

EXAMINATION REPORT OF  
GRINNELL MUTUAL REINSURANCE COMPANY  
GRINNELL, IOWA  
AS OF DECEMBER 31, 2019

Grinnell, Iowa  
March 4, 2021

HONORABLE DOUG OMMEN  
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, business affairs, and financial condition of the

GRINNELL MUTUAL REINSURANCE COMPANY

GRINNELL, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 4215 Highway 146, Grinnell, Iowa.

INTRODUCTION

Grinnell Mutual Reinsurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2014. The examination reported herein was conducted as an examination of an insurance holding company group by the Iowa Insurance Division. The Company’s wholly owned subsidiaries, Grinnell Select Insurance Company and Grinnell Compass, Inc., were also examined as part of the holding company group, with separate examination reports prepared for each entity.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2015 to the close of business on December 31, 2019, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

## HISTORY

The Company was organized at Greenfield, Iowa on April 17, 1909, under the name of Iowa Farmers Mutual Reinsurance Association to provide a reinsurance facility for county mutuals domiciled in the state of Iowa.

In 1933, the Home Office was moved to Grinnell, Iowa. Also in that same year the Company's name was changed to Farmers Mutual Reinsurance Association by an amendment to the Articles of Incorporation.

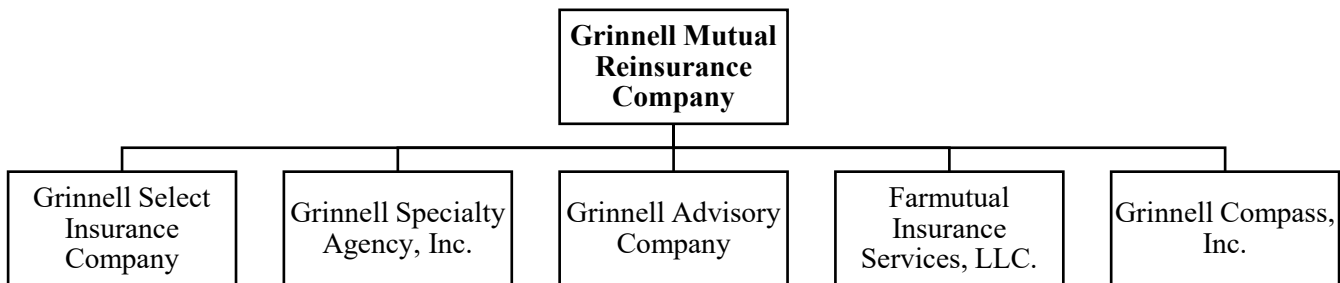
In 1948, the name was changed to the Farmers Mutual Reinsurance Company. The Articles of Incorporation were amended to permit the Company to operate under the provisions of Chapter 491, Code of Iowa, and Chapter 515, Code of Iowa, and all acts amendatory thereto.

The Company's corporate existence was made perpetual as of April 17, 1949.

On June 26, 1963 the present corporate title, Grinnell Mutual Reinsurance Company, was adopted.

## INSURANCE HOLDING COMPANY SYSTEM

The Company is the Ultimate Parent of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. An Insurance Holding Company System Registration Statement was filed annually with the Insurance Division of Iowa for each year of the examination period. A chart depicting the organizational structure is as follows:



Grinnell Select Insurance Company was incorporated on July 23, 1984 and commenced business on March 1, 1985. Its purpose is to provide a facility for insuring auto risks with special characteristics, both preferred risks and nonstandard risks. Inland marine risks were added in 2009, and workers compensation risks were added in 2010.

Grinnell Compass, Inc. began operations in 2015 for the purpose of insuring automobile risks.

## MANAGEMENT AND CONTROL

### MEMBERSHIP

The membership of the Company is limited to those persons or organizations having insurance or reinsurance in full force and effect.

The annual meeting of the membership is held at Grinnell, Iowa at 2:00 p.m. on the Wednesday before the last Thursday in June of each year. Special meetings of the members may be called by the Board of Directors at any time and must be called upon petition of one-fourth of the members of the Company. Notice of the time and place of any special meeting is given each member by mailed written notice thereof at least twenty days before the date of such meeting, said notice to be addressed to each member at their last known address.

Each insurance association or company ceding reinsurance to the Company shall be entitled to representation by one delegate bearing proper credentials. All other members must be represented in person. In either case, each member so represented shall be entitled to one vote only on any one question coming before any membership meeting. Voting by proxy is not permitted.

At all meetings of members for the election of directors and for the transaction of any business which may legally be acted upon at any such meeting, a quorum of members shall be equal to the number of directors of the Company plus one.

### BOARD OF DIRECTORS

The Articles of Incorporation provide that the corporate powers of the Company are vested in a Board of Directors consisting of twelve members. Directors are elected for a term of three years, with one-third of the total number elected each year at the annual meeting of the members.

Any member may become eligible for election to the Board of Directors if nomination papers and signed affidavit of candidacy are filed with the Secretary of the Company at least thirty days prior to the annual meeting at which election is sought.

The Board's annual meeting is held within ten days following the annual meeting of the members. The Board of Directors shall meet upon call of the Chairman of the Board, the President, or upon request by a majority of the directors.

Elected and qualified members serving as directors at December 31, 2019 were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Larry W. Cook Lincoln, Illinois	Chief Executive Officer Frontier - Mt. Carroll Mutual Insurance Company	2020
Mark D. Knouse Wilton, Iowa	President/Treasurer White Pigeon Mutual Insurance Association	2020
William J. Lampe Preston, Iowa	President Heritage Mutual Insurance Association	2020
Steve L. Underwood Washington, Missouri	General Manager United Mutual Insurance Company	2020
Randall K. Druvenga Denver, Iowa	President First Maxfield Mutual Insurance Association	2021
Kendall E. Lunsford Eldora, Iowa	President and Chief Executive Officer Iowa River Mutual Insurance Association	2021
Wilber J. Maas Hull, Iowa	Secretary/Treasurer Farmers Mutual Insurance Association	2021
James P. Wellman New Knoxville, Ohio	President German Farmers Mutual Insurance Company	2021

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Daniel W. DeArment Bedford, Pennsylvania	President and Chief Executive Officer Friends Cove Mutual Insurance Company	2022
Amy R. Goughnour* Finley, North Dakota	Manager Steele Trail County Mutual Insurance Company	2022
Paul G. Stueven Fairmont, Minnesota	Board Chair, Chief Executive Officer/Treasurer Fairmont Farmers Mutual Insurance Company	2022
Susan K. Taggart Lafayette, Indiana	Chief Executive Officer Mutual of Indiana Insurance Company	2022

\*Amy Goughnour resigned her position as Director on 2/5/2020 as she was no longer an employee of Steele Trail County Mutual Reinsurance Company.

Directors receive the following monthly fees plus \$800 per meeting attended:

Chairman of the Board	\$2,300
First and Second Vice Chairman of the Board	2,150
Other Directors	2,100

Directors are also reimbursed for necessary expenses for each meeting attended.

#### AUDIT COMMITTEE

The Company has an established Audit Committee Charter with the following named committee members:

William J. Lampe, Chairman  
 Randall K. Druvenga  
 Mark D. Knouse  
 Wilber J. Maas  
 James P. Wellman  
 Steve L. Underwood  
 Paul G. Stueven, ex-officio

#### OTHER COMMITTEES

Other committees appointed during 2019 were Advertising and Marketing, Governing, Nominating, Personnel and Compensation, Planning and Evaluation, and Strategy. Two Board representatives also participate on the Administrative/Investment Committee, consisting primarily of members of management, on a rotating basis to participate in the annual benefit plan review and renewal process.

#### OFFICERS

The Articles provide that the Board at its regular annual meeting shall elect for a term of one year a Chairman of the Board, a First Vice Chairman, a Second Vice Chair, a President, a Secretary, a Treasurer, and other such officers as deemed necessary.

Officers serving as of December 31, 2019 were:

<u>Name</u>	<u>Title</u>
Jeffrey R. Menary	President and Chief Executive Officer
David M. Wingert	Executive Vice President – Chief Operating Officer
Peter D. Lahn*	Senior Vice President – Legal Division Secretary, General Counsel
Christopher L. Hansen	Vice President – Treasurer, Chief Financial Officer
Lauren E. Augustin	Vice President – Product Transformation & Delivery
Andrea E. Brunk	Vice President – Strategic Experience
Brian J. Delfino	Vice President – Direct Claims
Kurt E. Eaves	Vice President – Underwriting, Sales, and Service
Kevin P. Farrell	Vice President – Reinsurance
Robert C. Shay	Vice President – Enterprise Solutions, Chief Information Officer
Jeffery R. Vogts	Vice President – Talent Development
Hutch A. Kracht	Controller

\*William Simonaitis joined the Company in March 2020, replacing Peter Lahn who retired December 2019.

The salaries of the officers are found in Exhibit A immediately following the signature page of this report.

#### 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 officers, directors or key employees which is in, or likely to, conflict with the official duties of such person. Review of conflict of interest statements found several missing statements for members of the Senior Leadership Team for the exam years 2015-2018. All Board of Director's conflict of statements were missing for 2015 as well as one statement for 2018. The Company implemented a new process in 2019. The Company was able to provide all conflict of interest statements subsequent to the updated process.

#### CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended during the examination period under review.

The recorded minutes of the meetings of the Membership, Directors, and other Committees of the Board were read and noted. They appeared to be complete and were found to be properly attested. The Examination Reports prepared by the Iowa Insurance Division as of December 31, 2014 were acknowledged and approved at the Board of Directors meeting held December 15, 2015.

#### INTERCOMPANY AGREEMENTS

The Company furnishes management services and operating facilities to Grinnell Select Insurance Company, Grinnell Compass, Inc., Grinnell Specialty Agency, Inc., Grinnell Advisory Company, and Farmutual Insurance Services, LLC, all housed in the same office as the Company.

Joint expenses are allocated among the companies according to rules for expense allocation as prescribed by the NAIC or generally accepted accounting principles. Each company pays for its own direct expenses incurred where applicable.

## FIDELITY BONDS AND OTHER INSURANCE

The Company, along with its subsidiaries as named insureds, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$5,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. Coverage meets the NAIC's suggested minimum amount of fidelity insurance.

Other insurable interests appeared to be adequately protected by insurance policies currently in force; and those policies were written by companies authorized to transact business in the state of Iowa.

## EMPLOYEE WELFARE

The various benefit plans, provided to the employees of the Company, are as follows:

Pension plan	Short and long-term disability plan
Group life insurance	Group medical plan
Group dental insurance	Savings and investment – 401(k)

## REINSURANCE

Reinsurance treaties in effect at December 31, 2019 are summarized as follows:

### ASSUMED

#### Intercompany Reinsurance Agreements

The Company and its subsidiary, Grinnell Select Insurance Company (GSIC), entered into a reinsurance agreement, effective January 1, 2009, whereby GSIC shall cede all liability for direct coverages. Under the terms of this treaty, the Company assumed premiums of \$193,009,798 during 2019.

The Company and its subsidiary, Grinnell Compass, Inc. (GCI), entered into a reinsurance agreement, effective October 15, 2015, whereby GMRC reinsures 100% of Grinnell Compass, Inc.'s gross losses and expenses, except investment expenses. Under the terms of this treaty, the Company assumed premiums of \$676,010 during 2019.

#### Member Mutuals

The Company assumes reinsurance from approximately 250 county, township or statewide mutual associations and/or companies. Assumed premiums for 2019 totaled \$148,074,020. Reinsurance is offered to the member mutuals through various treaties summarized below.

**Property per Risk:** The Company will reinsure 100 percent of each loss in excess of the retention on an individual occurrence of loss basis subject to the limitation section of the coverage schedule. Exposures exceeding the limitations specified on the coverage schedule may be eligible for full reinsurance protection through facultative reinsurance.

**Per Occurrence Catastrophe:** The Company shall pay the excess of the amount stated on the coverage schedule for any individual loss occurrence caused by tornadoes, cyclones, windstorms, hurricanes or hail stones arising from the same atmospheric disturbance and occurring during any continuous period of not more than 96 hours.

**Aggregate Excess:** The Company will reinsure 100 percent of the aggregate net loss in excess of the retention limit defined by the coverage schedule applying to each calendar year.

**Special Reinsurance Arrangements:** The amount on any one risk retained by the mutual company will not exceed the maximum limit imposed by Illinois statute. If the retention to be retained by the mutual company is in excess of the statutory limit, then the Company will assume the amount in excess of the limit. The mutual company will not participate in any excess of its limit nor will the additional amount of reinsurance be used in determining relative pro rata share.

**Quota Share:** The Company will reinsure a specified percent of the liability against all perils covered, except hail coverage on growing crops and earthquake.

**Quota Share (Homeguard):** The Company will reinsure a specified percent of the liability for property perils.

**Facultative:** Within thirty days of insuring a specific risk or increasing the amount of coverage on a specific risk, the member mutual may cede all or part of such specific risk.

**Special Personal Property:** The Company will reinsure 100 percent of the inland marine liability.

**Earthquake:** The Company will reinsure 100 percent of each loss.

**Comprehensive Personal and Farmers Comprehensive Personal Liability:** The Company will reinsure 100 percent of the liability.

**Pollution Clean Up and Removal:** The Company will reinsure 100 percent of the liability.

### National Reinsurance

In addition to the Member Mutuals, the Company began assuming reinsurance from mutual associations and companies in 2016, primarily placed through reinsurance brokers. The Company often participates as a syndicate with other reinsurers. Assumed premium for 2019 totaled \$7,098,489. Reinsurance is offered to the mutual associations and/or companies through various treaties summarized below.

**Property & Casualty Excess of Loss:** The Company assumes an ultimate net loss for each risk in excess of the ceding company's retention, subject to limits of liability. The Company offers multiple layers.

**Property Catastrophe Excess of Loss:** The Company assumes an ultimate net loss for each property loss occurrence in excess of the ceding company's retention, subject to limits of liability. The Company offers multiple layers.

**Casualty Clash Excess of Loss:** The Company assumes an ultimate net loss for each casualty loss occurrence, including but not limited to workers' compensation in excess of the ceding company's retention, subject to limits of liability.

**Umbrella:** The Company assumes a quota share participation rate on risks classified as Personal, Farm or Commercial umbrella business, subject to limits of liability.

**Property Aggregate:** The Company assumes coverage for an aggregate level of net ultimate loss over the specified Net Loss Ratio.



Property Per Risk: The Company assumes coverage for an aggregate level of net ultimate loss over the specified Net Loss Ratio.

Casualty Per Occurrence Net Quota Share: The Company assumes coverage for an aggregate level of net ultimate loss over the specified Net Loss Ratio.

### Retrocessional Reinsurance

The Company assumes retrocessional reinsurance through the agreements summarized below. Assumed premium for 2019 totaled \$548,922 for these two agreements.

NAMIC Insurance Company, Inc. Retrocessional: Business classified by the primary insurer as directors and officers liability insurance, insurance company professional liability insurance, agents' errors and omissions liability insurance, insurance company trustees and fiduciaries liability, and professional liability for insurance company associations. The Company accepts as reinsurance 3.69475 percent of the liability of each claim, each policy, and in the aggregate where applicable of the primary insurer's liability stated in the following two sections:

- Fifty percent of the first \$1,000,000 each claim, each policy and in the aggregate. Eighty percent of the next \$4,000,000 in excess of \$1,000,000 each claim, each policy and in the aggregate.
- The Company's obligation under the agreement shall be joint with the other participants. In an event of an insolvency of the insurer, the Company's limit of liability shall be extended to include its proportional share of the insurer's net retained liability under the four treaties. The maximum aggregate share of the liability under the agreement, for which the Company shall be liable, shall not exceed 7.41452 percent.

Kiln Syndicate Retrocessional: The Company assumes 0.25 percent of two syndicate pools of property reinsurance underwritten by Kiln through the London market. The assumption has a per event limit of \$135 million. Kiln may earn a contingent profit commission.

### CEDED

#### Excess of Loss (Property)

These agreements shall apply to property business classified as Fire and Allied Lines, Windstorm, Cyclone, Tornado, Hurricane and Hail, Crop Hail, Earthquake, Inland Marine, and including Automobile Physical Damage Comprehensive.

<u>Treaty</u>	<u>Retention</u>	<u>Reinsurer Limit</u>	<u>Treaty Limit</u>	<u>Treaty Limit All Losses</u>
<u>Excess of Loss Reinsurance</u>				
Underlying Layer XOL	\$32,500,000	\$10,000,000		\$20,000,000
First Layer	42,500,000	16,000,000	16,000,000	32,000,000
Second Layer	58,500,000	40,000,000	40,000,000	80,000,000
<u>Excess of Loss Ratio</u>				
Second Layer (95% placement)	Greater of \$197,000,000 or 82.5% loss ratio		\$ 30,000,000	\$ 30,000,000
Third Layer (95% placement)	\$30,000,000 plus greater of \$197,000,000 or 82.5% loss ratio		50,000,000	50,000,000
Fourth Layer (97.5% placement)	\$80,000,000 plus greater of \$197,000,000 or 82.5% loss ratio		80,000,000	80,000,000
Fifth Layer (97.5% placement)	\$160,000,000 plus greater of \$197,000,000 or 82.5% loss ratio		160,000,000	160,000,000
<u>Catastrophe</u>		\$5,000,000	\$5,000,000	\$ 10,000,000

#### Excess of Loss (Casualty)

These agreements cover all business classified as Casualty Business, including Workers Compensation, Employers' Liability and Umbrella. It is warranted that no one policy will be written for limits exceeding per occurrence and in the aggregate as defined in the agreements.

<u>Layer</u>	<u>Retention</u>	<u>Reinsurer Limit</u>	<u>Treaty Limit</u>
First Layer-Part A	\$ 750,000	\$ 1,250,000	Automatic Reinstatement
First Layer-Part B (Umbrella only)	1,000,000	14,000,000	Automatic Reinstatement
Second Layer	2,000,000	3,000,000	\$ 6,000,000
Third Layer	5,000,000	5,000,000	10,000,000
Fourth Layer	10,000,000	10,000,000	20,000,000
Fifth Layer	10,000,000	30,000,000	10,000,000

#### Workers' Compensation Per Person Excess of Loss

Business covered includes Workers Compensation and Employers Liability. The maximum claim for any one occurrence is \$15,000,000 per person, in excess of \$10,000,000 per person, with a maximum recoverable of \$30,000,000.

#### Facultative Agreements

Automatic property facultative certificates are in place that cede up to \$2,000,000 in excess of \$1,000,000, with a maximum recoverable of \$6,000,000; and \$7,000,000 in excess of \$3,000,000. For business covering churches

or religious institutions, the Company shall retain \$3,000,000 and cede the excess up to \$14,000,000 in addition to underlying automatic property excess cover.

#### Equipment Breakdown and Service Line

The reinsurer assumes 100 percent of all such liability with a limit up to \$100,000,000 per risk.

#### Employment Practices Liability

The reinsurer assumes 70 percent of all such liability with a limit of \$250,000 any one policy and in the aggregate annually.

#### Umbrella Quota Share Retrocession

Retrocessionaire accepts a 90% quota share participation of the Company's ultimate net liability, loss in excess of policy limits, extra contractual obligations, and loss adjustment expenses arising from Commercial Umbrella, Personal Umbrella, and Farm Umbrella liability.

### STATUTORY DEPOSIT

As of December 31, 2019, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner, for the benefit of all policyholders, totaled \$1,986,069.

### TERRITORY AND PLAN OF OPERATION

The Company is a licensed insurer in the following jurisdictions:

Illinois	Missouri	Oklahoma
Indiana	Nebraska	Pennsylvania
Iowa	North Dakota	South Dakota
Minnesota	Ohio	Wisconsin

The Company is a qualified reinsurer in the following jurisdictions:

Arkansas	Michigan	Tennessee
Kansas	Montana	Virginia
Kentucky	New York	West Virginia
Maryland	North Carolina	

Gross premiums recorded for 2019 totaled \$713,607,031. The direct business, which constitutes approximately 50% of gross writings or \$361,143,965, is heavily related to the Company's relationships with its farm mutual clientele. Business is developed through approximately 1,700 independent producers that are also producers of the companies reinsured. Liability, automobile, inland marine, recreational vehicle, workers' compensation, commercial multiple peril and other lines, which farm mutuals are statutorily unable to write, are offered by the Company. While the bulk of the group's operations are conducted in Minnesota, Iowa and Illinois (70% of direct business), business is also written in nine other states throughout the United States.

The Company's farm mutual reinsurance operations constitute 22% of gross writings or \$157,136,000. The reinsurance underwriting commitments consist of providing basic catastrophe and excess of loss reinsurance for property coverage written by small farm mutual insurance carriers throughout the Midwestern plains states. Rates for reinsurance coverages are determined using accepted actuarial methods.

The gross writings of \$193,009,798, or 27%, is derived from the Intercompany Reinsurance Agreement with subsidiary, Grinnell Select Insurance Company.

The remaining .9% of gross writings or \$676,000 is derived from the Intercompany Reinsurance Agreement with new subsidiary, Grinnell Compass, Inc.

### GROWTH OF COMPANY

The following historical data, as taken from filed copies of the annual statements, reflects the financial position of the Company:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2015	1,008,071,897	516,953,304	512,670,592	226,431,639	32,108,738
2016	1,104,343,675	589,902,926	548,634,412	274,817,070	29,145,797
2017	1,179,665,351	613,653,419	581,128,648	370,160,632	40,471,665
2018	1,268,465,989	731,568,345	628,441,217	323,078,501	39,490,615
2019	1,339,804,892	677,453,020	642,198,785	395,247,226	40,263,182

### ACCOUNTS AND RECORDS

The Company’s general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no statutory compliance issues were noted other than those disclosed above nor material aggregate surplus differences were identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2019.

### SUBSEQUENT EVENTS

#### COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS  
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2019.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 982,860,711	\$ -	\$ 982,860,711
Common stocks	169,185,769	61,607	169,124,162
Real estate: occupied by the company	15,936,190		15,936,190
Cash and short-term investments	19,751,427		19,751,427
Other invested assets	5,146,901	3,884,452	1,262,449
Investment income due and accrued	10,494,042		10,494,042
Uncollected premiums in course of collection	31,110,043	164,006	30,946,037
Deferred premiums booked and not yet due	75,647,282	321,396	75,325,886
Amounts recoverable from reinsurers	4,478,063		4,478,063
Funds held by or deposited with reinsured companies	40,550		40,550
Current federal and foreign income tax recoverable	6,881,707		6,881,707
Net deferred tax asset	11,752,763		11,752,763
Electronic data processing equipment and software	25,702,512	23,629,636	2,072,876
Furniture and equipment	328,581	328,581	
Receivables from parent, subsidiaries and affiliates	46,319		46,319
Other assets non-admitted	18,499,521	18,499,521	
Cash value of life insurance policy	7,981,459		7,981,459
State tax credits	850,250		850,250
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,386,694,091</u>	<u>\$ 46,889,198</u>	<u>\$ 1,339,804,892</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 249,075,972
Reinsurance payable on paid losses and loss adjustment expenses	11,137,461
Loss adjustment expenses	64,060,267
Commissions payable, contingent and other	13,958,858
Other expenses	11,768,753
Taxes, licenses and fees	1,154,150
Unearned premiums	212,462,508
Advance premium	3,100,993
Dividends declared and unpaid – Policyholders	649,834
Ceded reinsurance premiums payable	4,624,713
Funds held by company under reinsurance treaties	36,302
Amounts withheld or retained for account of others	514,227
Remittances and items not allocated	336,785
Drafts outstanding	60,850
Payable to parent, subsidiaries and affiliates	11,333,000
Deferred compensation	10,786,992
Liability for pension benefits	<u>13,174,885</u>
Total liabilities	<u>\$ 608,236,548</u>
Guaranty fund for state of Minnesota	\$ 1,000,000
Unassigned funds (surplus)	<u>730,568,345</u>
Surplus as regards policyholders	<u>\$ 731,568,345</u>
Total liabilities and surplus	<u>\$ 1,339,804,892</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 642,198,785
<u>Deductions</u>		
Losses incurred	\$ 395,247,226	
Loss adjustment expenses incurred	66,454,049	
Other underwriting expenses incurred	<u>181,574,184</u>	
Total underwriting deductions		<u>643,275,459</u>
Net underwriting gain (loss)		\$ (1,076,674)

Investment Income

Net investment income earned	\$ 40,263,182	
Net realized capital gains (losses)	<u>2,652,773</u>	
Net investment gain (loss)		42,915,955

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (2,626,162)	
Finance and service charges not included in premiums	2,053,884	
Sundry	69,919	
Fines/penalty – Government entity	<u>(4,904)</u>	
Total other income		<u>(507,263)</u>

Net income before dividends to policyholders		\$ 41,332,018
Dividends to policyholders		<u>655,729</u>
Net income before federal income tax		\$ 40,676,289
Federal and foreign income taxes incurred		<u>4,663,674</u>
Net income		<u>\$ 36,012,615</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$ 677,453,020</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 36,012,615
Change in net unrealized capital gains or (losses)		18,598,746
Change in net deferred income tax		435,472
Change in non-admitted assets		(3,697,926)
Additional liability for pension plan		<u>2,766,419</u>
Change in surplus as regards policyholders for the year		<u>\$ 54,115,326</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 731,568,345</u>



## CASH FLOW STATEMENT

### Cash from Operations

Premiums collected net of reinsurance	\$ 645,644,219	
Net investment income	45,566,845	
Miscellaneous income	<u>(474,059)</u>	
Total		\$ 690,737,005
Benefit and loss related payments	\$ 369,922,836	
Commissions, expenses paid and aggregate write-ins	249,174,306	
Dividends to policyholders	684,046	
Federal income taxes (paid) recovered	<u>11,969,969</u>	
Total		<u>631,751,157</u>
Net cash from operations		<u>\$ 58,985,847</u>

### Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 146,327,931	
Stocks	<u>4,002,033</u>	
Total investment proceeds		\$ 150,329,694
Cost of investments acquired (long-term only):		
Bonds	\$ 206,443,417	
Stocks	3,194,243	
Real estate	513,156	
Other invested assets	<u>983,863</u>	
Total investments acquired		<u>211,134,680</u>
Net cash from investments		<u>\$ (60,804,715)</u>

### Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ (16,391,725)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (16,391,725)</u>

### RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ (18,210,593)
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>37,962,020</u>
End of period		<u>\$ 19,751,427</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: Randy Guzman, Mick Jepsen, and Jean Yohnke.

A review and evaluation of actuarial processes and procedures was performed under the direction of Dave Heppen, FCAS, MAAA of Risk and Regulatory Consulting.

A review of the information technology system was performed under the direction of Jan Moenck, CFE, CISA of Risk and Regulatory Consulting.

Respectfully submitted,

/s/ Amanda Theisen  
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