

EXAMINATION REPORT OF
GRINNELL SELECT INSURANCE COMPANY
GRINNELL, IOWA
AS OF DECEMBER 31, 2019

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 SELECT INSURANCE COMPANY

GRINNELL, IOWA

AS OF DECEMBER 31, 2019

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

INTRODUCTION

Grinnell Select Insurance 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 Parent, Grinnell Mutual Reinsurance Company, and affiliate, Grinnell Compass, Inc., was 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 Grinnell, Iowa on July 23, 1984. The general purpose of the Company is to provide a facility for insuring risks with special characteristics and to develop the appropriate selection and rating mechanisms for those risks, limiting its market to the territory served by Grinnell Mutual Reinsurance Company and its agency contracts to those agents under contract with Grinnell Mutual Reinsurance Company.

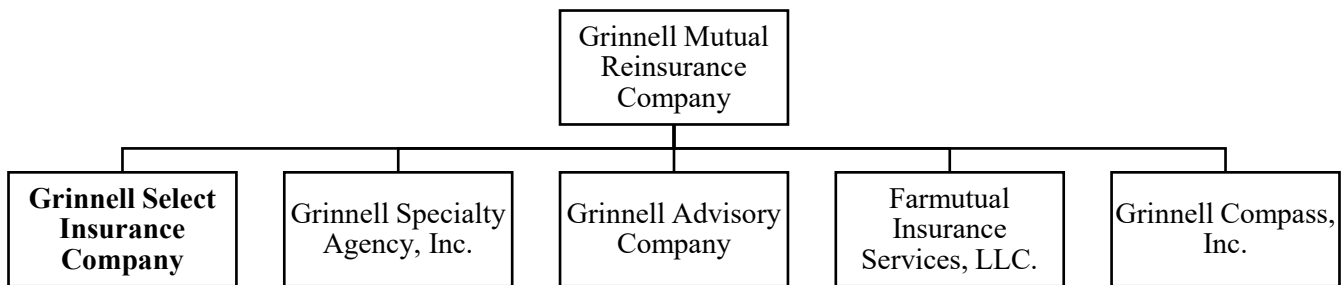
The Company's corporate existence was made perpetual as of July 23, 1984.

CAPITAL STOCK

Total authorized capital consists of 250,000 shares common stock with a par value of \$10. Currently all shares are outstanding with common capital stock of \$2,500,000 and gross paid in and contributed surplus of \$2,500,000.

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:



MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws of the Company require that the annual meeting of the shareholders be held on the last Thursday of June of each year immediately following the directors' meeting of the Grinnell Mutual Reinsurance Company, at the principal place of business of the Company at Grinnell, Iowa.

An election of directors is held at the annual shareholders meeting. If the election of directors shall not be held on the day designated, the directors shall cause the election to be held at a special meeting of the shareholders. Special meetings of the shareholders may be called by the President, by the Board of Directors, or by holders of not less than one-tenth of all shares entitled to vote at the meeting. Advanced written or printed notice stating the place, day and hour of the meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than fifty days before the date of the meeting.

At any meeting of the shareholders, the holders of a majority of the capital stock entitled to vote at such meeting, being present in person or represented by a proxy, shall constitute a quorum for all purposes, including the election of directors, except where it is otherwise provided by law.

BOARD OF DIRECTORS

The Articles of Incorporation provide that the corporate powers of the Company are vested in a Board of Directors consisting of not less than five nor more than 21 directors. The directors are elected to a term of one year.

Regular meetings of the Board of Directors shall be held within ten days of the annual meeting of the stockholders. Notice of the time, date and place shall be given to each director in the same manner as notice of any special meeting of the board.

Special meetings of the Board of Directors may be called by or at the request of the President or any director. Notice of any special meeting shall be given at least ten days previous by written notice.

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>
Brian J. Delfino Grinnell, Iowa	Vice President, Direct Claims Grinnell Mutual Reinsurance Company	2020
Kurt E. Eaves Grinnell, Iowa	Vice President, Underwriting, Sales & Service Grinnell Mutual Reinsurance Company	2020
John Kendrick Grinnell, Iowa	Assistant General Counsel Grinnell Mutual Reinsurance Company	2020
Christopher L. Hansen Grinnell, Iowa	Vice President, Treasurer, Chief Financial Officer Grinnell Mutual Reinsurance Company	2020
Peter D. Lahn Grinnell, Iowa	Senior Vice President, Secretary, General Counsel Grinnell Mutual Reinsurance Company	2020
Jeffrey R. Menary Grinnell, Iowa	President and Chief Executive Officer Grinnell Mutual Reinsurance Company	2020
David M. Wingert Pleasant Hill, Iowa	Executive Vice President, Chief Operating Officer Grinnell Mutual Reinsurance Company	2020

OFFICERS

The Bylaws provide that the Board at its regular annual meeting shall elect for a term of one year a Chairman of the Board, 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
Christopher L. Hansen	Vice President, Treasurer, Chief Financial Officer
David M. Wingert	Executive Vice President, Chief Operating Officer

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 shareholders and directors 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

Grinnell Mutual Reinsurance Company furnishes management services and operating facilities to 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.

EMPLOYEES' WELFARE

The Company does not have any direct employees. All personnel services are provided via the management service agreement with the parent.

REINSURANCE

Intercompany Reinsurance Agreement

The Company and its Parent, Grinnell Mutual Reinsurance Company entered into a reinsurance agreement, effective January 1, 2009, whereby the Company shall cede all liability for direct coverages. Under the terms of this treaty, the Company ceded premiums of \$193,009,798 during 2019.

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 \$1,999,026.

TERRITORY AND PLAN OF OPERATION

The Company has been granted authority in the following jurisdictions:

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

Direct business primarily consists of preferred and non-standard private passenger auto insurance developed through approximately 1,700 independent producers that are also producers of the companies reinsured by the Parent. Inland marine risks were added in 2009, and workers compensation risks were added in 2010. Written premium for 2019 totaled \$192,974,447 with 67% of the business written in Iowa, Minnesota, and Missouri.

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	38,571,029	24,211,362	0	0	781,552
2016	40,064,814	24,626,797	0	0	546,539
2017	37,750,772	19,966,244	0	0	333,640
2018	40,661,608	19,968,217	0	0	26,859
2019	40,939,760	19,753,387	0	0	44,918

*As the Company cedes 100% of premiums and losses to its' Parent, net premiums earned and net losses incurred are \$0.

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>	Not <u>Admitted</u>	<u>Admitted</u>
Cash and short-term investments	\$ (1,723,703)		\$ (1,723,703)
Investment income due and accrued	5,193		5,193
Uncollected premiums in course of collection	80,628	2,216	78,412
Deferred premiums booked and not yet due	20,265,914	167,859	20,098,055
Amounts recoverable from reinsurers	11,077,879		11,077,879
Net deferred tax asset	70,925		70,925
Receivables from parent, subsidiaries and affiliates	11,333,000		11,333,000
Other receivables	<u>1,654</u>	<u>1,654</u>	<u> </u>
Total assets	<u>\$ 41,111,490</u>	<u>\$ 171,729</u>	<u>\$ 40,939,760</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent and other	\$ 6,030,795
Taxes, licenses and fees	332,193
Current federal and foreign income taxes	9,900
Advance premium	2,075,111
Dividends declared and unpaid – Policyholders	132,061
Ceded reinsurance premiums payable	12,235,023
Amounts withheld or retained for account of others	255,605
Remittances and items not allocated	(38,888)
Drafts outstanding	<u>154,573</u>
Total liabilities	<u>\$ 21,186,373</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	2,500,000
Unassigned funds (surplus)	<u>14,753,387</u>
Surplus as regards policyholders	<u>\$ 19,753,387</u>
Total liabilities and surplus	<u>\$ 40,939,760</u>

STATEMENT OF INCOME

Investment Income

Net investment income earned	\$ 44,918
Net investment gain (loss)	<u>\$ 44,918</u>
Net income before federal income tax	\$ 44,918
Federal and foreign income taxes incurred	<u>249,078</u>
Net income	<u>\$ (204,160)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$ 19,968,217</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (204,160)
Change in net deferred income tax	3,370
Change in non-admitted assets	<u>(14,041)</u>
Change in surplus as regards policyholders for the year	<u>\$ (214,830)</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 19,753,387</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ (1,489,700)
Net investment income	<u>39,725</u>
Total	\$ (1,449,974)
Benefit and loss related payments	\$ 1,911,703
Commissions, expenses paid and aggregate write-ins	(651,572)
Dividends to policyholders	1,363
Federal income taxes (paid) recovered	<u>254,378</u>
Total	<u>\$ 1,515,872</u>
Net cash from operations	<u>\$ (2,965,846)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ 3,335,399</u>
Net cash from financing and miscellaneous sources	<u>\$ 3,335,399</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$ 369,553
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>(2,093,256)</u>
End of period	<u>\$ (1,723,703)</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
AMANDA THEISEN, CFE, PIR, MCM
Examiner-in-Charge
Insurance Division
State of Iowa