.3/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2019 was 8.1/1.



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, 2019 and the assets and liabilities as of this date.

STATEMENT OF ASSETS AND LIABILITIES

	<u>Assets</u>	<u>Not Admitted</u>	<u>Net Admitted</u>
Bonds	\$26,322,915	\$ (13,376)	\$26,336,291
Common stocks	3,911,764		3,911,764
Mortgage loans on real estate			
Real estate properties occupied	158,075		158,075
Cash holdings	1,684,814		1,684,814
Investment income due and accrued	331,310		331,310
Premiums and considerations:			
Uncollected premiums	187,796		187,796
Deferred premiums	816,508		816,508
Amounts recoverable from reinsurers	2,115		2,115
Current federal income tax recoverable	7,000	7,000	
Furniture and equipment	8,464	8,464	
Aggregate write-ins for assets:			
IMT Liability	28,306	28,306	
Salvage receivable	<u>8,651</u>	<u>          </u>	<u>8,651</u>
 Total Assets	 <u>\$33,467,718</u>	 <u>\$ 30,394</u>	 <u>\$33,437,324</u>

LIABILITIES AND SURPLUS

Losses		\$ 1,158,687
Loss adjusting expenses		12,000
Commissions payable and contingent commissions		284,904
Other expenses		16,240
Taxes, licenses and fees		14,529
Unearned premiums		4,555,305
Advance premiums		223,952
Ceded reinsurance premiums payable		<u>28,741</u>
 Total liabilities		 <u>\$ 6,294,358</u>
 Surplus as regards policyholders		 <u>\$27,142,966</u>
 Total Liabilities and Surplus		 <u>\$33,437,324</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$7,401,046
 <u>Incurred Deductions</u>	
Losses incurred	\$5,105,521
Loss expenses incurred	576,807
Other underwriting expenses	<u>2,067,797</u>
Total underwriting deductions	<u>7,750,125</u>
 Net underwriting gain (loss)	 \$ (349,079)
 <u>Investment Income</u>	
Net investment income earned	\$ 948,800
 <u>Other Income</u>	
Finance and service charges not included in premiums	\$ 73,708
Premiums collected for others	<u>17,962</u>
 Net income before federal income taxes	 \$ 691,391
 Federal income taxes	 <u>116,000</u>
 Net income	 <u>\$ 575,391</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$26,193,394</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 575,391
Net unrealized capital gains (losses)	274,888
Change in non-admitted assets	<u>99,293</u>
 Change in surplus as regards policyholders	 <u>\$ 949,572</u>
 Surplus as regards policyholders, December 31, 2019	 <u>\$27,142,966</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$27,471,460
 <u>Incurred Deductions</u>	
Losses incurred	\$16,009,281
Loss expenses incurred	1,981,185
Other underwriting expenses	<u>7,337,616</u>
Total underwriting deductions	<u>\$25,328,082</u>
 Net underwriting gain (loss)	 \$ 2,143,378
 <u>Investment Income</u>	
Net investment income earned	\$ 4,190,740
Net realized capital gain (loss)	12,500
 <u>Other Income</u>	
Finance and service charges not included in premiums	\$ 298,876
Premiums collected for others	<u>17,962</u>
 Net income before federal income taxes	 \$ 6,663,456
 Federal income taxes	 <u>\$ 1,179,170</u>
 Net income	 <u>\$ 5,484,286</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	<u>\$21,463,824</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 5,484,286
Net unrealized capital gains (losses)	167,730
Change in non-admitted assets	<u>27,126</u>
 Change in surplus as regards policyholders	 <u>\$ 5,679,142</u>
 Surplus as regards policyholders, December 31, 2019	 <u>\$27,142,966</u>

CASH FLOW STATEMENT  
ONE YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Cash from Operations</u>	
Premiums collected net of reinsurance	\$ 7,964,565
Net investment income	1,159,947
Miscellaneous income	<u>186,235</u>
Total	<u>\$ 9,310,747</u>
Benefit and loss related payments	\$ 4,390,543
Commissions, expenses paid and aggregate write-ins	2,472,807
Federal income taxes paid (recovered) net	<u>25,000</u>
Total	<u>\$ 6,888,350</u>
Net cash from operations	<u>\$ 2,422,397</u>
<u>Cash from Investments</u>	
Proceeds from investments sold, matured and repaid:	
Bonds	<u>\$ 1,965,000</u>
Cost of investments acquired (long-term) only	
Bonds	\$ 4,481,258
Stocks	<u>300,084</u>
Total investments acquired	<u>\$ 4,781,342</u>
Net cash from investments	<u>\$(2,816,342)</u>
<u>Cash from Financing and Miscellaneous Sources</u>	
Other cash provided (applied)	<u>\$ (31,945)</u>
<u>Reconciliation of Cash and Short-Term Investments</u>	
Net change in cash and short-term investments	<u>\$ (425,890)</u>
Cash and short-term investments:	
Beginning of year	<u>\$ 2,110,804</u>
End of year	<u>\$ 1,684,914</u>

SURPLUS AS REGARDS POLICYHOLDERS

Examination changes which resulted in the net decrease to surplus 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	\$26,322,915	\$26,336,291	\$ 13,376
Cash	1,711,674	1,684,814	(26,860)
Uncollected premiums	26,591	187,796	161,205
Deferred premiums		816,508	816,508
IMT Liability	28,306		(28,306)
<u>Liabilities</u>			
Losses	694,304	1,158,687	(464,383)
Commissions	144,766	284,904	(140,138)
Unearned premiums	3,783,466	4,555,305	<u>(771,839)</u>
Net increase in surplus			\$ <u>(440,437)</u>
Surplus per Association			<u>\$27,583,403</u>
Surplus per examination			<u>\$27,142,966</u>

During the period under review, surplus funds increased \$5,679,142 from the amount of \$21,463,824 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:

Bonds \$26,336,291

This asset was increased \$13,376. The increase is due to including one bond and excluding another bond to account for what was reported on the custodial statement.

Cash \$ 1,684,814

This asset was decreased \$26,860. The decrease is due to reporting the actual amount in a bank accounts and to include a money market fund.

Uncollected premiums \$ 187,796

This asset increased \$161,205 due to including current receivables as of December 31, 2019.

Deferred premiums \$ 816,508

This asset increased \$816,508 due to reclassifying deferred premiums as a reduction in Unearned premiums.

IMT Liability \$ 0

This line item, listed as an asset on the Annual Statement, was decreased by \$28,306 to properly account for IMT overwrite fees.

Losses \$ 1,158,687

This liability increased \$464,383 to reflect loss development in 2020 on losses incurred prior to 2020.

Commissions payable \$ 284,904

This liability increased \$140,138 to include commissions reported on the Agents Statement as of December 31, 2019.

Unearned premiums \$ 4,555,305

This liability increased \$771,839 due to reclassifying deferred premiums of \$816,508 as a reduction in unearned premiums and excluding service line unearned premiums of \$44,669.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry P. Cihota  
Jerry P. Cihota, CPA, CPE  
Examiner Specialist  
Insurance Division  
State of Iowa