

MARKET CONDUCT  
EXAMINATION REPORT OF  
GUIDEONE AMERICA INSURANCE COMPANY  
WEST DES MOINES, IOWA  
AS OF DECEMBER 31, 2012

West Des Moines, Iowa  
January 8, 2015

HONARABLE NICK GERHART  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

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

GUIDEONE AMERICA INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2012

at its Home Office, 1111 Ashworth Road, West Des Moines, Iowa.

INTRODUCTION

This market conduct examination report, containing applicable comments, explanations and findings, is presented herein. In general, this is a report by exception. Comments regarding practices and procedures reviewed during the examination have been omitted from the report if no improprieties were found.

SCOPE OF EXAMINATION

GuideOne America Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007. This market conduct examination covers the intervening period from January 1, 2008 to the close of business on December 31, 2012 and was conducted by examiners for the Iowa Insurance Division. A general review and survey was made of the Company's marketing operations and treatment of policyholders for statutory compliance during the stated period. Other supporting evidences have been examined and evaluated to the extent deemed necessary.

Concurrently with the examination of the Company, the Company's parent companies, GuideOne Mutual Insurance Company (GuideOne Mutual) and GuideOne Specialty Mutual Insurance Company (GuideOne Specialty) and affiliate company GuideOne Elite Insurance Company (the Group) were also examined. As business operations are performed for the companies as a whole, market conduct examination procedures have been performed on the Group as a whole and not on an individual company basis.

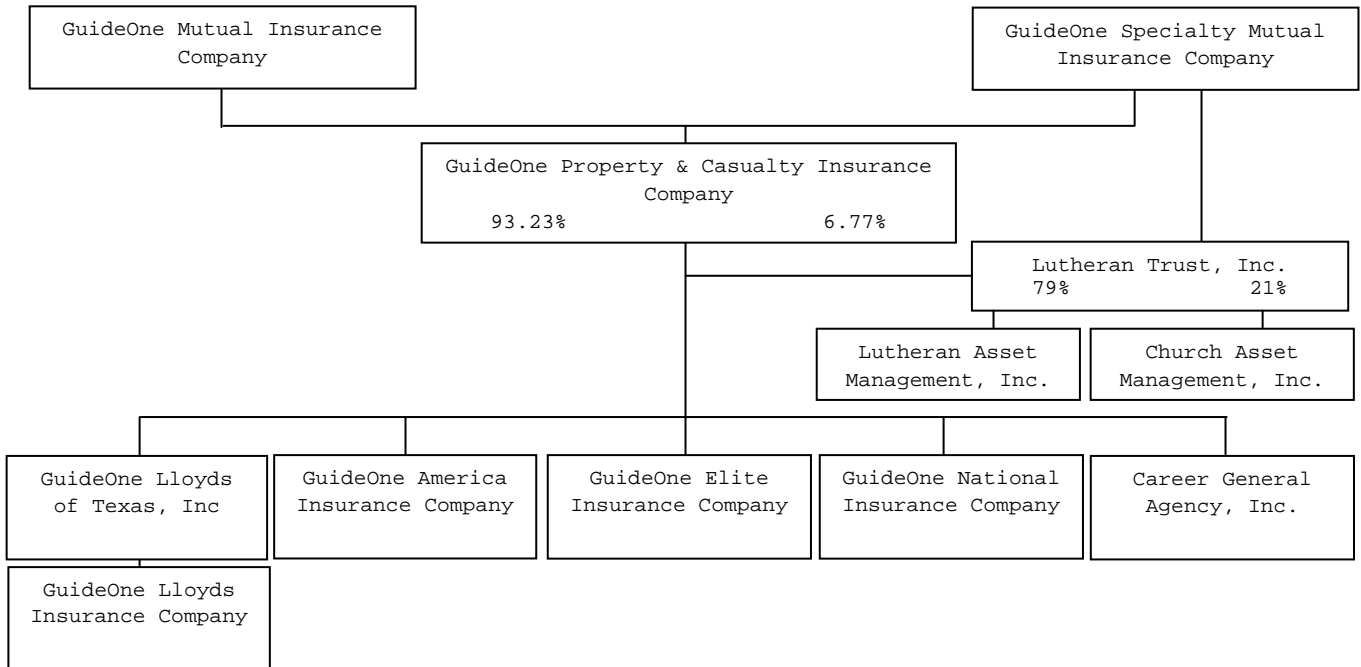
HISTORY

The Company was organized under the laws of Illinois on April 8, 1983 as Ansvr America Insurance Company for the purpose of absorbing the Central Security Mutual Insurance Company which was organized under the laws of Illinois on October 20, 1953. The title Preferred America Insurance Company was adopted on October 27, 1994. Effective July 1, 1996, the Company redomesticated from Illinois to Iowa and was authorized to engage in the business of insurance, other than life insurance, under the provisions of Chapter 515, Code of Iowa. The name was changed to Guidant

America Insurance Company on February 1, 1998 and modified to its present title, GuideOne America Insurance Company, effective February 1, 1999.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. GuideOne Mutual has 93.23 percent and GuideOne Specialty has 6.77 percent ownership of GuideOne Property & Casualty Insurance Company (GuideOne P&C), the holding company for the downstream stock affiliates. An organizational chart identifying the Holding Company System as of December 31, 2012 follows:



AFFILIATED AGREEMENTS

Intercompany Operating Agreement

This agreement is between GuideOne Mutual and all insurance companies within the GuideOne Holding Company Group. GuideOne Mutual is obligated to provide employee and administrative services; office facilities; office supplies, equipment, furniture and fixtures, vehicles and other property. Costs are allocated to the companies based on acceptable accounting allocations. All intercompany balances shall be settled or paid no later than 90 days from the date of billing.

Intercompany Pooling Agreement

The following GuideOne companies are parties to an Inter-company Pooling Agreement whereby the companies cede all insurance business to Mutual, the Pool administrator. GuideOne Mutual retains 64% of the net business and cedes 20% to GuideOne P&C and 16% to GuideOne Specialty.

- GuideOne Mutual Insurance Company (GuideOne Mutual)
- GuideOne Specialty Mutual Insurance Company (GuideOne Specialty)
- GuideOne Property & Casualty Insurance Company (GuideOne P&C)
- GuideOne America Insurance Company (the Company)
- GuideOne Elite Insurance Company (Elite)
- GuideOne National Insurance Company (GuideOne National)

GuideOne Lloyds Insurance Company (Lloyds)

Cessions to excess of loss, quota share and 100% fronting arrangements with non-affiliated reinsurers are prior to inter-company pooling. All pool members are parties to the various reinsurance agreements with non-affiliated reinsurers.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 21 states with direct written premiums of \$32,210,670 for 2012. Mississippi, Oklahoma, Georgia, Missouri and Tennessee represent the top five states in premium volume.

The Group focuses on providing property and casualty insurance products primarily to churches and church affiliated services, private schools and colleges, senior living facilities; and providing homeowners and auto policies to individuals. Products are marketed through approximately 1,600 exclusive and independent agents.

The Group has begun to increase its premium base through a number of programs. These programs include third-party reinsurance assumptions; partnerships with underwriting general agents to enter the senior living centers' workers' compensation niche and excess and surplus lines (written through GuideOne National Insurance Company); and acting as a service provider (front) for the multi-peril crop insurance (MPCI) program.

COMPLAINT HANDLING

The Company maintains written documentation of processes and best practices for complaint handling procedures. Written complaints received by the Company are primarily administered by the Legal Compliance Department, which is also responsible for maintaining the Iowa Insurance Division complaint records for all companies within the Group. The Company maintains complaint records in accordance with Iowa Administrative Code 191-15.13 (507B).

MARKETING AND SALES

The Corporate Communications and Marketing Department designs advertising materials and submits them to Legal Compliance for review to ensure they comply with state regulations. The process is formally documented, logged and archived. The Company markets through a national commercial print ad campaign in various religious publications in addition to direct mail, email blast and direct sales. A website is also maintained at [www.guideone.com](http://www.guideone.com).

POLICYHOLDER SERVICES

The Company's policyholder service center is located at the home office. Representatives are provided training and are subject to regular quality performance reviews. Registered policyholders may utilize online services for policy, billing and claim information.

A study of 115 random Iowa policy files was conducted to review the Group's adherence to internal underwriting best practices and verify compliance with unfair trade practices as prescribed in the Iowa Administrative Code and other relevant regulations as prescribed in Iowa Code Chapter 515.

CLAIM PRACTICES

The Company maintains written documentation of internal processes and best practices for the adjudication of claims. Loss adjusters are provided training and are subject to regular quality performance reviews.

A study, of 108 random claim files from the Group, was conducted for a statutory compliance review of unfair trade practices as prescribed by the Iowa Administrative Code and other relevant regulations as prescribed in Iowa Code Chapter 515. The sample included 43 first-party property claim payments. A time study was performed which demonstrated that 100% of the first-party claims were acknowledged within 15 days of receipt of claim notification and payment was made within 30 days of the liability being confirmed and sufficient information was received, in accordance with Iowa Administrative Code 191-15.41 and 15.42 (507B).

DIRECT UNDERWRITING EXPERIENCE

Direct underwriting experience, as taken from data filed with the N.A.I.C. for each of the years, is as follows:

<u>Classification</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Premiums earned	<u>\$ 52,129,276</u>	<u>\$ 55,614,013</u>	<u>\$ 55,801,633</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 35,264,350	\$ 34,489,467	\$ 35,910,908
Defense and cost containment	1,304,444	1,394,886	1,275,955
Adjusting and other expenses	3,367,000	3,989,000	4,329,000
Commission and brokerage	7,156,643	7,370,803	7,221,936
Taxes, licenses and fees	1,382,780	1,541,379	1,513,991
Other acquisition expenses	3,404,000	4,789,000	5,172,000
General expenses incurred	<u>3,131,000</u>	<u>3,055,000</u>	<u>2,999,000</u>
Total deductions	<u>\$ 55,010,217</u>	<u>\$ 56,629,535</u>	<u>\$ 58,422,790</u>
Underwriting gain (loss)	<u>\$ (2,880,941)</u>	<u>\$ (1,015,522)</u>	<u>\$ (2,621,157)</u>

<u>Classification</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Premiums earned	<u>\$49,853,977</u>	<u>\$39,501,501</u>	<u>\$252,900,400</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 36,720,417	\$ 21,251,364	\$ 163,636,506
Defense and cost containment	1,988,618	509,562	6,473,465
Adjusting and other expenses	3,130,000	2,866,000	17,681,000
Commission and brokerage	6,313,030	4,541,539	32,603,951
Taxes, licenses and fees	1,347,038	1,004,897	6,790,085
Other acquisition expenses	3,988,000	3,310,000	20,663,000
General expenses incurred	<u>2,170,000</u>	<u>2,134,000</u>	<u>13,489,000</u>
Total deductions	<u>\$ 55,657,103</u>	<u>\$ 35,617,362</u>	<u>\$ 261,337,007</u>
Underwriting gain (loss)	<u>\$ (5,803,126)</u>	<u>\$ 3,884,139</u>	<u>\$ (8,436,607)</u>

Expressed in the ratio of incurred deductions to premiums earned the percentages are follow. Ratios may not precisely add to 100% due to rounding.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Average</u>
<u>Incurred deductions</u>						
Losses incurred	67.6%	62.0%	64.4%	73.7%	53.8%	64.7%
Defense and cost containment	2.5	2.5	2.3	4.0	1.3	2.6
Adjusting and other expenses	6.5	7.2	7.8	6.3	7.3	7.0
Commission and brokerage	13.7	13.3	12.9	12.7	11.5	12.9
Taxes, licenses and fees	2.7	2.8	2.7	2.7	2.5	2.7
Other acquisition expenses	6.5	8.6	9.3	8.0	8.4	8.2
General expenses incurred	6.0	5.5	5.4	4.4	5.4	5.3
	<u>105.5%</u>	<u>101.8%</u>	<u>104.7%</u>	<u>111.6%</u>	<u>90.2%</u>	<u>103.3%</u>
Total deductions						
Underwriting gain (loss)	-5.5%	-1.8%	-4.7%	-11.6%	9.8%	-3.3%

Direct underwriting experience by state, as taken from data filed with the N.A.I.C. for each of the years, is as follows:

<u>State</u>	<u>Five-Year Average Earned Premium</u>	<u>Five-Year Operating Ratio</u>	<u>2012 Earned Premium</u>	<u>2012 Operating Ratio</u>
Alabama	\$ 2,098,844	108.4%	\$ 1,785,758	72.8%
Arizona	187,666	84.5	162,266	116.9
Colorado	1,212,742	106.5	742,943	95.6
Florida	794,625	106.5	503,038	(110.6)
Georgia	6,471,350	95.5	6,062,062	96.1
Illinois	2,750,305	92.2	1,675,528	72.1
Indiana	1,528,005	102.4	256,669	30.9
Iowa	2,976,897	102.2	1,415,134	67.8
Kansas	1,495,925	92.6	1,329,450	54.9
Mississippi	10,693,225	90.7	9,522,863	83.9
Missouri	3,363,389	108.4	2,506,235	118.7
Nebraska	791,552	116.9	497,755	55.4
Ohio	3,133,822	94.5	1,862,636	77.2
Oklahoma	9,387,704	123.3	8,460,920	118.3
Oregon	664,791	130.3	147,639	127.5
Tennessee	2,803,465	113.1	2,375,167	93.4
Wisconsin	225,773	61.5	195,438	39.5
Total	<u>\$ 50,580,080</u>	<u>103.3%</u>	<u>\$ 39,501,501</u>	<u>90.2%</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, Bob Wong, CFE, Dan Mathis, AFE and Bouavan Kha, examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/Virginia R. West  
VIRGINIA R. WEST, CFE  
Examiner-in-charge  
Insurance Division  
State of Iowa