

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

West Des Moines, Iowa
January 18, 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 ELITE 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 Elite 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.

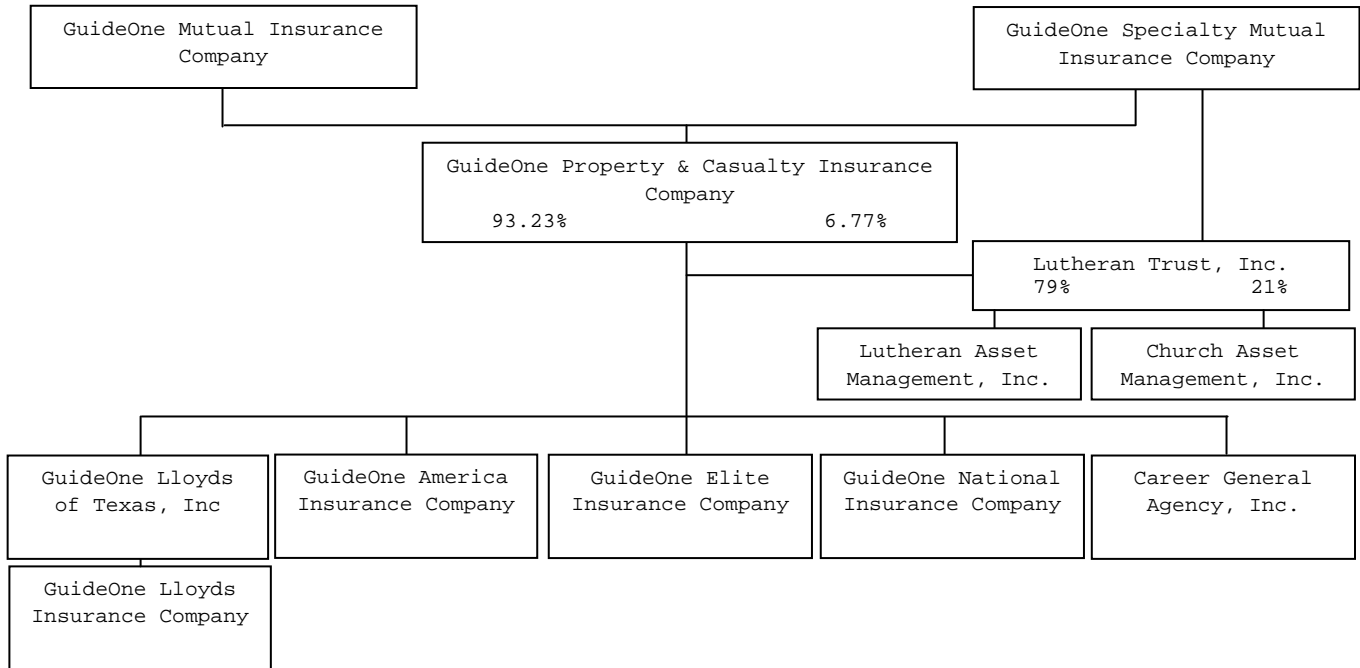
Concurrently with the examination of the Company, the Company's parent companies, GuideOne Mutual Insurance Company (GuideOne Mutual) and GuideOne Specialty Mutual Insurance Company (GuideOne Specialty) and affiliate company GuideOne America Insurance Company (the Group) were also examined. As business 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 incorporated on July 19, 1983 under the name Preferred Abstainers Insurance Company, with a perpetual existence for the purpose of insuring any risk other than life permitted by Section 515, Code of Iowa. The name was changed to GuideOne Elite 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.

Inter-Company Pooling

The following GuideOne companies are parties to an Inter-company Pooling Agreement whereby the companies cede all insurance business to GuideOne 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 (America)
- GuideOne Elite Insurance Company (the Company)
- GuideOne National Insurance Company (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 30 states with direct written premiums of \$86,100,879 for 2012. Florida, Georgia, Missouri, Minnesota and Pennsylvania 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); 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.

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 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	\$ 115,235,072	\$ 113,833,093	\$ 105,448,106
<u>Incurred deductions</u>			
Losses incurred	\$ 76,433,423	\$ 58,215,188	\$ 55,714,098
Defense and cost containment	5,570,481	4,313,141	3,487,250
Adjusting and other expenses	7,307,000	7,954,000	6,619,000
Commission and brokerage	16,813,348	16,297,705	15,302,147
Taxes, licenses and fees	2,524,427	2,707,528	2,444,053
Other acquisition expenses	7,036,000	8,688,000	9,075,000
General expenses incurred	6,549,000	5,795,000	5,509,000
Total deductions	\$ 122,233,679	\$ 103,970,562	\$ 98,150,548
Underwriting gain (loss)	\$ (6,998,607)	\$ 9,862,531	\$ 7,297,558

<u>Classification</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Premiums earned	\$95,100,190	\$87,719,818	\$517,336,279
<u>Incurred deductions</u>			
Losses incurred	\$ 51,336,802	\$ 24,501,333	\$ 266,200,844
Defense and cost containment	6,873,546	450,292	20,694,710
Adjusting and other expenses	2,812,000	4,561,000	29,253,000
Commission and brokerage	13,757,628	13,315,648	75,486,476
Taxes, licenses and fees	2,201,397	2,293,740	12,171,145
Other acquisition expenses	7,386,000	8,591,000	40,776,000
General expenses incurred	4,232,000	5,288,000	27,373,000
Total deductions	\$ 88,599,373	\$ 59,001,013	\$ 471,955,175
Underwriting gain (loss)	\$ 6,500,817	\$ 28,718,805	\$ 45,381,104

Expressed in the ratio of incurred deductions to premiums earned the percentages follow. Ratios may not add precisely 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	66.3%	51.1%	52.8%	54.0%	27.9%	51.5%
Defense and cost containment	4.8	3.8	3.3	7.2	0.5	4.0
Adjusting and other expenses	6.3	7.0	6.3	3.0	5.2	5.7
Commission and brokerage	14.6	14.3	14.5	14.5	15.2	14.6
Taxes, licenses and fees	2.2	2.4	2.3	2.3	2.6	2.4
Other acquisition expenses	6.1	7.6	8.6	7.8	9.8	7.9
General expenses incurred	5.7	5.1	5.2	4.5	6.0	5.3
Total deductions	<u>106.1%</u>	<u>91.3%</u>	<u>93.1%</u>	<u>93.2%</u>	<u>67.3%</u>	<u>91.2%</u>
Underwriting gain (loss)	<u>-6.1%</u>	<u>8.7%</u>	<u>6.9%</u>	<u>6.8%</u>	<u>32.7%</u>	<u>8.8%</u>

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	\$ 3,617,292	83.2%	\$ 2,606,445	35.4%
Arizona	587,952	128.6	529,985	76.7
Arkansas	2,221,363	108.1	2,116,271	56.6
Colorado	1,132,805	122.9	550,632	143.3
Florida	20,978,580	60.2	20,438,944	48.6
Georgia	8,800,214	105.9	8,679,472	84.1
Idaho	390,210	276.2	328,308	(306.6)
Illinois	4,650,277	92.7	4,486,482	62.7
Indiana	2,636,787	70.2	1,647,516	76.2
Iowa	3,340,190	107.0	2,596,218	63.8
Kansas	1,415,101	103.1	1,095,636	(3.4)
Kentucky	6,413,555	112.0	4,681,414	123.0
Michigan	563,219	110.9	552,399	215.0
Minnesota	6,917,212	79.5	5,207,316	91.2
Mississippi	6,036,994	92.3	4,662,700	94.5
Missouri	5,583,274	72.7	5,464,389	51.1
Nebraska	1,838,459	75.7	1,463,049	81.8
New York	928,395	(41.7)	679,276	(81.5)
Ohio	2,838,081	179.6	1,787,679	62.2
Oklahoma	3,800,811	130.6	2,287,877	168.9
Oregon	1,435,630	66.2	1,449,278	40.0
Pennsylvania	5,751,700	87.0	4,586,149	82.2
South Carolina	1,337,884	151.1	1,153,959	73.3
South Dakota	880,821	106.5	956,579	(33.1)
Tennessee	2,676,784	101.5	2,028,229	100.0
Texas	3,534,303	107.1	2,907,622	7.4
Utah	82,445	38.7	87,608	23.6
Washington	762,187	119.7	545,268	91.4
Wisconsin	2,314,732	97.6	2,143,118	75.6
Total	<u>\$ 103,467,256</u>	<u>91.2%</u>	<u>\$ 87,719,818</u>	<u>67.3%</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