

MARKET CONDCUT  
EXAMINATION REPORT OF  
GRINNELL SELECT INSURANCE COMPANY  
AS OF DECEMBER 31, 2014  
GRINNELL, IOWA

Grinnell, Iowa  
October, 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 SELECT INSURANCE 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

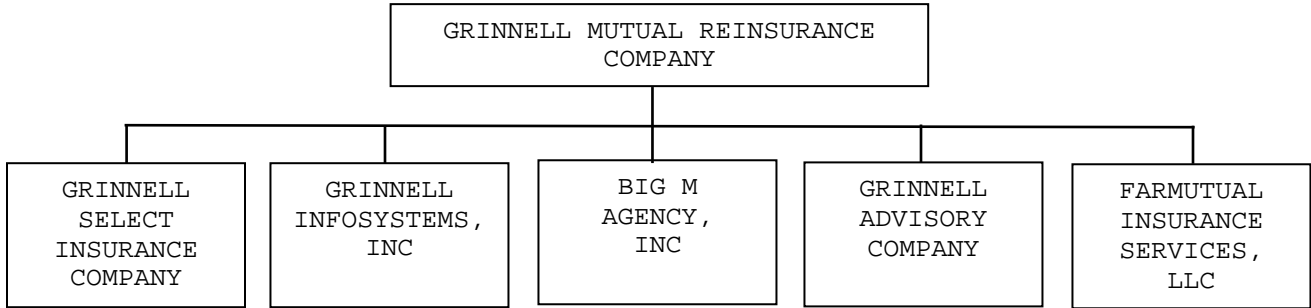
Grinnell Select Insurance Company, hereinafter referred to as the "Company", were last examined as of December 31, 2009. This market conduct examination covers the intervening period from January 1, 2010 to the close of business on December 31, 2014 and was conducted by examiners for the Iowa Insurance 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 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.

#### 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:



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.

*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.*

TERRITORY AND PLAN OF OPERATION

The Company is granted writing authority in the following jurisdictions:

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

Gross writings or \$103,203,565 is derived primarily from private passenger automobile business which is ceded to Grinnell Mutual Reinsurance 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

##### 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.

A study was conducted to gain an understanding of the statutory compliance procedures incorporated within the underwriting function and related to unfair insurance trade practices, as defined within the Iowa Code and the Iowa Administrative Code. The Company maintains a Government Affairs Department which is responsible for staying apprised of current statutory regulations and communicating such regulations to policy administration staff. 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.

A study was conducted to gain an understanding of the statutory compliance procedures incorporated within the claim adjudication function and related to unfair insurance trade practices, as defined within the Iowa Code and the Iowa Administrative Code. The Company maintains a Government Affairs Department which is responsible for staying apprised of current statutory regulations and communicating such regulations to claims administration staff. 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>\$ 74,351,506</u>	<u>\$ 81,601,949</u>	<u>\$ 88,139,418</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 45,435,093	\$ 48,561,339	\$ 48,187,663
Defense and cost containment	1,205,925	863,118	1,450,547
Adjusting and other expenses	5,393,000	5,446,000	6,074,000
Commission and brokerage	9,776,200	10,561,862	11,772,520
Taxes, licenses and fees	1,068,136	1,221,484	1,355,495
Other acquisition expenses	4,839,000	5,354,000	5,672,000
General expenses incurred	<u>1,095,000</u>	<u>1,449,000</u>	<u>1,054,000</u>
Total deductions	<u>\$ 68,812,354</u>	<u>\$ 73,456,803</u>	<u>\$ 75,566,225</u>
Underwriting gain (loss)	<u>\$ 5,539,152</u>	<u>\$ 8,145,146</u>	<u>\$ 12,573,193</u>

<u>Classification</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Premiums earned	<u>\$ 95,294,748</u>	<u>\$ 101,418,573</u>	<u>\$ 440,806,194</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 55,960,253	\$ 57,260,830	\$ 255,405,178
Defense and cost containment	1,044,133	1,918,337	6,482,060
Adjusting and other expenses	6,558,000	7,192,000	30,663,000
Commission and brokerage	12,079,568	13,069,633	57,259,783
Taxes, licenses and fees	1,518,287	1,571,930	6,735,332
Other acquisition expenses	6,414,000	6,083,000	28,362,000
General expenses incurred	<u>1,233,000</u>	<u>1,161,000</u>	<u>5,992,000</u>
Total deductions	<u>\$ 84,807,241</u>	<u>\$ 88,256,730</u>	<u>\$ 390,899,353</u>
Underwriting gain (loss)	<u>\$ 10,487,507</u>	<u>\$ 13,161,843</u>	<u>\$ 49,906,841</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	61.1%	59.5%	54.7%	58.7%	56.5%	57.9%
Defense and cost containment	1.6	1.1	1.6	1.1	1.9	1.5
Adjusting and other expenses	7.3	6.7	6.9	6.9	7.1	7.0
Commission and brokerage	13.1	12.9	13.4	12.7	12.9	13.0
Taxes, licenses and fees	1.4	1.5	1.5	1.6	1.5	1.5
Other acquisition expenses	6.5	6.6	6.4	6.7	6.0	6.4
General expenses incurred	<u>1.5</u>	<u>1.8</u>	<u>1.2</u>	<u>1.3</u>	<u>1.1</u>	<u>1.4</u>
Total deductions	<u>92.6%</u>	<u>90.0%</u>	<u>85.7%</u>	<u>89.0%</u>	<u>87.0%</u>	<u>88.7%</u>
Underwriting gain (loss)	<u>7.4%</u>	<u>10.0%</u>	<u>14.3%</u>	<u>11.0%</u>	<u>13.0%</u>	<u>11.3%</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:

<u>State</u>	<u>Five-Year Average Earned Premium</u>	<u>Five-Year Operating Ratio</u>	<u>2014 Earned Premium</u>	<u>2014 Operating Ratio</u>
Illinois	\$ 9,199,587	87.7%	\$ 9,599,180	84.0%
Indiana	1,851,271	81.4	2,507,914	85.5
Iowa	38,431,869	85.7	42,300,695	87.3
Minnesota	13,763,994	90.8	16,296,060	90.4
Missouri	5,189,182	86.0	6,738,070	87.0
Nebraska	2,089,717	103.2	2,193,798	119.8
North Dakota	5,500,065	85.1	6,822,702	80.2
Ohio	2,644,755	89.2	3,623,308	87.9
Oklahoma	4,767,387	102.3	6,239,574	77.6
South Dakota	1,269,954	105.5	1,608,709	99.7
Wisconsin	<u>3,453,457</u>	<u>95.2</u>	<u>3,488,564</u>	<u>79.8</u>
Totals	<u>\$ 88,161,239</u>	<u>88.7%</u>	<u>\$ 101,418,574</u>	<u>87.0%</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 =  
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Examiner-in-Charge  
Insurance Division  
State of Iowa