

MARKET CONDUCT  
EXAMINATION REPORT OF  
GRINNELL MUTUAL REINSURANCE COMPANY  
AS OF DECEMBER 31, 2014  
GRINNELL, IOWA

Grinnell, Iowa  
September 24, 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

GRINNELL MUTUAL REINSURANCE COMPANY

GRINNELL, IOWA

AS OF DECEMBER 31, 2014

at the Home Office, 4215 Highway 146, Grinnell, 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

Grinnell Mutual Reinsurance Company, hereinafter referred to as the "Company", were last examined as of December 31, 2009. This market conduct examination covers the intervening period from January 1, 2010 to the close of business on December 31, 2014 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.

#### HISTORY

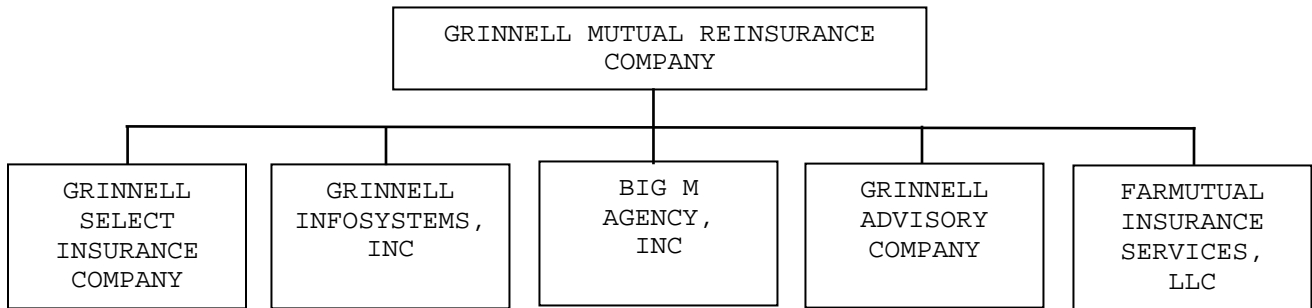
The Company was organized at Greenfield, Iowa on April 17, 1909, under the name of Iowa Farmers Mutual Reinsurance Association to provide a reinsurance facility for county mutuals domiciled in the state of Iowa. In 1933, the Home Office was moved to Grinnell, Iowa. Also in that same year the Company's 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

Grinnell Mutual Reinsurance 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 follows:



The Company's subsidiary, Grinnell Select Insurance Company, was organized on July 23, 1984 for the general purpose of providing 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.

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

RELATED PARTY AGREEMENTS

Grinnell Mutual Reinsurance Company furnishes management services and operating facilities to Grinnell Select Insurance Company, Grinnell Infosystems, Inc., Big M 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 N.A.I.C. or generally accepted accounting principles. Each company pays for its own direct expenses incurred when applicable.

TERRITORY AND PLAN OF OPERATION

The Company is granted writing authority in the following jurisdictions:

- |             |              |                  |
|-------------|--------------|------------------|
| Illinois    | Missouri     | Oklahoma         |
| Indiana     | Nebraska     | Pennsylvania (Q) |
| Iowa        | North Dakota | South Dakota     |
| Minnesota   | Ohio         | Wisconsin        |
| Montana (Q) |              |                  |

(Q)Qualified or Accredited Reinsurer

Gross premiums recorded for 2014 totaled \$543,182,113. The Company's direct business, which constitutes approximately 57% of gross writings or \$307,715,720, is heavily related to the Company's relationships with its farm mutual clientele. Business is developed through approximately 1,600 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 business is also written in nine other states throughout the United States.

The farm mutual reinsurance operations constitute 19% of gross writings or \$132,203,565. 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 remaining 24% of gross writings or \$103,203,565 is derived from the direct business written by Grinnell Select Insurance Company and ceded to the Company under a 100% quota share reinsurance agreement.

#### 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 monitored by the functional vice presidents. 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 and online development department. Materials are submitted to legal compliance for review to ensure they comply with state regulations. A website is also maintained at [www.gmrc.com](http://www.gmrc.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 field marketing staff at least once annually.

#### UNFAIR INSURANCE TRADE PRACTICES

As a part of the risk focused market conduct exam a review of policies, procedures, and controls is performed. The review includes, but is not limited to, unfair insurance trade practices as defined within the Iowa Code and the Iowa Administrative Code.

#### Policy Administration

The Company maintains written processes and underwriting guidelines for analyzing, understanding and documenting the associated risks and/or exposures that may be inherent within the application coverage. Policy administrators are provided training and are subject to regular quality performance reviews. In addition, policy administration staff leverages the Company's Government Affairs Department for current statutory regulations and upcoming changes. The policy administration

systems have automated control processes that are aligned with statutory requirements.

Policies, procedures, and controls reviewed demonstrated an effective protocol to assure compliance with state laws and regulations.

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. Claims administration staff also leverages the Company's Government Affairs Department for current statutory regulations and upcoming changes. Management utilizes various automated reports to track timeliness of workflow and monitor the claim process.

Policies, procedures, and controls reviewed demonstrated an effective protocol to assure compliance with state laws and regulations.

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>2010</u>           | <u>2011</u>           | <u>2012</u>          |
|------------------------------|-----------------------|-----------------------|----------------------|
| Premiums earned              | <u>\$250,375,003</u>  | <u>\$253,111,907</u>  | <u>\$265,612,633</u> |
| <u>Incurred deductions</u>   |                       |                       |                      |
| Losses incurred              | \$158,240,335         | \$181,681,025         | \$142,450,806        |
| Defense and cost containment | 10,190,464            | 8,035,373             | 4,027,234            |
| Adjusting and other expenses | 17,951,000            | 16,515,000            | 18,428,000           |
| Commission and brokerage     | 46,384,810            | 47,816,089            | 52,212,591           |
| Taxes, licenses and fees     | 3,910,175             | 4,120,687             | 4,535,605            |
| Other acquisition expenses   | 26,954,000            | 27,057,000            | 27,149,000           |
| General expenses incurred    | <u>4,284,000</u>      | <u>5,436,000</u>      | <u>6,124,000</u>     |
| Total deductions             | <u>\$267,914,784</u>  | <u>\$290,661,174</u>  | <u>\$254,927,236</u> |
| Underwriting gain (loss)     | <u>\$(17,539,781)</u> | <u>\$(37,549,267)</u> | <u>\$ 10,685,397</u> |

| <u>Classification</u>        | <u>2013</u>          | <u>2014</u>          | <u>Total</u>           |
|------------------------------|----------------------|----------------------|------------------------|
| Premiums earned              | <u>\$286,012,755</u> | <u>\$300,773,222</u> | <u>\$1,355,885,520</u> |
| <u>Incurred deductions</u>   |                      |                      |                        |
| Losses incurred              | \$147,825,776        | \$130,532,363        | \$ 760,730,305         |
| Defense and cost containment | 5,641,404            | 7,104,317            | 34,998,792             |
| Adjusting and other expenses | 20,929,000           | 19,441,000           | 93,264,000             |
| Commission and brokerage     | 53,806,199           | 55,658,421           | 255,878,110            |
| Taxes, licenses and fees     | 5,739,478            | 5,831,561            | 24,137,506             |
| Other acquisition expenses   | 29,853,000           | 30,560,000           | 141,573,000            |
| General expenses incurred    | <u>5,787,000</u>     | <u>5,700,000</u>     | <u>27,331,000</u>      |
| Total deductions             | <u>\$269,581,857</u> | <u>\$254,827,662</u> | <u>\$1,337,912,713</u> |
| Underwriting gain (loss)     | <u>\$ 16,430,898</u> | <u>\$ 45,945,560</u> | <u>\$ 17,972,807</u>   |

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

|                              | <u>2010</u>   | <u>2011</u>   | <u>2012</u>  | <u>2013</u>  | <u>2014</u>  | <u>Average</u> |
|------------------------------|---------------|---------------|--------------|--------------|--------------|----------------|
| <u>Incurred deductions</u>   |               |               |              |              |              |                |
| Losses incurred              | 63.2%         | 71.8%         | 53.6%        | 51.7%        | 43.4%        | 56.1%          |
| Defense and cost containment | 4.1           | 3.2           | 1.5          | 2.0          | 2.4          | 2.6            |
| Adjusting and other expenses | 7.2           | 6.5           | 6.9          | 7.3          | 6.5          | 6.9            |
| Commission and brokerage     | 18.5          | 18.9          | 19.7         | 18.8         | 18.5         | 18.9           |
| Taxes, licenses and fees     | 1.6           | 1.6           | 1.7          | 2.0          | 1.9          | 1.8            |
| Other acquisition expenses   | 10.8          | 10.7          | 10.2         | 10.4         | 10.2         | 10.4           |
| General expenses incurred    | <u>1.7</u>    | <u>2.1</u>    | <u>2.3</u>   | <u>2.0</u>   | <u>1.9</u>   | <u>2.0</u>     |
| Total deductions             | <u>107.0%</u> | <u>114.8%</u> | <u>96.0%</u> | <u>94.3%</u> | <u>84.7%</u> | <u>98.7%</u>   |
| Underwriting gain (loss)     | <u>-7.0%</u>  | <u>-14.8%</u> | <u>4.0%</u>  | <u>5.7%</u>  | <u>15.3%</u> | <u>1.3%</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:

| State        | Five-Year<br>Average<br>Earned<br>Premium | Five-Year<br>Operating<br>Ratio | 2014<br>Earned<br>Premium | 2014<br>Operating<br>Ratio |
|--------------|---|---------------------------------|---------------------------|----------------------------|
| Illinois     | \$ 45,426,004                             | 87.4%                           | \$ 46,400,830             | 70.1%                      |
| Indiana      | 8,091,709                                 | 96.0                            | 8,275,269                 | 106.2                      |
| Iowa         | 81,617,681                                | 88.1                            | 87,031,466                | 82.5                       |
| Minnesota    | 80,883,747                                | 116.1                           | 97,991,456                | 84.1                       |
| Missouri     | 16,512,888                                | 89.4                            | 17,717,258                | 84.4                       |
| Nebraska     | 5,752,072                                 | 129.4                           | 6,239,970                 | 111.0                      |
| North Dakota | 13,213,171                                | 86.4                            | 14,293,155                | 78.6                       |
| Ohio         | 4,035,456                                 | 91.3                            | 4,577,509                 | 81.4                       |
| Oklahoma     | 3,735,994                                 | 113.0                           | 5,164,683                 | 93.8                       |
| South Dakota | 4,727,443                                 | 105.1                           | 5,820,894                 | 139.7                      |
| Wisconsin    | 7,180,939                                 | 108.6                           | 7,260,731                 | 130.7                      |
| Totals       | <u>\$ 271,177,104</u>                     | <u>98.7%</u>                    | <u>\$ 300,773,221</u>     | <u>84.7%</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:

Amanda Buseman, CFE, MCM  
 Bob Wong, CFE  
 Bouavan Kha

Respectfully submitted,

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