

EXAMINATION REPORT OF  
IOWA AMERICAN 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 AMERICAN 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 American 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 ultimate parent, Iowa Mutual 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 the procedures recommended by the Financial Condition (E) Subcommittee of the N.A.I.C., and other generally accepted insurance 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 method to the extent deemed necessary. 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, with perpetual corporate existence as a stock corporation, on November 15, 1973 under the provisions of Chapter 491, Iowa Code, to write insurance and reinsurance business. Authorized capital consists of 2,000,000 shares of common stock, par value \$1 per share. The Company commenced business in February 1974.

Subsequently, by legal adoption of amendments to the Articles of Incorporation and other legal actions, the following significant changes were effected:

- 1977 - The original owner of all the common stock, Iowa Mutual Insurance Company, formed a downstream wholly owned holding company known as Information Management and Consulting, Inc., (IMAC, Inc.) and transferred the ownership of the Company's outstanding stock to said holding company.
- 1988 - The Company's insurance operations were merged with its ultimate parent, Iowa Mutual Insurance Company, under a bulk reinsurance agreement.
- 1997 - The Company began writing direct business.
- 2003 - The Company's parent, Iowa Mutual Insurance Company, entered into an affiliation agreement with Motorists Mutual Insurance Company

On November 30, 2004, Information Management and Consulting, Inc. (IMAC), transferred ownership of the Company to its parent, Iowa Mutual Insurance Company. This transfer was realized through a \$5,502,572 dividend and return of capital equal to the value of the Company's stock at October 31, 2004.

## CAPITAL STOCK

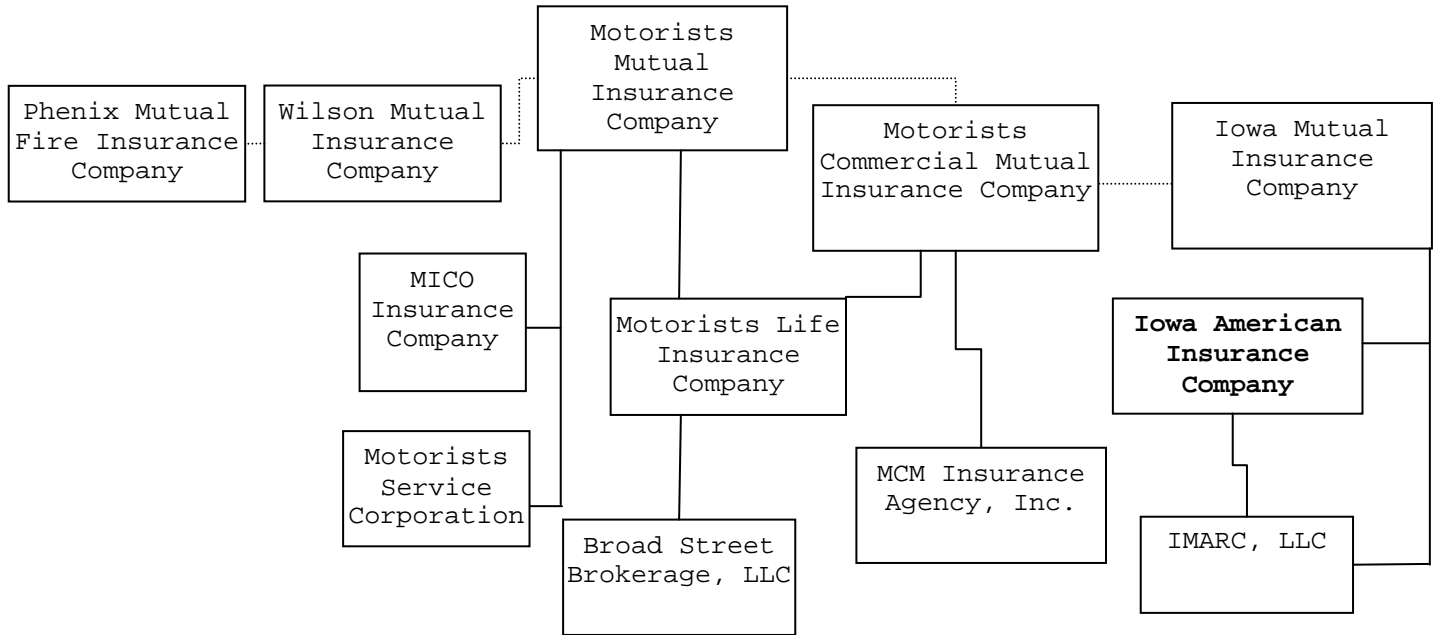
The amount of authorized capital is two million dollars (\$2,000,000). Issued and outstanding capital stock consists of 1,000,000 shares of common stock, par value one dollar. Capital paid up and gross paid in and contributed surplus totaled \$1,000,000 and \$5,000,000, respectively.

Dividends paid during the exam period of 2009 through 2013 totaled \$56,337, \$91,696, \$88,709, \$76,884, and \$82,504 respectively.

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 of the Company's parent - Iowa Mutual Insurance Company. Motorists Mutual, the lead insurer, 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.

Iowa Mutual is a property and casualty insurer domiciled in the state of Iowa and is licensed to write direct business in Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. Iowa Mutual became a member of the Motorists Insurance Group in 2003 through a surplus note and a cost sharing and management agreement. Iowa Mutual holds 90% interest in IMARC, LLC with the 10% balance held by the Company. IMARC, LLC collects all direct billed premiums.

During the period reported, the Company and its parent, Iowa Mutual Insurance Company (IMIC), had a management agreement with Motorists Mutual Insurance Company (MMIC), whereby MMIC provided management services to the companies. The Company and IMIC 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 IMIC also had an arrangement with their affiliates whereby costs for common facilities and support services were shared.

MANAGEMENT AND CONTROL

STOCKHOLDERS

The Bylaws provide that the annual meeting of the stockholders, to elect directors and transact such other business as may properly be brought before the meeting, shall be held on the second Wednesday in May of each year. Special meetings may be called only by the Chairman of the Board, or in his absence, by the president or chief operating officer, or as further stipulated in the Bylaws. Stockholders shall be notified in writing of each regular and special meeting at least fifteen days prior to the date of the meeting. Each stockholder present, in person or by proxy, is entitled to one vote for each share owned. A majority of the shares outstanding, represented in person or by proxy, constitute a quorum for the transaction of business.

BOARD OF DIRECTORS

The Bylaws provide that the affairs of the Company shall be managed by a Board of Directors consisting of not less than three nor more than seven directors, each elected for an annual term at the annual meeting of the stockholders. The number of directors shall be determined and fixed from time to time by resolution of the Board of Directors.

An annual meeting of the Board of Directors shall be held at the same place and date as the stockholders' meeting unless a different time and place is fixed by resolution of the Board of Directors. Special meetings may be called by the Board of Directors or the Chairman of the Board upon receiving a written request from not less than four directors.

A majority of the number of directors present constitutes a quorum for the transaction of business. Any vacancy occurring on the Board of Directors between the annual meetings may be filled by the affirmative vote of a majority of the remaining directors.

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>
Charles D. Stapleton New Albany, Ohio	Senior Vice President Motorists Insurance Group	2016
John J. Bishop Powell, Ohio	Chairman Motorists Insurance Group	2016
Susan E. Haack Canal Winchester, Ohio	Secretary Motorists Insurance Group	2016
David L. Kaufman Worthington, Ohio	President & Chief Executive Officer Motorists insurance Group	2016
Michael L. Wiseman Powell, Ohio	Treasurer and Chief Financial Officer Motorists Insurance Group	2016

Directors receive no compensation from the Company.

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>
David L. Kaufman	President & Chief Executive Officer
John J. Bishop	Chairman
Susan E. Haack	Secretary
Michael L. Wiseman	Treasurer and Chief Financial Officer
Charles D. Stapleton	Chief Operating Officer

All of the officers serve without direct remuneration from the Company. The salaries of the 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, 2008 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 \$1,732,332.

TERRITORY AND PLAN OF OPERATION

The Company writes preferred, low to moderate risk, commercial business. Coverages written with the Company can be packaged with Iowa Mutual's coverages to produce one policy to the insured.

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

Illinois	North Dakota
Iowa	Ohio
Nebraska	South Dakota

Business is marketed through an independent agency force throughout three Midwestern states, Illinois, Iowa and Nebraska. Iowa writings represent twenty-eight 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	\$18,285,965	\$6,250,663	\$6,681,765	\$3,867,941	\$412,313
2010	18,446,244	6,053,229	6,861,936	4,124,831	435,502
2011	21,024,925	8,539,364	6,531,247	4,299,611	459,215
2012	21,679,960	8,656,865	6,368,503	3,751,379	505,997
2013	22,464,569	8,956,974	6,626,760	3,569,753	453,521

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

	<u>ASSETS</u>		
	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 14,622,649	\$	\$ 14,622,649
Cash	963,746		963,746
Other invested assets	3,032	3,032	
Receivables for securities	53		53
Subtotals; cash and invested assets	15,589,480	3,032	15,586,448
Investment income due and accrued	121,615		121,615
Uncollected premiums and agents' balances in the course of collection	540,993		540,993
Premiums booked but deferred and not yet due	3,030,524		3,030,524
Amounts recoverable from reinsurers	854,331		854,331
Funds held by or deposited with reinsured companies	1,797,826		1,797,826
Net deferred tax asset	422,741	59,504	363,237
Receivables from parent; subsidiaries and affiliates	3,044		3,044
Pooled general expenses receivable	166,239		166,239
Equities and deposits in associations and pools	311		311
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 22,527,104	\$ 62,536	\$ 22,464,569

LIABILITIES SURPLUS AND OTHER FUNDS

Losses	\$ 4,188,937
Reinsurance payable on paid losses	358,169
Loss adjustment expenses	1,094,397
Commissions payable; contingent and other	224,503
Other expenses	65,633
Taxes; licenses and fees	70,015
Current federal and foreign income taxes	32,161
Unearned premiums	3,072,448
Dividends declared and unpaid- policyholders	75,493
Ceded reinsurance premiums payable	821,669
Funds held by company under reinsurance treaties	3,031,231
Payable to parent; and affiliates	385,465
Pooled general expenses payable	86,783
Obligations in pools and associations	407
Reinsurance assumed overhead payable	274
Premium defficiency reserve	9
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Total liabilities	\$ 13,507,595
Common capital stock	1,000,000
Gross paid in and contributed surplus	5,000,000
Unassigned funds (surplus)	2,956,974
	<hr/>
Surplus as regards policyholders	\$ 8,956,974
Total liabilities and surplus	<hr/> <u>\$ 22,464,569</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE-YEAR PERIOD ENDING DECEMBER 31, 2013

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 6,626,760
Losses incurred	\$ 3,569,753	
Loss adjustment expenses incurred	859,769	
Other underwriting expenses incurred	2,409,908	
Change in premium deficiency reserve	(19)	
Total underwriting deductions	6,839,411	
Net underwriting gain (loss)		\$ (212,651)

Investment Income

Net investment income earned	\$ 453,521	
Net realized capital gains (losses)	132,970	
Net investment gain (loss)	586,491	\$ 586,491

Other Income

Net gain (loss) from agents' balances charged off	\$ (7,999)	
Finance and service charges not included in premiums	42,164	
Miscellaneous income (expense)	(9)	
Total other income	34,156	\$ 34,156
Net income before dividends to policyholders		\$ 407,995
Dividends to policyholders		82,504
Net income before all other federal and foreign income taxes		\$ 325,491
Federal and foreign income taxes incurred		28,094
Net income		\$ 297,397

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 2012	\$ 8,656,865
<u>Gains and (losses) in Surplus</u>	
Net income	\$ 297,397
Change in net unrealized capital gains or (losses)	(6,007)
Change in net deferred income tax	(36,919)
Change in nonadmitted assets	28,024
Prior period income adjustment	10,991
Prior period residual market equity adjustment	6,623
Change in surplus as regards policyholders for the year	\$ 300,109
Surplus as regards policyholders; December 31 current year	\$ 8,956,974

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$6,631,618	
Net investment income	595,570	
Miscellaneous income	34,156	
Total		\$7,261,343
Benefit and loss related payments	4,007,516	
Commissions, expenses paid and aggregate write-ins	3,310,683	
Dividends to policyholders	83,384	
Federal income taxes (paid) recovered	115,289	
Total		<u>7,516,871</u>
Net cash from operations		<u>\$ (255,528)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$4,388,948	
Miscellaneous proceeds	(29)	
Total investment proceeds		\$4,388,919
Cost of investments acquired (long-term only):		
Bonds	\$4,285,263	
Total investments acquired		<u>4,285,263</u>
Net cash from investments		<u>\$ 103,656</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Other cash provided (applied)	\$ 227,207	
Net cash from financing and miscellaneous sources		<u>\$ 227,207</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 75,336
Cash and short-term investments:		
Beginning of year		888,410
End of year		<u>\$ 963,746</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2013

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$33,070,211
<u>Deductions</u>		
Losses incurred	\$19,613,515	
Loss expenses incurred	4,353,114	
Other underwriting expenses incurred	12,230,783	
Premium deficiency reserve	<u>(411)</u>	
Total underwriting deductions		<u>36,197,001</u>
Net underwriting gain (loss)		\$(3,126,790)
<u>Investment Income</u>		
Net investment income earned	\$2,266,548	
Net realized capital gains (losses)	<u>410,296</u>	
Net investment income		\$ 2,676,843
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (56,802)	
Finance and service charges not included in premiums	188,051	
Miscellaneous income	<u>(17)</u>	
Total other income		<u>131,232</u>
Net income before dividends		\$ (318,715)
Dividends to policyholders		<u>396,140</u>
Net income before Federal income tax		\$ (714,855)
Federal and foreign income taxes incurred		<u>(193,528)</u>
Net income		<u>\$ (521,327)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008		\$ 6,744,562
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ (521,327)
Change in net unrealized capital gains or (losses)		(21,184)
Change in net deferred income tax		222,911
Change in non-admitted assets		14,400
Surplus adjustments: paid in		2,500,000
Prior period income adjustment		10,991
Prior period residual market equity adjustment		<u>6,623</u>
Change in surplus as regards policyholders for the period		<u>\$ 2,212,414</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 8,956,974</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