

EXAMINATION REPORT OF
HAWKEYE LIFE INSURANCE GROUP, INC.
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2020

West Des Moines, Iowa
October 6, 2022

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Dear Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the business affairs and financial condition of

HAWKEYE LIFE INSURANCE GROUP, INC.

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2020

at its home office located at 1111 Office Park Road, West Des Moines, Iowa 50265.

INTRODUCTION

Hawkeye Life Insurance Group, Inc., hereinafter referred to as the “Company”, was last examined as of December 31, 2015 by the Iowa Insurance Division (“Division”).

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2016 to the close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination date.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Division 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.

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

HISTORY

The Company was incorporated August 3, 1979 as an Iowa domestic insurance company and is the surviving entity resulting from a merger of Hawkeye Life Insurance Group, Inc., Phoenix, Arizona, into Hawkeye Life Insurance Group, Inc., Des Moines, Iowa.

In December 1987, by an amendment to the Articles of Incorporation, the Company's authorized capital stock was increased from 1,000,000 shares to 2,000,000 shares divided into two classes of common stock (1) 500,000 shares, par value of \$1.00 per share, designated as Voting Common Stock and (2) 1,500,000 shares, par value of \$1.00 per share, designated as Class A Participating Common Stock, which shall be divided into 300 series designated by number one and ending with 300, respectively, with any number of the authorized shares issued in any one series.

In July 1990, the Company incorporated the Dealer Agency Corporation with the capitalization of \$15,000 for the purpose of the exclusive solicitation of Iowa automobile dealers to participate in a program for the sale of extended service agreements offered by First Extended Service Corporation, Dallas, Texas, to purchasers of new and used automobiles. In May 2002, Dealer Agency was converted to an LLC.

In June 2002, by amendment to the Articles of Incorporation, the Company added a third class of common stock adding 1,500,000 shares of no-par common stock designated as Class B Participating Common Stock. Shares of Voting Common Stock, Class A Participating Common Stock and Class B Participating Common Stock shall be sold and issued only to persons, firms or corporations who are members or associate members of the Iowa Automobile Dealers Association ("IADA").

CAPITAL STOCK AND DIVIDENDS

At December 31, 2020, capital stock paid in, and paid in and contributed surplus totaled \$135,380 and \$1,088,881 respectively. The Company paid cash dividends to its stockholders in the following years during the examination period:

2016	\$	115,000
2017		22,373
2018		-
2019		406,000
2020		-

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company is owned by approximately 114 auto dealerships that are members of the Iowa Automobile Dealers Association ("IADA"). The Company is the sole stockholder of Dealer Agency, L.L.C. an Iowa limited liability company.

The Company has the following agreements with its related parties and/or subsidiary:

- a. An administrative services agreement with IADA Services, Inc., whereby IADA Services, Inc. provides services and office space. Services provided include billing and collecting insurance premiums which remain unpaid from the previous month for members of the IADA who write credit life and credit disability insurance and extended service contracts and other ancillary products through the Company's ceding insurer and Dealer Agency, L.L.C., IADA Services, Inc. will assist in the administration of insurance and investing the Company's assets as directed by the Company. The Company pays \$6,000 per month for these services. The contract also provides that the Company

will reimburse IADA Services, Inc. on a monthly basis for its actual mailing, photocopying and telephone expenses.

- b. A royalty agreement with IADA for the use of the IADA trade name and trademark in promoting the credit life and credit disability insurance program to IADA members.
- c. The Company has an Expense Reimbursement Agreement with Dealer Agency, L.L.C., whereby the Company provides personnel, services and facilities to Dealer Agency, L.L.C. to conduct its business. Dealer Agency, L.L.C. reimburses the Company based on the cost incurred by the Company. Dealer Agency, L.L.C. has recognized the following prorated expense reimbursement:

2016	\$ 73,726
2017	68,435
2018	78,634
2019	80,600
2020	157,602

MANAGEMENT AND CONTROL

STOCKHOLDERS

The Bylaws state that the regular annual meeting of the stockholders is to be held on the second Monday in May of each year at 1:00 p.m. or at such other date and time as the Board of Directors may determine. Meetings are to be held in Dallas County or Polk County, Iowa or at such other place as may be designated. Stockholders representing a majority of the issued and outstanding shares of stock entitled to vote shall be present in person or by proxy to constitute a quorum.

BOARD OF DIRECTORS

The Bylaws stipulate that the Company shall be managed by a Board of Directors consisting of not less than five nor more than twelve directors with the specific number to be established from time to time by resolution of the Board of Directors. A resolution decreasing the number of directors previously established shall be effective only to eliminate a vacancy occurring by reason of death, resignation removal or inability or refusal to serve, or upon the expiration of a term of service. In the event of a resolution increasing such number, the vacancy or vacancies so created shall be filled by a majority vote of the directors for a term extending to the next annual meeting of stockholders.

A regular meeting of the Board of Directors shall be held without notice immediately after, and at the same place as the annual meeting of the stockholders. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meeting without other notice than such resolution. Special meetings may be called by the President of the Board or by two-thirds of the members of the Board of Directors.

Directors need not be stockholders of the Company but must be actively engaged in the marketing of new motor vehicles as a dealer or as an officer of a licensed Iowa Dealership. Directors are elected by a majority of the holders of voting common stock at each annual meeting of the stockholders and serve for a term of one year or until successors are elected and qualified. At least one-third of the directors shall be independent.

Elected directors serving as of December 31, 2020 were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Duane J. Barber Spencer, IA	Owner / Partner Don Pierson Ford-Lincoln, Inc.	2021
Patrick H. Clemons Boone, IA	President Pat Clemon, Inc.	2021
Jeffrey L. Finch Grinnell, IA	President West Finch Auto Plaza	2021
Mark R. Heywood Estherville, IA	President Motor Inn Auto Group	2021
Benjamin J. Knoepfler Sioux City, IA	Dealer Knoepfler Chevrolet Co.	2021
Steven R. Schukei Mason City, IA	Owner Schukei Chevrolet	2021
Kevin M. Wittrock Carroll, IA	Dealer Principal Wittrock Motor Co.	2021
Jeffery L. Zaputil Denver, IA	CFO Dan Deery Motors	2021

COMMITTEES

The Bylaws state that the standing committees of the Company shall consist of an Executive Committee, Audit Committee, Investment Committee, Corporate Governance Committee, and such other committees as the Board of Directors may establish by resolution. Committee members serve at the pleasure of the Board for a term of one year and are appointed at the annual meeting of the Board. At December 31, 2020 an Executive, Audit, Investment Committee, and a Corporate Governance Committee were in place and functioning in accordance with the Bylaws.

The Committees were made up of the following Board members at December 31, 2020:

<u>Executive Committee</u>	<u>Investment Committee</u>
Patrick Clemons	Steven Schukei
Duane Barber	Jeff Finch
Mark Heywood	Ben Knoepfer
Kevin Wittrock	Jeff Zaputil
<u>Audit Committee</u>	<u>Corporate Governance Committee</u>
Duane Barber	Patrick Clemons
Jeff Finch	Duane Barber
Kevin Wittrock	Mark Heywood
	Kevin Wittrock

OFFICERS

The Bylaws provide that the officers of the Company shall be a President, a Senior Vice President, Vice President, a Secretary, and a Treasurer. Such other officers and assistant officers may be elected or appointed as deemed necessary by the Board of Directors. Two or more offices may be combined in one person except for the offices of President, Senior Vice President, and Secretary.

Appointed officers serving at December 31, 2020 were:

<u>Name</u>	<u>Title</u>
Patrick H. Clemons	President
Steve M. Wade	Senior Vice President
Mark R. Heywood	Vice President
Bruce L. Anderson	Secretary
Allan E. Voorhees	Treasurer

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest or affiliation on the part of the directors, officers, responsible employees and members of their immediate family, which is in conflict with, or is likely to be in conflict with the official duties of such person. There were no conflicts noted on the statements provided.

FIDELITY BONDS AND OTHER INSURANCE

The Company self-insures its fidelity coverage for protection to the business or individuals for money or other property lost because of dishonest acts of its employees. Other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

EMPLOYEES' WELFARE

Employee benefits are provided through IADA Services, Inc.'s employee benefit program.

REINSURANCE

The Company does not write any direct business. All of the Company's business is assumed reinsurance which consists of credit life and credit disability contracts. Administration of such business is handled by the ceding insurer.

Since 2013, the Company has assumed reinsurance from one carrier. Business from a previous carrier is currently in run-off. The reinsurance agreements contained proper insolvency clauses.

The Company entered into trust agreements with the current and previous insurers. The trust account serves as a security for the reserves ceded to this Company. The Company must maintain a balance in the trust account at least equal to the life and accident and health reserves assumed by the Company.

STATUTORY DEPOSIT

At December 31, 2020, the Company had securities and other assets on deposit with the Insurance Division of Iowa in excess of the minimum statutory requirements.

TERRITORY AND PLAN OF OPERATION

The Company operates as a reinsurer of credit life and credit accident and health insurance and is only authorized to transact business in the State of Iowa.

GROWTH OF THE COMPANY

The table below shows the growth of the Company for the five year period ending with the last year of this examination.

Year	Admitted Assets	Total Capital and Surplus	Credit Premium Income	A&H Premium Income	Death and Disability Benefits	Net Investment Income
2016	\$11,666,087	\$8,783,023	\$943,616	1,203,708	\$593,323	\$665,557
2017	12,729,136	10,104,029	917,717	1,160,838	642,975	642,863
2018	12,629,985	10,159,229	867,919	1,091,429	429,828	592,897
2019	11,674,955	9,716,559	629,636	974,569	613,895	583,087
2020	11,246,899	9,388,378	592,256	861,755	641,988	523,894

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained by an unaffiliated third party. 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 annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material surplus differences were identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2020.

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, 2020.

ASSETS

	<u>Assets</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds	\$ 10,253,475	\$	\$ 10,253,475
Cash, cash equivalents and short-term investments	367,277		367,277
Other invested assets	581,154	581,154	
Investment income due and accrued	61,622		61,622
Funds held by or deposited with reinsured companies	10,987		10,987
Current federal and foreign income tax recoverable and interest thereon	530,976		530,976
Net deferred tax asset	22,563		22,563
Furniture and equipment	2,752	2,752	
Receivables from parent, subsidiaries and affiliates	15,575	15,575	
Prepaid expenses	17,333	17,333	
Non-admitted IMR	30,891	30,891	
Automobile	17,852	17,852	
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 11,912,456	\$ 665,557	\$ 11,246,899

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 1,357,871
Aggregate reserve for accident and health contracts	197,892
Life contract claims	57,002
Accident and health contract claims	128,432
General expenses due or accrued	33,728
Current federal and foreign income taxes	17,848
Asset valuation reserve	32,729
Funds due to direct writer	33,021
	<hr/>
Total Liabilities	\$ 1,858,521
	<hr/>
Common capital stock	\$ 135,380
Gross paid in and contributed surplus	1,088,881
Unassigned funds (surplus)	8,164,117
	<hr/>
Total Surplus and Other Funds	\$ 9,388,378
	<hr/>
Total Liabilities, Surplus and Other Funds	\$ 11,246,899

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$ 1,454,010
Net investment income	288,880
Amortization of Interest Maintenance Reserve	(6,717)
Total	<u>\$ 1,736,173</u>
Death benefits	\$ 415,588
Disability benefits and benefits under accident and health contracts	226,400
Increase in aggregate reserves for life and accident and health contracts	(353,905)
Total	<u>\$ 288,083</u>
Commissions and expense allowances on reinsurance assumed	775,779
General insurance expenses	503,492
Insurance taxes, licenses and fees, excluding federal income taxes	28,033
Total	<u>\$ 1,595,387</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 140,786
Federal and foreign income taxes incurred	(237,756)
Net Income	<u>\$ 378,452</u>

CAPITAL & SURPLUS

Capital and surplus, December 31, 2019	<u>\$ 9,493,256</u>
Net income	\$ 378,542
Change in net unrealized capital gains (losses) less capital gains tax	61,037
Change in net deferred income tax	(309,481)
Change in non-admitted assets	(22,694)
Change asset valuation reserve	2,056
Capital changes: paid in	(1,800)
Surplus adjustment – paid in	(4,388)
Surplus redeemed	(195,410)
Net change in DTA	762
Adjustment to prior years IMR transfer	(13,502)
Net change in capital and surplus for the year	<u>\$ (104,878)</u>
Capital and Surplus, December 31, 2020	<u>\$ 9,388,378</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 1,454,010	
Net investment income	334,937	
Total		\$ 1,788,947
Benefit and loss related payments	\$ 648,750	
Commissions, expenses paid and aggregate write-ins for deductions	1,279,783	
Federal and foreign income taxes paid (recovered)	(6,971)	
Total		1,921,563
Net cash from operations		\$ (132,616)

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 2,782,793	
Total investment proceeds		\$ 2,782,793
Cost of investments acquired:		
Bonds	\$ 2,199,909	
Total investments acquired		2,199,909
Net cash from investments		\$ 582,884

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Capital and paid in surplus, less treasury stock	\$ (6,188)	
Other cash provided (applied)	(152,323)	
Net cash from financing and miscellaneous sources		\$ (158,511)

Reconciliation of Cash, Cash Equivalents, and Short-Term Investments

Net change in cash, cash equivalents and short-term investments	\$ 291,575
Cash, cash equivalents and short-term investments:	
Beginning of year	75,520
End of year	\$ 367,277

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, John Echeveste and Logan Thomsen, examiners from the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Bob Wong
Bob Wong, CFE, CISA
Examiner-in-Charge
Iowa Insurance Division
State of Iowa