

MARKET CONDUCT
EXAMINATION REPORT OF
GUIDEONE SPECIALTY MUTUAL 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 marketing practices of

GUIDEONE SPECIALTY MUTUAL 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 Specialty Mutual 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 affiliate via interlocking directors, GuideOne Mutual Insurance Company (GuideOne Mutual) and subsidiary companies, GuideOne America Insurance Company and 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 incorporated on July 10, 1948 under the provisions of Chapter 491, Code of Iowa. Actual writing of business commenced on September 1, 1948.

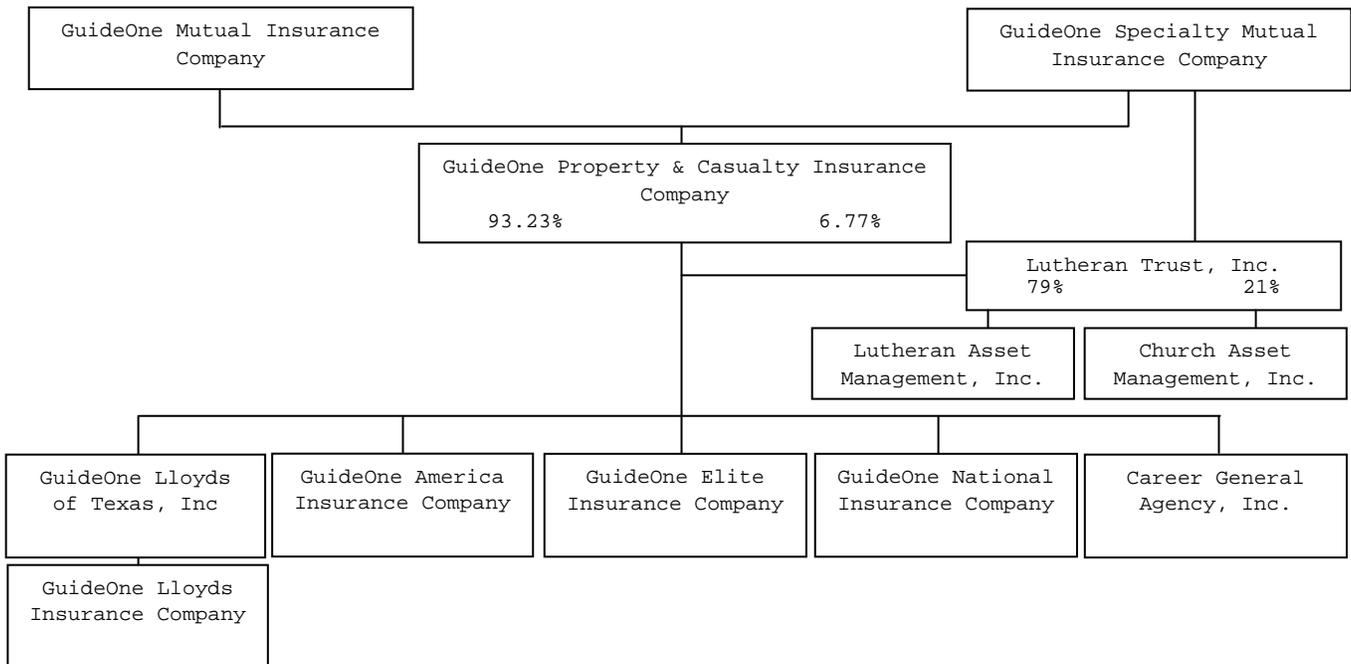
The Articles of Incorporation were amended granting perpetual corporate existence and changing the principal place of business to West Des Moines, Iowa.

Effective January 16, 1998, the Company changed its name from Midwest Mutual Insurance Company to Guidant Specialty Mutual Insurance Company.

Effective January 15, 1999, the Company changed its name to GuideOne Specialty Mutual Insurance Company.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company has 6.77 percent and GuideOne Mutual has 93.23 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 Agreement

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 the Company.

GuideOne Mutual Insurance Company (GuideOne Mutual)
GuideOne Specialty Mutual Insurance Company (the Company)
GuideOne Property & Casualty Insurance Company (GuideOne P&C)
GuideOne America Insurance Company (America)
GuideOne Elite Insurance Company (Elite)
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 currently licensed in 45 states and the District of Columbia. Direct written premiums for 2012 totaled \$94,432,282, which included \$11,035,547 of crop insurance written by a third party, managing general agent. California, Louisiana, Texas, Georgia and New York 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.

Multi-Peril Crop Insurance

The Company is a participant in fronting arrangements to write multi-peril crop, crop hail and livestock insurance produced by managing general agents. Under one program, the Company shall cede to the reinsurer (holder of the Standard Reinsurance Agreement) 100% of all business written. GuideOne Mutual is the SRA holder under another program whereby GuideOne Mutual shall cede a portion of the risk to the FCIC with the remaining risk ceded 100% under quota share agreements with non-affiliated reinsurers. The Company's total premiums produced under this program for 2012 totaled \$11.0 million.

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, comprised 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	<u>\$ 125,124,245</u>	<u>\$ 109,367,552</u>	<u>\$ 95,493,423</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 72,355,704	\$ 52,262,967	\$ 43,095,360
Defense and cost containment	4,204,606	2,566,279	3,958,923
Adjusting and other expenses	4,599,000	4,566,000	4,850,000
Commission and brokerage	16,870,449	15,318,178	14,245,378
Taxes, licenses and fees	2,551,057	2,438,120	2,574,018
Other acquisition expenses	5,306,000	6,486,000	7,035,000
General expenses incurred	<u>4,893,000</u>	<u>4,372,000</u>	<u>4,318,000</u>
Total deductions	<u>\$ 110,779,816</u>	<u>\$ 88,009,544</u>	<u>\$ 80,076,679</u>
Underwriting gain (loss)	<u>\$ 14,344,429</u>	<u>\$ 21,358,008</u>	<u>\$ 15,416,744</u>

<u>Classification</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Premiums earned	<u>\$84,382,789</u>	<u>\$83,210,831</u>	<u>\$497,578,840</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 28,334,571	\$ 40,562,556	\$ 236,611,158
Defense and cost containment	8,314,567	4,392,753	23,437,128
Adjusting and other expenses	(513,000)	4,319,000	17,821,000
Commission and brokerage	13,215,366	13,796,770	73,446,141
Taxes, licenses and fees	2,374,455	2,498,188	12,435,838
Other acquisition expenses	5,917,000	7,820,000	32,564,000
General expenses incurred	<u>3,429,000</u>	<u>4,780,000</u>	<u>21,792,000</u>
Total deductions	<u>\$ 61,071,959</u>	<u>\$ 78,169,267</u>	<u>\$ 418,107,265</u>
Underwriting gain (loss)	<u>\$ 23,310,830</u>	<u>\$ 5,041,564</u>	<u>\$ 79,471,575</u>

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

<u>Incurred deductions</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Average</u>
Losses incurred	57.8%	47.8%	45.1%	33.6%	48.7%	47.6%
Defense and cost containment	3.4	2.3	4.1	9.9	5.3	4.7
Adjusting and other expenses	3.7	4.2	5.1	(0.6)	5.2	3.6
Commission and brokerage	13.5	14.0	14.9	15.7	16.6	14.8
Taxes, licenses and fees	2.0	2.2	2.7	2.8	3.0	2.5
Other acquisition expenses	4.2	5.9	7.4	7.0	9.4	6.5
General expenses incurred	<u>3.9</u>	<u>4.0</u>	<u>4.5</u>	<u>4.1</u>	<u>5.7</u>	<u>4.4</u>
Total deductions	<u>88.5%</u>	<u>80.5%</u>	<u>83.9%</u>	<u>72.4%</u>	<u>93.9%</u>	<u>84.0%</u>
Underwriting gain (loss)	<u>11.5%</u>	<u>19.5%</u>	<u>16.1%</u>	<u>27.6%</u>	<u>6.1%</u>	<u>16.0%</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:

State	Five-Year Average Earned Premium	Five-Year Operating Ratio	2012 Earned Premium	2012 Operating Ratio
Alabama	\$ 1,621,628	138.4%	\$ 1,103,083	-164.0%
Arizona	610,517	104.9	562,395	77.9
Arkansas	1,243,321	89.6	1,060,887	41.5
California	23,290,940	90.90	15,692,760	105.0
Colorado	391,249	152.6	997,280	226.4
Delaware	162,934	80.7	159,649	22.5
District of Columbia	213,936	47.6	173,630	22.8
Florida	2,579,730	22.0	2,283,160	44.7
Georgia	3,586,768	105.3	5,260,271	109.5
Idaho	24,920	44.0	24,089	32.7
Illinois	560,672	61.4	308,113	124.4
Indiana	1,442,838	94.9	1,258,250	80.4
Iowa	637,005	82.6	398,945	276.2
Kansas	1,013,448	89.6	1,042,799	112.1
Kentucky	1,488,684	81.3	1,259,065	133.8
Louisiana	9,662,630	83.4	11,283,805	69.6
Maine	24,426	156.9	12,736	(1.3)
Maryland	1,284,734	76.2	1,184,122	61.3
Michigan	2,354,046	39.9	393,794	1.6
Minnesota	1,565,406	32.5	475,773	44.0
Mississippi	336,182	(4.5)	252,536	(144.3)
Missouri	2,408,706	100.8	1,503,029	152.9
Montana	434,696	31.1	346,054	(100.3)
Nebraska	240,586	24.8	42,159	(42.9)
Nevada	168,226	96.3	198,210	68.2
New Jersey	2,705,196	60.4	2,824,404	58.5
New Mexico	365,024	140.8	328,930	102.3
New York	6,801,762	51.5	5,447,124	96.9
North Carolina	6,159,928	83.6	4,434,320	70.8
North Dakota	978,157	47.7	497,308	36.0
Ohio	1,530,620	170.2	396,579	6.1
Oklahoma	745,251	82.0	531,989	65.7
Oregon	2,045,103	82.5	293,677	(91.8)
Pennsylvania	1,170,866	54.3	803,232	90.4
Rhode Island	474,240	63.3	426,981	61.4
South Carolina	1,734,658	117.7	785,040	309.0
South Dakota	433,101	55.4	341,317	83.8
Tennessee	300,378	66.6	151,363	46.3
Texas	8,992,050	102.0	11,280,827	129.3
Utah	261,006	70.3	478,381	60.3
Virginia	3,884,915	81.8	3,570,863	88.1
Washington	1,839,996	85.2	1,559,961	53.3
West Virginia	1,047,640	155.0	1,243,366	328.1
Wisconsin	624,503	38.9	463,703	47.3
Wyoming	73,145	54.0	74,872	26.0
Total	\$ 99,515,768	84.0%	\$ 83,210,831	93.9%

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
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