

EXMANINATION REPORT OF
IOWA MUTUAL INSURANCE COMPANY
DE WITT, IOWA
AS OF DECEMBER 31, 2013

Columbus, Ohio
March 12, 2015

HONORABLE NICK GERHART
Commissioner of Insurance
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, affairs, and financial condition of the

IOWA MUTUAL INSURANCE COMPANY

DE WITT, IOWA

AS OF DECEMBER 31, 2013

at the Company's affiliate's Home Office, 471 East Broad Street, Columbus, Ohio. The report of such examination, containing applicable comments, explanations, and financial data, is presented herein.

INTRODUCTION

Iowa Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2008, under the Association Plan, by the Iowa Insurance Division.

Concurrently with this examination, the Company's subsidiary, Iowa American Insurance Company, was also examined.

In conjunction with this examination, the Ohio Insurance Department conducted an examination of the Company's affiliate, Motorists Mutual Insurance Company. The Company is a participant in a pooling arrangement with Motorists and various members of the Motorists Group. As a result, reliance has been placed on the Ohio Insurance Department's examination of the pooling balances.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from December 31, 2008 to the close of business on December 31, 2013, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with procedures recommended by the Financial Condition (E) Committee of the N.A.I.C., and other generally accepted examination standards. A general review and survey was made of the Company's operations and business transactions during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed adequate. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2013.

HISTORY

The Company was incorporated March 12, 1900 under the name of Iowa Assessment Mutual Fire Insurance Association to write fire insurance in the State of Iowa. In 1920, the Company, by proper legal procedure, transformed from an association to a mutual company and changed its name to Iowa Mutual Insurance Company. Amended and Substituted Articles of Incorporation were adopted in 1945 whereby the corporate existence was made perpetual.

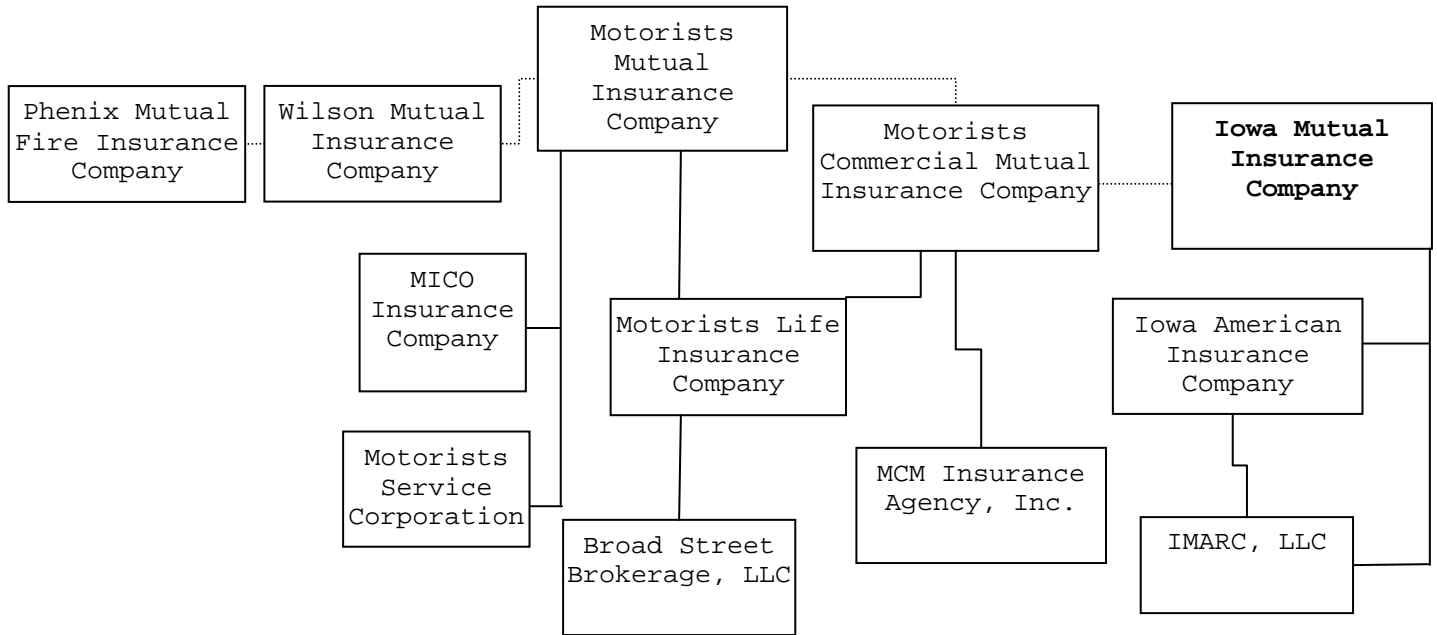
In 1951, the Company was authorized to write multiple lines of insurance as outlined in the Code of Iowa. Also in 1951, the Iowa Mutual Casualty Company, a companion company, was merged into the Iowa Mutual Insurance Company.

In 2003, the Company became a member of the Motorists Insurance Group through a \$3,000,000 surplus note and a cost sharing and management agreement. Under the terms of the affiliation agreement, Motorists Mutual Insurance Company (MMIC) became involved in the management of the Company and its subsidiaries.

On November 30, 2004, Information Management and Consulting, Inc. (IMAC), a wholly-owned subsidiary of the Company, transferred ownership of Iowa American Insurance Company (IAIC), a wholly-owned subsidiary of IMAC, to the Company. This transfer was realized through a \$5,502,572 dividend and return of capital equal to the value of IAIC stock at October 31, 2004.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The identity of entities affiliated with the Company is shown, as of December 31, 2013, in the following organizational chart:



Stock Ownership Affiliation _____
 Pooling Affiliation

Motorists Mutual Insurance Company, domiciled in Ohio, is the ultimate controlling entity through an interlocking Board of Directors. Motorists Mutual is a regional property and casualty insurer domiciled in the state of Ohio. Motorists Mutual is licensed for direct business in Ohio, Indiana, Kentucky, Michigan, Pennsylvania and West Virginia.

The Company, Iowa Mutual, became a member of the Motorists Insurance Group in 2003 through a surplus note and a cost sharing and management agreement.

Iowa American is a property and casualty insurer domiciled in the state of Iowa. Iowa American is licensed for direct business in Illinois, Iowa, Nebraska, North Dakota, Ohio and South Dakota. Iowa American also holds 10% interest in IMARC, LLC.

During the period reported, the Company and its subsidiary, Iowa American Insurance Company (IAIC), had a management agreement with Motorists Mutual Insurance Company (MMIC), whereby MMIC provided management services to the companies. The Company and IAIC had a separate agreement with Motorists Service Corporation (MSC), a wholly owned subsidiary of MMIC, whereby MSC delivered staffing services to the companies. The Company and IAIC also had an arrangement with their affiliates whereby costs for common facilities and support services were shared.

MANAGEMENT AND CONTROL

MEMBERSHIP

Every individual or other legal entity is a member while owning a policy that is in force and issued by the Company.

The Bylaws require that the annual meeting of the membership shall be held at the Home Office of the Company on the second Wednesday of May. Twenty members present in person or by proxy constitute a quorum for the transaction of business.

Special meetings of the membership may be called only by the Chairman of the Board, or in case of the Chairman's absence the President or Chief Operating Officer, a majority of the directors, or one-tenth of the members of the Company. In such event, notice shall specify the time, place, purpose and no business other than that included in the notice shall be acted upon at such meeting. Not less than 15 days notice shall be given to each member at the last known address of such member.

At the meeting of the members each member shall be entitled to one vote on each proposal, which may be cast either in person or by written proxy.

BOARD OF DIRECTORS

The Articles provide that the affairs of the Company shall be managed by a Board of Directors consisting of not less than seven nor more than eleven members elected by and from the membership. Directors serve for a three-year term and until their successors are elected and qualified, unless sooner removed by a majority vote of the Board. The Board of Directors may fill, for the unexpired term, vacancies occurring in its membership by a majority vote of the remaining directors. Provisions were included at the time of merger with the Motorists Insurance Group to allow Motorists to nominate seven persons to serve on the Board.

The annual meeting of the Board of Directors is held immediately following the annual membership meeting. Special meetings may be called by the Board of Directors or the Chairman of the Board.

Elected and qualified members serving as directors at December 31, 2013 were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Robert D. Lambert Bettendorf, Iowa	Attorney Carlin, Hellstrom & Bittner	2015
Eugene R. Schneckloth Eldridge, Iowa	Proprietor GT Sports	2015
Charles D. Stapleton New Albany, Ohio	Senior Vice President Motorists Insurance Group	2015
Thomas R. Cole Eldridge, Iowa	President (Retired) Iowa Mutual Insurance Company	2015
Larry L. Forrester Bloomington, Indiana	Independent Consultant Retired - NAMIC	2016
Alan R. Tubbs DeWitt, Iowa	CEO, Maquoketa State Bank and President, CEO, Ohnward Bancshares, Inc.	2016
John J. Bishop Powell, Ohio	Chairman Motorists Insurance Group	2014
Susan E. Haack Canal Winchester, Ohio	Secretary Motorists Insurance Group	2014
David L. Kaufman Worthington, Ohio	President & Chief Executive Officer Motorists Insurance Group	2015
Thomas C. Ogg Powell, Ohio	Senior Vice President & Secretary (Retired) Motorists Insurance Group	2014
Michael L. Wiseman Powell, Ohio	Treasurer and Chief Financial Officer Motorists Insurance Group	2016

Compensation for non-employee directors was set at \$13,200 annually, payable \$3,300 per quarter, with a \$500 fee for attendance at Board meetings.

COMMITTEES

Since the Company has an interlocking Board of Directors with other members of the Motorists Insurance Group, committee meetings are held on a consolidated basis. Minutes of the Group's Audit, Investment, Governance (Nominating), and Compensation meetings for the examination period were read and noted.

OFFICERS

The Bylaws prescribe that the executive officers of the Company shall consist of a president, secretary, and treasurer, and may consist of a chairman of the Board, an executive vice president, a chief operating officer, a chief financial

officer, and one or more senior vice presidents or vice presidents. Such officers shall be chosen by the Board of Directors at the regular annual meeting of the Board. The officers shall hold office until the date of the next annual meeting and until their respective successors are elected and qualified. Any two offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law, or by these bylaws to be executed, acknowledged or verified by two or more officers.

Officers duly elected and serving at December 31, 2013 were:

<u>Name</u>	<u>Office</u>
John J. Bishop	Chairman
David L. Kaufman	Chief Executive Officer
Jon A. Bright	President
Susan E. Haack	Secretary and Chief Risk Officer
Michael L. Wiseman	Treasurer and Chief Financial Officer
Charles D. Stapleton	Chief Operating Officer

The salaries of officers are shown in Exhibit A.

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 directors which is in, or likely to, conflict with the official duties of such person. No conflicts determined to be material were disclosed.

CORPORATE RECORDS

The recorded minutes of the membership, Board of Directors and committees were read and noted.

FIDELITY BONDS AND OTHER INSURANCE

The Company is protected by a Policyholders Protection Bond up to a single loss limit of \$5,000,000. This coverage is for all companies of the Motorists Insurance Group. It was noted that the coverage meets the N.A.I.C. suggested amount of fidelity insurance for the Company. Other various interests of the Company are protected by appropriate policies of insurance.

EMPLOYEE WELFARE

The Company provides its employees with group medical, long-term disability, group term life, accidental death and dismemberment, a retirement plan, a 401k plan, an incentive based profit sharing plan and a flexible benefits plan.

REINSURANCE

Effective January 1, 2003, the Company entered into an intercompany reinsurance pooling agreement with Motorists Insurance Group whereby the members contributed to and participated in all business earned on and after that date. Phenix Mutual Fire Insurance Company and MICO Insurance Company were added to the agreement retroactive to January 1, 2009. The participants pooling percentages at December 31, 2013 were as follows:

Motorists Mutual Insurance Company	70.5%
Motorists Commercial Mutual Insurance Company	18.5%
Iowa Mutual Insurance Company	3.5%
Wilson Mutual Insurance Company	3.0%
Phenix Mutual Fire Insurance Company	3.5%
MICO Insurance Company	0.0%
Iowa American Insurance Company	1.0%
	<u>100.0%</u>

In addition to participating in the intercompany reinsurance pooling arrangement described above, the Group assumes and cedes business to other insurers and reinsurers during the ordinary course of business under various contracts that cover individual risks or entire classes of business. Reinsurance is primarily assumed on a pro rata basis and ceded on an excess-of-loss basis.

The Company has policies and procedures in place to comply with Statements of Statutory Accounting Principles 62 and 63.

All contracts contained an insolvency clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

STATUTORY DEPOSITS

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policyholders totaled \$2,301,413.

TERRITORY AND PLAN OF OPERATION

The Company offers a broad range of property and casualty products with slightly more emphasis on personal lines. The Company writes principally automobile liability, auto physical damage, homeowners, and other liability lines of business.

The Company has authority to transact business in the following jurisdictions:

Colorado	Minnesota	North Dakota
Illinois	Missouri	Ohio
Iowa	Montana	South Dakota
Kansas	Nebraska	Wisconsin

Business is marketed through an independent agency force throughout three Midwestern states, Illinois, Iowa and Nebraska. Iowa writings represent almost fifty-four percent of the Company's direct written premiums.

GROWTH OF COMPANY

The following historical financial data, as taken from the Company's annual statements for the years indicated, is as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2009	\$86,782,538	\$28,863,738	\$23,386,179	\$13,537,793	\$1,315,655
2010	90,331,741	29,489,765	24,016,776	14,436,910	1,208,612
2011	90,327,832	28,050,592	22,859,364	15,048,639	1,275,433
2012	92,149,145	30,138,198	22,289,760	13,129,826	1,143,415
2013	99,216,827	32,470,407	23,193,659	12,494,136	1,070,198

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years.

Tests were made of general ledger postings for selected periods and accounts. These tests included the tracing of summary postings to subsidiary records of original entry. The records in the Company's policy master file and claim system were sampled and tested by comparing data contained in supporting documents to data contained in the computer records.

During the course of the examination no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2013, were identified.

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, 2013 and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 29,739,467	\$	\$ 29,739,467
Common stocks	20,683,050		20,683,050
Properties occupied by the company	2,192,611		2,192,611
Cash and short-term investments	2,035,411		2,035,411
Other invested assets	4,121,541	27,284	4,094,257
Receivables for securities	29		29
Investment income due and accrued	273,232		273,232
Uncollected premiums and agents' balances in the course of collection	5,400,534	490,236	4,910,298
Premiums booked but deferred and not yet due	21,665,553	21,372	21,644,181
Amounts recoverable from reinsurers	3,961,707		3,961,707
Funds held by or deposited with reinsured companies	6,292,392		6,292,392
Net deferred tax asset	1,469,949		1,469,949
Electronic data processing equipment	283,188	38,744	244,445
Furniture and equipment; including health	112,967	112,967	
Receivables from parent; subsidiaries and affiliates	755,593		755,593
Pooled general expenses receivable	918,970		918,970
Equities and deposits in pools and associations	1,236		1,236
Automobiles	143,846	143,846	
Miscellaneous receivables	527	527	
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Total Assets	\$100,051,802	\$ 834,976	\$ 99,216,827

LIABILITIES SURPLUS AND OTHER FUNDS

Losses	\$ 14,661,280
Reinsurance payable on paid losses and loss adjustment expenses	1,253,432
Loss adjustment expenses	3,830,389
Commissions payable; contingent and other	785,759
Other expenses	259,330
Taxes; licenses and fees	304,889
Current federal and foreign income taxes	44,709
Unearned premiums	10,753,569
Advance premium	769,263
Dividends declared and unpaid- policyholders	264,224
Ceded reinsurance premiums payable	6,519,159
Funds held by company under reinsurance treaties	24,081,382
Amounts withheld or retained by company for account of others	789,263
Remittances and items not allocated	1,001,831
Provision for reinsurance	500,514
Drafts outstanding	26,339
Payable to parent; and affiliates	588,536
Pooled general expenses payable	303,741
Obligations in pools and associations	3,857
Miscellaneous liabilities	2,786
Reinsurance assumed overhead payable	2,136
Premium deficiency reserve	32
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Total liabilities	\$ 66,746,420
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Surplus notes	3,000,000
Unassigned funds (surplus)	29,470,407
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Surplus as regards policyholders	\$ 32,470,407
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Total liabilities and surplus	\$ 99,216,827
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UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDING DECEMBER 31, 2013

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$23,193,659
<u>Deductions</u>		
Losses incurred	\$12,494,136	
Loss adjustment expenses incurred	3,009,191	
Other underwriting expenses incurred	8,434,678	
Aggregate write-ins for underwriting deductions:		
Change in premium deficiency reserve	<u>(67)</u>	
Total underwriting deductions		<u>23,937,939</u>
Net underwriting gain (loss)		\$ (744,280)
<u>Investment Income</u>		
Net investment income earned	\$ 1,070,198	
Net realized capital gains (losses)	<u>1,121,082</u>	
Net investment income		2,191,280
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (27,996)	
Finance and service charges not included in premiums	147,572	
Gain on equipment disposal	4,300	
Miscellaneous income (expense)	<u>44</u>	
Total other income		<u>123,921</u>
Net income before dividends to policyholders		1,570,921
Dividends to policyholders		<u>288,763</u>
Net income before Federal income tax		\$ 1,282,158
Federal and foreign income taxes incurred		<u>(371,712)</u>
Net income		<u>\$1,653,870</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012		<u>\$30,138,198</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 1,653,870
Change in net unrealized capital gains or (losses)		1,282,075
Change in net deferred income tax		60
Change in nonadmitted assets		(227,598)
Change in provision for reinsurance		(437,846)
Aggregate write-ins for gains and losses in surplus:		
Prior period income adjustment		38,468
Prior period residual market equity adjustment		<u>23,179</u>
Change in surplus as regards policyholders for the year		<u>\$ 2,332,209</u>
Surplus as regards policyholders, December 31, 2013		<u>\$32,470,407</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$24,098,308	
Net investment income	1,402,453	
Miscellaneous income	<u>123,921</u>	
Total		\$25,624,682
Benefit and loss related payments	12,270,681	
Commissions, expenses paid and aggregate write-ins	11,484,280	
Dividends to policyholders	291,842	
Federal income taxes paid (recovered)	<u>(190,289)</u>	
Total		<u>23,856,515</u>
Net cash from operations		<u>\$ 1,768,167</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 6,654,923	
Stocks	4,669,793	
Miscellaneous proceeds	<u>2,134</u>	
Total investment proceeds		\$11,326,850
Cost of investments acquired (long-term only):		
Bonds	\$10,692,036	
Stocks	2,703,308	
Real estate	34,073	
Other invested assets	100,000	
Miscellaneous applications	<u>2,779</u>	
Total investments acquired		<u>13,532,196</u>
Net cash from investments		<u>\$(2,205,346)</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Other cash provided (applied)	<u>\$ (162,351)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (162,351)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ (599,529)
Cash and short-term investments:		
Beginning of year		<u>2,634,940</u>
End of year		<u>\$ 2,035,411</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE-YEAR PERIOD ENDING DECEMBER 31, 2013

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$115,745,738
<u>Deductions</u>		
Losses incurred	\$68,647,304	
Loss expenses incurred	15,235,897	
Other underwriting expenses incurred	41,073,308	
Aggregate write-ins for underwriting deductions:		
Premium deficiency reserve	(1,439)	
Total underwriting deductions		<u>124,955,070</u>
Net underwriting gain (loss)		\$ (9,209,332)
<u>Investment Income</u>		
Net investment income earned	\$ 6,013,313	
Net realized capital gains (losses)	2,558,372	
Net investment income		8,571,685
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (198,806)	
Finance and service charges not included in premiums	658,176	
Miscellaneous income	1,211	
Gain on equipment disposals	7,018	
Total other income		<u>467,596</u>
Net income before dividends		\$ (170,051)
Dividends to policyholders		1,386,489
Net income before Federal income tax		\$ (1,556,540)
Federal and foreign income taxes incurred		<u>(819,263)</u>
Net income		<u>\$ (737,277)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008		\$ <u>26,834,051</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (737,277)
Change in net unrealized capital gains or (losses)		4,604,944
Change in net deferred income tax		778,619
Change in non-admitted assets		1,423,218
Change in provision for reinsurance		(464,796)
Prior period income adjustment		38,468
Prior period residual market equity adjustment		<u>23,179</u>
Change in surplus as regards policyholders for the period		<u>\$ 5,636,355</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 32,470,406</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

Respectfully submitted,

/s/ Daniel Mathis

Daniel Mathis, CFE
Field Exam Coordinator
Iowa Insurance Division
State of Iowa