

EXAMINATION REPORT OF
PETROLEUM MARKETERS MANAGEMENT INSURANCE COMPANY
URBANDALE, IOWA
AS OF DECEMBER 31, 2020

Urbandale, Iowa
June 28, 2021

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

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

PETROLEUM MARKETERS MANAGEMENT INSURANCE COMPANY

URBANDALE, IOWA

AS OF DECEMBER 31, 2020

at its Home Office 2894 106th Street, Suite 220, Urbandale, Iowa.

INTRODUCTION

Petroleum Marketers Management Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2015. The examination reported herein was conducted by examiners of the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2016 to the close of business on December 31, 2020, including any material transactions or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

In 1984, the United States Congress passed the “Hazardous and Solid Waste Amendments” which created a comprehensive regulatory program for Underground Storage Tanks (USTs) containing regulated substances, including petroleum. In 1986, the United States Congress passed the “Superfund Amendments and Reauthorization Act”, which required the United States Environmental Protection Agency (EPA) to establish financial responsibility requirements for owners and operators of regulated UST systems. In 1989, the Iowa Legislature found that a competitive private insurance market did not exist which could provide the financial responsibility mandated by Federal law and therefore created a state-run program.

The Company was incorporated on January 13, 2000 under the name of Petroleum Marketers Mutual Insurance Company, with its Home Office located in Des Moines, Iowa. The Company was formed as an independent, nonprofit entity organized to receive the transfer of assets and liabilities of the State of Iowa’s underground storage tank insurance program (the Iowa Comprehensive Petroleum Underground Storage Tank Financial Responsibility Program) as authorized by state law. The Company commenced business on November 8, 2000.

On September 28, 2005, the Company reorganized from an Iowa Nonprofit Corporation under Chapter 504A Code of Iowa to a for profit stock company organized under Chapter 490 Code of Iowa. The Company also demutualized as an insurance company. At this time its name was changed to Petroleum Marketers Management Insurance Company.

CAPITAL STOCK AND DIVIDENDS THEREON

The aggregate number of shares of stock the Company is authorized to issue is 50,000,000 shares of common stock, each with a par value of \$1.00 per share and the aggregate number of shares of preferred stock which the corporation is authorized to issue is 50,000,000 shares, each with a par value of \$1.00 per share. At the effective time of the Articles of Restatement, each share of the Corporation’s common stock which is issued and outstanding at such time, whether as Class A common stock or as Class B common stock, is reclassified and changed into one (1) share of fully paid and non-assessable common stock, with a par value of \$1.00.

As of December 31, 2020, the Company has \$1 par value common stock, 50,000,000 shares authorized, and 7,361,643 shares issued and outstanding. The Company has no preferred stock authorized, issued, or outstanding. The Company repurchased 538,116 shares of common stock in 2019 and retired this treasury stock, resulting in a decrease to common capital stock of \$538,116 and a decrease in unassigned surplus of \$1,861,881. No stock has been repurchased in 2020.

The Company did not pay dividends during the exam period.

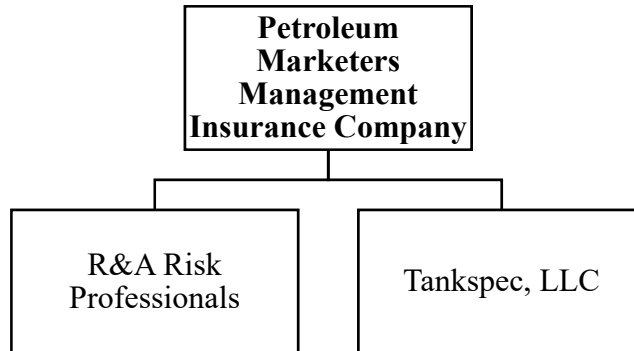
INSURANCE HOLDING COMPANY SYSTEM

The Company is the Parent of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. An Insurance Holding Company System Registration Statement was filed with the Insurance Division of Iowa for each year required.

On February 28, 2014, the Company acquired its managing general agent, Rounds & Associates, renamed R&A Risk Professionals March 1, 2013, an Iowa based company. This wholly owned subsidiary provides all management and operational support services including all insurance related services for the Group. R&A Risk

Professionals also offers other insurance and consulting services to PMMIC's petroleum distribution customers including tank inspection and loss control services.

On June 14, 2019, the Company formed a wholly owned subsidiary, Tankspec, LLC, an Iowa based company. It was created to introduce competitively priced consulting and remediation services tagged to the Tankspec brand in states where R&A Risk Professionals does not already have a presence.



MANAGEMENT AND CONTROL

STOCKHOLDERS

The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held on the second Wednesday in April of each year at such place as the Board of Directors shall each year fix, or at such other place, time and date as the board shall fix. The date shall be within the earlier of the first six months after the end of the Company's fiscal year or fifteen months after the shareholders last annual meeting.

Special meetings of the shareholders may be called by the Chairman of the Board, President or Board of Directors, and shall be called by the Board of Directors upon the written demand, signed, dated and delivered to the Secretary, of the holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

A majority of the votes entitled to be cast on the matter by a voting group constitutes a quorum of that voting group for action on that matter, unless the representation of a different number is required by law. If a quorum shall fail to attend any meeting, the chairperson of the meeting or a majority of the votes present may adjourn the meeting to another place, date or time.

At all meetings of the shareholders, a shareholder entitled to vote may vote in person or by proxy appointed in writing, which appointment shall be effective when received by the secretary of the meeting or other officer or agent authorized to tabulate votes. An appointment of a proxy is valid for eleven months from the date of its execution, unless a longer period is expressly provided in the appointment form.

No director is required to be an officer or employee or a shareholder of the Company or a resident of the State of Iowa to be qualified as a director.

BOARD OF DIRECTORS

The Bylaws provide the business and affairs of the Company shall be managed under the direction of the Board of Directors. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any

contract or to execute and deliver any instrument in the name and on behalf of the Company, and such authority may be general or confined to specific instances.

The number of directors of the Company shall be not less than five nor more than twenty-one, the exact number within such range to be determined from time to time by resolution of the Board of Directors. Each Director shall hold office until his or her successor shall have been elected and qualifies, or until his or her death, resignation or removal.

The Articles of Incorporation provide the Board of Directors shall be divided into three classes: Class I, Class II and Class III, each of which shall be as nearly equal in number as possible. Each Director shall serve for a term ending on the date of the third annual meeting of stockholders following the annual meeting at which the director was elected. Each Director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal.

Immediately after the final adjournment of each annual meeting of the stockholders the Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business. Special meetings of the Board of Directors shall be held whenever called by direction of the Chairman of the Board, the President, or one-third of the Directors at the time being in office. A quorum at any Board of Directors meeting consists of a majority of the number of directors elected by the stockholders.

Directors serving as of December 31, 2020 are as follows:

<u>Name</u>	<u>Principal Affiliation</u>	<u>Term</u>
Ronald Burmeister Davenport, Iowa	President Branlee Enterprises and Robur Inc.	2022
Jerry D. Woods Ankeny, Iowa	Retired Certified Public Accountant	2022
Randall E. Woodard Ottumwa, Iowa	President and Chief Executive Officer Elliott Oil Company	2020
Jeffrey W. Yurgae West Des Moines, Iowa	President and Chief Executive Officer Mueller-Yurgae Associates	2020
Mary Jo Dolan Des Moines, Iowa	Executive Director Iowa Association of Community College Trustees	2021
Randall L. Meyer Johnston, Iowa	Director of Procurement Kum & Go L.C.	2021
Robert N. Renkes Tulsa, Oklahoma	Executive Director Fiberglass Tank & Pipe Institute	2021

COMMITTEES

The Bylaws provide that the Board of Directors may establish one or more committee including an Executive Committee, each committee to consist of one or more director appointed by the Board of Directors. Any such committee shall serve at the will of the Board of Directors. Each such committee shall have the powers and duties delegated to it by the Board of Directors. Each such committee shall fix its own rules governing the conduct

of its activities as the Board of Directors may request. Established committees include: Audit, Corporate Governance, Executive, Investment, Marketing, and Underwriting.

AUDIT COMMITTEE

The Company has an established Audit Committee Charter with the following named committee members:

Jerry Woods, Committee Chair
Mary Jo Dolan
Rob Renkes

OFFICERS

The Bylaws state the executive officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (the number thereof to be determined by the board of directors), a Secretary, a Treasurer and such other officers as may from time to time be elected by the board of directors. One person may hold the offices and perform the duties of any two or more of said offices. In its discretion, the board of directors may delegate the powers or duties of Bylaws, and the board of directors may leave unfilled for any such period as it may fix, any office except those of President, Treasurer and Secretary. The officers of the Corporation shall be elected annually by the board of directors of the annual meeting thereof. Each such officer shall hold office until the next succeeding annual meeting of the board of directors and until his or her successor shall have been duly chosen and shall qualify or until his or her death or until he or she shall resign or shall have been removed.

The officers elected and serving at December 31, 2020 are as follows:

<u>Name</u>	<u>Office</u>
Ron Burmeister	Chairman of the Board
M.J. Dolan	Secretary
Jerry Woods	Treasurer
Patrick Rounds	President and Chief Executive Officer
Tom Norris*	Vice President - Claims
Brian Wiegert	Vice President - Underwriting

*Tom Norris retired December 31, 2020. Steve Reinders was named Director of Claims.

The compensation for certain officers is shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees which is in, or likely to, conflict with the official duties of such person. The members of the Board of Directors all provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

The Company provided a Code of Ethics for Directors and Officers and has an established Corporate Governance Charter.

CORPORATE RECORDS

On April 10, 2019, the Company adopted Amended and Restated Articles of Incorporation to eliminate the class B shares of the Company which had been repurchased and retired. The Bylaws were amended and restated on the same day. The recorded minutes of the policyholders, stockholders, Board of Directors and provided committees were read and noted. Upon review of the recorded minutes of the Board of Directors, it was noted the Iowa Insurance Division's Final Examination Report as of December 31, 2015 was acknowledged in the meeting minutes held on November 29, 2017.

RELATED PARTY AGREEMENTS

Administration Agreement

The Company has no employees and has contracted with R&A Risk Professionals (R&A), its wholly owned subsidiary, to provide all services for the management, administration, operation and necessary support for the insurance business.

The contract establishes specific fees for underwriting, claims, and administrative services; excluding those services to be provided by other vendors selected by the Company. Excluded services include, but are not limited to, actuarial services, auditing services, tax services, legal services, banking services and investment services. R&A is responsible for providing compensation to its own employees used in connection with its performance under this Agreement.

The Company pays R&A a monthly fee and an annual bonus based on agreements in place between the two parties. The Company pays R&A a first-year commission for each policy sold, and a renewal commission percentage as long as the policy remains continuously in-force. R&As' compensation is based upon policies in force, open claims, and a monthly administration fee. The Company also pays R&A for each insured facility inspection conducted by R&A. In addition, The Company awards R&A incentive compensation based upon the number of states where policies are in force; increases in annual valuation; and for increasing assets.

Operating Agreement with Tankspec

On June 14, 2019, The Company created a wholly owned subsidiary, Tankspec, LLC., to provide consulting and remediation services in states where R&A does not already have a presence. The Operating Agreement provides for the business and affairs of Tankspec to be managed by the Company.

Tax Sharing Agreements

The Company has a tax sharing agreement with both wholly owned subsidiaries, R&A Risk Professionals, Inc., and Tankspec, LLC. Allocation of the income tax on the consolidated return shall be based on separate tax return allocations with current credit for net losses.

FIDELITY BOND AND OTHER INSURANCE

The Company, along with its subsidiaries as named insureds, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$5,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. Coverage meets the NAIC's suggested minimum amount of fidelity insurance. The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

EMPLOYEE WELFARE

The Company does not have direct employees. The Company contracts with its wholly owned subsidiary, R&A, to provide managing general agent services for the management, administration, operation and support of the Company necessary for the insurance business. The Company also relies on outside specialists for actuarial, accounting, and investment services.

REINSURANCE

Ceded

The Company maintains an excess of loss reinsurance treaty. Terms are 80% full line on \$500,000 excess of \$750,000 per claim. Coverage follows:

- A. The Reinsurer shall be liable for the amount of Ultimate Net Loss in excess of the Company's retention, being \$750,000 each Claim Made, each Policy, subject to a limit of liability to the Reinsurer of \$500,000 each Claim Made, each Policy.
- B. Notwithstanding the foregoing limits, the Reinsurer shall also be liable for Extra Contractual Obligations and Loss in Excess of Policy Limits, if any, as provided in the Definitions Article.
- C. The Reinsurer's liability as respects all Claims Made during the term of this Contract will not exceed \$1,000,000, inclusive of any Extra Contractual Obligations and Loss in Excess of Policy Limits.
- D. The Company will retain 20% of the limit contemplated by this Contract net and uninsured.

STATUTORY DEPOSIT

As of December 31, 2020, the book/adjusted carrying value of special deposits held in trust for the benefit of policyholders in Arizona totaled \$564,193.

TERRITORY AND PLAN OF OPERATION

The Company offers pollution liability insurance for petroleum storage tanks with both first party and third party coverage. The Company is licensed to transact direct business in the States of Arizona and Iowa and writes surplus lines coverage in the states of Kansas, New Mexico, and Wisconsin. The Company is also eligible to write surplus lines in Connecticut, Illinois, Michigan, North Dakota, Oregon, Texas, and West Virginia. For 2020, direct written premiums totaled \$6,111,289, with \$5,520,609 or 90.3% written in Iowa.

GROWTH OF COMPANY

The following historical data, as taken from filed copies of the annual statements, reflects the financial position of the Company.

<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>
2016	\$33,284,836	\$23,251,230	\$4,115,237	\$719,368	\$754,384
2017	\$50,248,571	\$28,160,557	\$4,312,357	\$302,732	\$752,333
2018	\$42,765,657	\$24,203,564	\$4,880,009	(\$17,728)	\$932,695
2019	\$48,232,304	\$29,370,183	\$5,201,503	\$105,300	\$983,958
2020	\$53,708,071	\$32,506,537	\$5,614,110	\$348,501	\$858,605

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no statutory compliance issues were noted other than those disclosed above nor material aggregate surplus differences were identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2020.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2020.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 17,238,994	\$ -	\$ 17,238,994
Common stocks	35,977,495	560,656	35,416,839
Real estate: occupied by the company	0		0
Cash and short-term investments	713,598		713,598
Other invested assets	0	0	0
Investment income due and accrued	114,741		114,741
Uncollected premiums in course of collection	51,972		51,972
Deferred premiums booked and not yet due	0		0
Amounts recoverable from reinsurers	0		0
Funds held by or deposited with reinsured companies	0		0
Current federal and foreign income tax recoverable	90,471		90,471
Net deferred tax asset	0		0
Electronic data processing equipment and software	0		0
Furniture and equipment	0		0
Receivables from parent, subsidiaries and affiliates	81,457		81,457
Aggregate write-ins for other than invested assets	5,818	5,818	0
State tax credits	<u>0</u>	<u> </u>	<u>0</u>
 Total assets	 <u>\$ 54,274,545</u>	 <u>\$ 566,474</u>	 <u>\$ 53,708,071</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 2,667,866
Reinsurance payable on paid losses and loss adjustment expenses	0
Loss adjustment expenses	571,451
Commissions payable, contingent and other	0
Other expenses	410,354
Taxes, licenses and fees	9,082
Net deferred tax liability	3,276,778
Unearned premiums	2,899,386
Advance premium	277,725
Payable to parent, subsidiaries and affiliates	60,282
Aggregate write-ins for liabilities	<u>8,328,610</u>
 Total liabilities	 <u>\$ 18,501,534</u>
 Common capital stock	 \$ 7,361,643
Unassigned funds (surplus)	<u>27,844,894</u>
 Surplus as regards policyholders	 <u>\$ 35,206,537</u>
 Total liabilities and surplus	 <u>\$ 53,708,071</u>

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 5,614,110
<u>Deductions</u>	
Losses incurred	\$ 348,501
Loss adjustment expenses incurred	543,482
Other underwriting expenses incurred	<u>2,591,851</u>
Total underwriting deductions	<u>3,483,834</u>
Net underwriting gain (loss)	\$ 2,130,276
<u>Investment Income</u>	
Net investment income earned	\$ 858,605
Net realized capital gains (losses)	<u>(164,917)</u>
Net investment gain (loss)	693,688
<u>Other Income</u>	
Finance and service charges not included in premiums	\$ 8,547
Aggregate write-ins for miscellaneous income	<u>385,033</u>
Total other income	<u>393,580</u>
Net income before dividends to policyholders	\$ 3,217,544
Dividends to policyholders	<u>0</u>
Net income before federal income tax	\$ 3,217,544
Federal and foreign income taxes incurred	<u>597,629</u>
Net income	<u>\$ 2,619,915</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	\$ <u>29,370,183</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 2,619,915
Change in net unrealized capital gains or (losses)	3,590,958
Change in net deferred income tax	(24,107)
Change in non-admitted assets	<u>(350,412)</u>
Change in surplus as regards policyholders for the year	\$ <u>5,836,354</u>
Surplus as regards policyholders, December 31, 2020	\$ <u>35,206,537</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 5,814,491	
Net investment income	944,533	
Miscellaneous income	<u>8,994</u>	
Total		\$ 6,768,018
Benefit and loss related payments	\$ 508,667	
Commissions, expenses paid and aggregate write-ins	3,192,979	
Dividends to policyholders	0	
Federal income taxes (paid) recovered	<u>594,171</u>	
Total		<u>4,295,817</u>
Net cash from operations		<u>\$ 2,472,201</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 3,856,709	
Stocks	<u>1,184,280</u>	
Total investment proceeds		<u>\$ 5,040,989</u>
Cost of investments acquired (long-term only):		
Bonds	\$ 4,865,716	
Stocks	2,374,551	
Total investments acquired		<u>7,240,267</u>
Net cash from investments		<u>\$ (2,199,278)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$(878,590)</u>	
Net cash from financing and miscellaneous sources		<u>(878,590)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	(605,667)	
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>1,319,265</u>
End of period		<u>\$ 713,598</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination. In addition to the undersigned, Randy Guzman and Aaron Syverson, examiners with the Iowa Insurance Division participated in the examination and preparation of this report.

A review and evaluation of reserving processes and procedures was performed by Pete Vuong, FCAS, MAAA of INS Consultants, Inc.

A review and evaluation of pricing processes and procedures was performed by Michael Morro, ACAS, MAAA of INS Consultants, Inc.

A review of the information technology system was performed by John Albertini, CISA, CISM, CISSP, CDFE, MBA of INS Consultants, Inc.

Respectfully submitted,

/s/ Amanda Theisen

AMANDA THEISEN, CFE
Examiner-in-Charge
Insurance Division
State of Iowa