

MARKET CONDUCT
EXAMINATION REPORT OF
HAMILTON MUTUAL INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2013

Des Moines, Iowa
July 1, 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, a market conduct examination has been made of the records, business affairs, and marketing practices of the

HAMILTON MUTUAL INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2013

at its Home Office, 717 Mulberry Street, 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

Hamilton Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2008. This market conduct examination covers the intervening period from January 1, 2009 to the close of business on December 31, 2013 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 parent and affiliated companies were also examined. Referenced as the EMC Companies, these companies include:

Employers Mutual Casualty Company
EMC Property & Casualty Company
EMCASCO Insurance Company
Illinois EMCASCO Insurance Company
Union Insurance Company of Providence

As business operations are performed for the EMC Companies as a whole, market conduct examination procedures have been performed on the companies as a whole and not on an individual company basis.

HISTORY

The Company commenced business as the German Mutual Insurance Company on May 10, 1858, following incorporation in Ohio as a direct writer of fire peril on March 15, 1858. The Company's name was changed to Hamilton County Mutual Insurance Company in 1918.

The Company merged with The Druggist Mutual Insurance Company of Mansfield on July 1, 1957 and changed its name to The Hamilton Mutual Insurance Company of Cincinnati, Ohio.

The Company entered into an Agreement of Affiliation and reinsurance Pooling Agreement with Employers Mutual Casualty Company effective January 1, 1997. In addition, the Company issued \$16,500,000 in Surplus Notes to Employers Mutual Casualty Company. The Company redeemed \$12,000,000 of the surplus notes during 2007, leaving a balance of \$4,500,000.

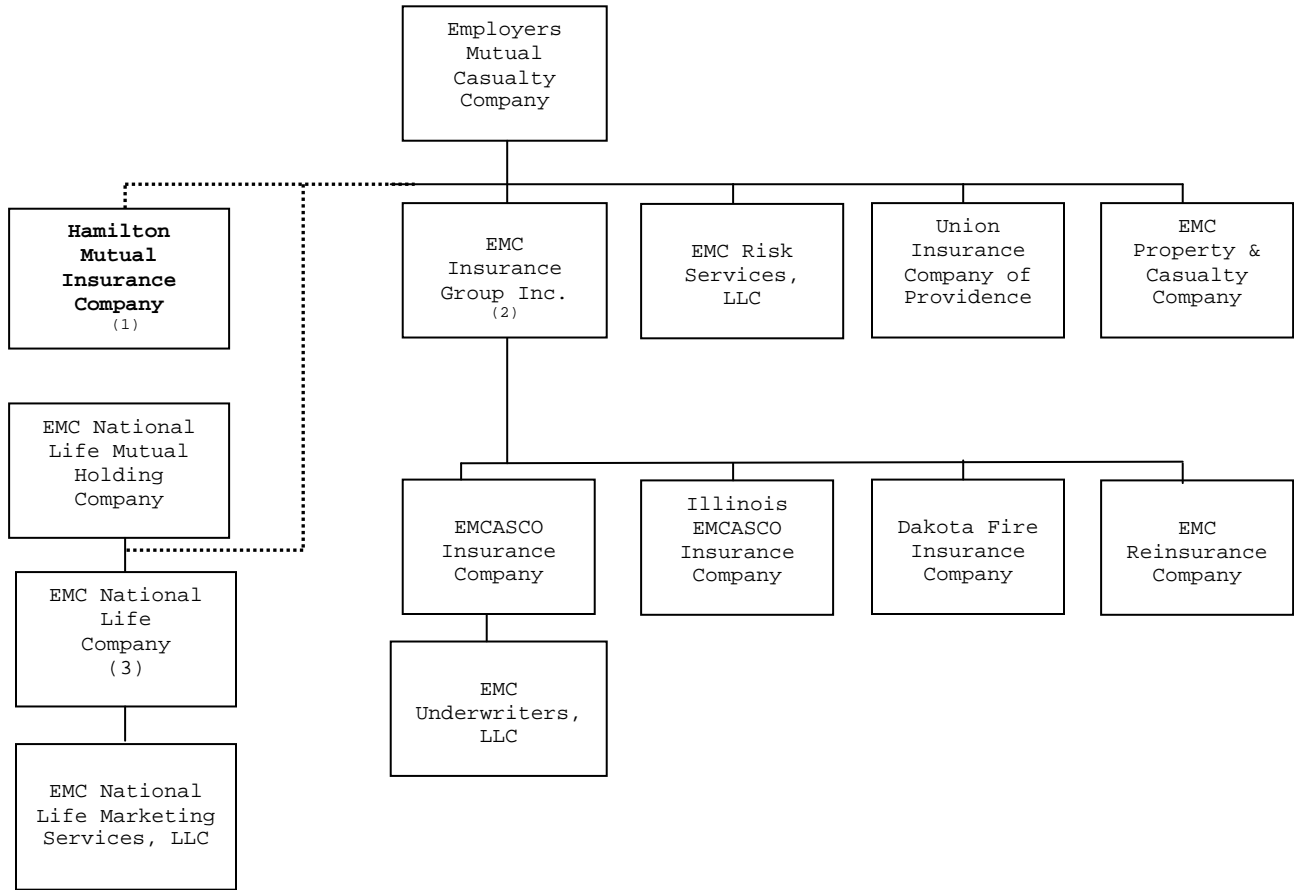
Via the Restated Articles of Incorporation adopted November 17, 2005, the Company re-domesticated to the State of Iowa from the State of Ohio and changed its name to Hamilton Mutual Insurance Company.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System (known as the EMC Insurance Companies) as defined by Chapter 521A, Code of Iowa. Employers Mutual Casualty Company (EMCC), an Iowa domestic insurance entity, is the Ultimate Parent of the Holding Company System.

The Agreement of Affiliation and Surplus Notes provide that Employers Mutual Casualty Company shall have the right to nominate a majority of members to the Company's Board of Directors as long as any amounts are due and owing on the Surplus Notes. Further, if Employers Mutual Casualty Company's nominees cease to constitute at least a majority of the Company's Board, all Surplus Note amounts due and owing shall become immediately due and payable.

The identity of holding company members is shown as of December 31, 2013 in the following organizational chart:



- (1) Employers Mutual Casualty Company controls the Board of Directors.
- (2) Employers Mutual Casualty Company owns approximately 59% of the voting stock and the remainder is publicly owned.
- (3) Employers Mutual Casualty Company owns 49% of the voting stock.

RELATED PARTY AGREEMENTS

Service Agreements

EMCC shall provide certain management, operational and administrative services to named affiliated and subsidiary companies. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 14 jurisdictions with the majority of direct premium written in Michigan, Kentucky and Ohio. The EMC Companies are multiple-line property and casualty insurance writers that are licensed in all fifty states and

the District of Columbia. The EMC Companies primarily focus on the sale of commercial lines insurance to small and medium-sized businesses. The EMC Companies write a number of target market, safety dividend group and EMC Choice programs throughout the country. These programs provide enhanced insurance protection to businesses or institutions that have similar hazards and exposures, and are willing to implement loss prevention programs. These groups include public schools, small municipalities, petroleum marketers, contractors and mobile home parks. The majority of direct business is written in other liability, commercial auto liability and workers' compensation lines of coverage.

Marketing of products for the EMC Companies is conducted through 16 branch offices located throughout the U.S. and produced by approximately 3,400 independent insurance agencies. The branch offices perform underwriting, claims, marketing, and risk improvement functions; and include field auditors and branch administrative technicians. Each branch office acts as its own profit center with the largest direct writers located in Des Moines, Omaha and Wichita.

COMPLAINT HANDLING

The Company has written processes and best practices for complaint handling procedures. Written complaints received by the Company are primarily administered by the regional underwriting and claims managers, with records maintained in a central repository under the direction of the legal department. The Company maintains complaint records in accordance with Iowa Administrative Code 191-15(507B).

MARKETING AND SALES

Company advertising materials are the responsibility of the corporate marketing department. Materials are submitted to legal compliance for review to ensure they comply with state regulations. A website is also maintained at www.emcins.com.

Products are marketed through independent insurance agencies. The Company offers a competitive commissions program and a profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business. All agencies are formally reviewed by branch marketing and underwriting staff at least once annually.

UNFAIR INSURANCE TRADE PRACTICES

Policy Administration

The Company maintains written processes and underwriting guidelines for analyzing, understanding and documenting the business activities of insureds and any associated risks and/or exposures that may be inherent within that business. Policy administrators are provided training and are subject to regular quality performance reviews.

A study, of 116 Iowa policy files randomly selected from 2013 business processed by the EMC Companies, was conducted for a statutory compliance review of unfair insurance trade practices defined within the Iowa Code and the Iowa Administrative Code. One policy from the sample was issued from business submitted by a producer that was not appointed in accordance with Iowa Administrative Code 191-10(522B).

Claim Practices

The Company maintains written 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 118 Iowa claim files randomly selected from 2013 loss activity processed by the EMC Companies, was conducted for a statutory compliance review of unfair insurance trade practices defined within the Iowa Code and the Iowa Administrative Code. The sample included 59 property claim payments. A time study was performed which demonstrated that the property 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(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>2009</u>	<u>2010</u>	<u>2011</u>
Premiums earned	<u>\$ 42,626,079</u>	<u>\$ 50,594,245</u>	<u>\$ 56,625,087</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 32,539,400	\$ 29,608,396	\$ 41,535,481
Defense and cost containment	6,657	1,577,334	1,415,678
Adjusting and other expenses	5,280,000	5,858,000	5,847,000
Commission and brokerage	8,242,273	9,316,650	10,261,262
Taxes, licenses and fees	875,464	914,517	1,269,752
Other acquisition expenses	4,149,000	4,746,000	4,986,000
General expenses incurred	<u>2,892,000</u>	<u>3,261,000</u>	<u>3,342,000</u>
Total deductions	<u>\$ 53,984,794</u>	<u>\$ 55,281,897</u>	<u>\$ 68,657,173</u>
Underwriting gain (loss)	<u>\$ (11,358,715)</u>	<u>\$ (4,687,652)</u>	<u>\$ (12,032,086)</u>
<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Premiums earned	<u>\$ 63,768,102</u>	<u>\$69,877,853</u>	<u>\$283,491,366</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 46,095,581	\$ 34,170,336	\$ 183,949,194
Defense and cost containment	1,881,175	2,175,717	7,056,561
Adjusting and other expenses	7,322,000	5,034,000	29,341,000
Commission and brokerage	11,202,564	11,509,575	50,532,324
Taxes, licenses and fees	1,497,203	1,411,372	5,968,308
Other acquisition expenses	5,639,000	5,766,000	25,286,000
General expenses incurred	<u>3,501,000</u>	<u>3,810,000</u>	<u>16,806,000</u>
Total deductions	<u>\$ 77,138,523</u>	<u>\$ 63,877,000</u>	<u>\$ 318,939,387</u>
Underwriting gain (loss)	<u>\$ (13,370,421)</u>	<u>\$ 6,000,853</u>	<u>\$ (35,448,021)</u>

Expressed in the ratio of incurred deductions to premiums earned the percentages are:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Average</u>
<u>Incurred deductions</u>						
Losses incurred	76.3%	58.5%	73.4%	72.3%	48.9%	64.9%
Defense and cost containment	0.0	3.1	2.5	3.0	3.1	2.5
Adjusting and other expenses	12.4	11.6	10.3	11.5	7.2	10.3
Commission and brokerage	19.3	18.4	18.1	17.6	16.5	17.8
Taxes, licenses and fees	2.1	1.8	2.2	2.3	2.0	2.1
Other acquisition expenses	9.7	9.4	8.8	8.8	8.3	8.9
General expenses incurred	<u>6.8</u>	<u>6.4</u>	<u>5.9</u>	<u>5.5</u>	<u>5.5</u>	<u>5.9</u>
Total deductions	<u>126.6%</u>	<u>109.3%</u>	<u>121.2%</u>	<u>121.0%</u>	<u>91.4%</u>	<u>112.5%</u>
Underwriting gain (loss)	<u>-26.6%</u>	<u>-9.3%</u>	<u>-21.2%</u>	<u>-21.0%</u>	<u>8.6%</u>	<u>-12.5%</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>2013 Earned Premium</u>	<u>2013 Operating Ratio</u>
Indiana	\$ 6,618,999	128.7%	\$ 8,634,903	114.5%
Iowa	1,832,705	91.4	3,201,879	74.5
Kentucky	18,972,919	113.9	20,339,396	89.1
Michigan	12,015,159	108.1	19,515,989	87.7
Minnesota	3,335	146.9	14,490	76.4
Nebraska	1,018,894	78.2	1,463,258	89.6
North Carolina	176	1,098.9	881	532.8
Ohio	16,153,355	112.0	16,345,379	89.2
Pennsylvania	123	764.6	613	162.0
South Carolina	74,148	111.0	319,685	116.1
Virginia	7,440	192.1	37,198	190.2
Wisconsin	1,020	223.5	4,182	183.0
Total	<u>\$ 56,698,273</u>	<u>112.5%</u>	<u>\$ 69,877,853</u>	<u>91.4%</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, the following Iowa Insurance Division examiners participated in the examination and preparation of this report:

Bob Wong, CFE
Bouavan Kha

Emilie Brady, CFE with Eide Bailly, LLP, also participated in the examination and preparation of this report.

Respectfully submitted,

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