

EXAMINATION REPORT OF
MIDWEST FAMILY ADVANTAGE INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2020

West Des Moines, Iowa
April 27, 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

MIDWEST FAMILY ADVANTAGE INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2020

at its statutory home office 4401 Westown Parkway, Suite 305, West Des Moines, Iowa.

INTRODUCTION

This is the first examination of Midwest Family Advantage, hereinafter referred to as the “Company”. The examination reported herein was conducted by examiners of the Iowa Insurance Division. The Company’s parent, Midwest Family Mutual Insurance Company, was also examined 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, 2016 to the close of business on December 31, 2020, including any material transactions and/or 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.

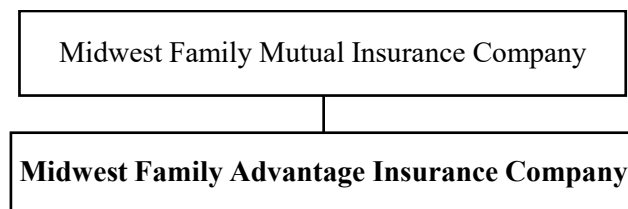
This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

On December 1, 2017, Midwest Family Mutual Insurance Company created a wholly owned subsidiary, Midwest Family Advantage Insurance Company and provided \$10,000,000 in exchange for 100% of the stock of Midwest Family Advantage Insurance Company.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Mutual Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. The Company’s parent, Midwestern Family Mutual Insurance Company, owns 100% of the voting rights.



MANAGEMENT AND CONTROL

Shareholders

The annual meeting of the Shareholders shall be held on the third Monday of August of each year through 2019. Beginning in the calendar year 2020, the annual meeting of the Shareholders shall be held on the first Monday of May of each year, for the purpose of electing Directors for the subsequent fiscal year, and for the transaction of such other business as may come before the meeting.

Unless otherwise prescribed by statute, special meetings of the Shareholders may be called by the President or by the Board of Directors for any purpose or purposes, and shall be called by the President at the request of the holder of not less than twenty percent (20%) of all of the outstanding shares of the Corporation entitled to vote at any such meeting.

The Board of Directors may designate any place, either within or without the State of Iowa, as the place for holding any annual meeting or for any special meeting called by the Board of Directors. Notice of each annual or special meeting shall be given to each Shareholder of record entitled to vote at such meeting, stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which such special meeting is called. Such Notice shall be given not less than ten (10) nor more than thirty (30) days before the date of the meeting and shall be in writing, unless oral notice is reasonable under the circumstances.

The number of Shareholders in attendance in person or by proxy, shall constitute a quorum at a meeting of Shareholders.

Board of Directors

The Bylaws provide that the Directors shall direct the business and affairs of the Corporation, and shall exercise all of the powers of the Corporation. The Board of Directors may authorize any officer(s) or agent(s) to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation.

The initial number of Directors of the Corporation shall be not less than five (5) and not more than (9). The exact number of Directors within such minimum and maximum limits shall be fixed and determined from time to time by resolution of the Board of Directors.

The Formation Board of Directors shall serve until the first annual meeting of the Shareholders, and in all cases until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of any such Director. After the expiration of the terms of the Formation Board of Directors, at each annual meeting of the Shareholders, Directors shall be elected by the Shareholders for staggered terms of five (5) years and in all cases until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of any such Director.

A regular meeting of the Board of Directors shall be held immediately after, and at the same place as, the annual meeting of Shareholders. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, or, in his/her absence or disability, by the President.

A majority of the duly elected and qualified Directors shall constitute a quorum for the transaction of business; provided, that if less than a majority of such number of Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

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

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Nathan T. Gray McFall, MO	Retired Agent Federal Bureau of Investigation	2021
Kristie F. Van Pelt Camdenton, MO	Senior Vice President and Chief Financial Officer Midwest Family Mutual Insurance Company	2021
William J. O'Brien Arden Hills, MN	Attorney Mackall, Crounse & Moore, PLC	2022
Ronald G. Boyd Chariton, IA	Executive Vice Chairman and Chief Executive Officer Midwest Family Mutual Insurance Company	2023
Aaron W. Boyd Rockford, MN	President and Chief Operating Officer Midwest Family Mutual Insurance Company	2024
Gary G. Stillwell* Bloomington, MN	Retired Account Director Imation Corporation	2024
Victoria L. Boyd Chariton, IA	Retired Vice President Qwest Communications	2025

*Gary Stillwell passed away July of 2021, Nathan Gray took on the role of Acting Audit Chair. Tanner Johnson was voted on to the Board to replace Mr. Stillwell in December of 2021.

Committees

The Board may appoint committees to perform such functions and with such authority as the Board may determine. Committees named include Audit, Investment and Executive.

Members of the Audit Committee as of December 31, 2020 are:

Gary Stillwell (Audit Chair)
Nathan Gray
William O'Brien
Kristie Van Pelt (ex-officio)

Officers

The officers of the Company are elected annually by the Board of Directors. The Bylaws prescribe that the Chairman of the Board shall preside at all meetings of the Board and shall have such powers and duties as the Board may determine. The President shall preside at all meetings of the Members and shall be the Company's executive officer. He shall have general supervision of the business affairs of the Company and shall have such powers and duties as the Board may determine. The Secretary shall keep a record of the proceedings of all meetings of the Company. The Secretary shall be custodian of the Corporate Seal and all books and records belonging to the Company, and shall have such powers and duties as the Board of Directors may determine.

The officers elected and serving at December 31, 2020 are as follows:

<u>Name</u>	<u>Office</u>
Ronald G. Boyd	Executive Vice Chairman and Chief Executive Officer
Aaron W. Boyd	President and Chief Operating Officer
Kristie F. Van Pelt	Senior Vice President, Chief Financial Officer and Treasurer
Rita M. Stott	Vice President – Claims
Michael R. Carey	Vice President – Underwriting
Becky S. Szymczak	Corporate Secretary
Victoria L. Boyd	Assistant Corporate Secretary

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 employees which is, or is likely to be, in conflict with the official duties of such person. While conflicts were disclosed, none were deemed to materially impact the interests of the Company.

CORPORATE RECORDS

On November 20, 2017, the Company filed their Original Articles of Incorporation and By-laws and were approved by the Iowa Secretary of State.

On March 22, 2018, the Company amended their Articles of Incorporation to change their principal place of business to 4401 Westown Parkway, Ste. 305, West Des Moines, IA 50266.

On October 3, 2018, the Company amended their Bylaws regarding the annual meeting of Shareholders.

AFFILIATED TRANSACTIONS

Tax Allocation Agreement

Effective December 1, 2017, the Company entered a federal income tax sharing agreement with its parent, Midwest Family Mutual Insurance Company.

Expense Allocation Agreement

Effective August 20, 2018, the Company entered into an Expense Allocation Agreement, with its parent, Midwest Family Mutual Insurance Company, whereby the parent agrees to provide services of its personnel, and to furnish such office space, information technology systems and equipment as required by the Company to carry on their activities. Each company will bear all of its direct costs and a proportionate share of costs incurred for the benefit of the Group.

Contribution Agreement

On March 29, 2019, the Company entered into a contribution agreement with parent, Midwest Family Mutual Insurance Company, under which the Company contributed to the subsidiary five million (5,000,000) shares of the ten million (10,000,000) outstanding shares of the subsidiary's common stock. This was to meet capital requirements in various states in which the subsidiary was applying for licensure.

Financial Guarantee

The Company's parent, Midwest Family Mutual Insurance Company, provides a financial guarantee ensuring a minimum capital requirement of \$2,500,000 at the request of the Maine Bureau of Insurance as a condition of approving the Company to transact business in the state of Maine. This guarantee was removed by the state of Maine in March of 2022.

FIDELITY BOND AND OTHER INSURANCE

The NAIC recommended minimum coverage for fidelity coverage is one million dollars. 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. The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

EMPLOYEE WELFARE

The Company utilizes the employees of its parent, Midwest Family Mutual Insurance Company.

REINSURANCE

Inter-Company Pooling

The Company cedes 100% of all direct written premiums to its parent, Midwest Family Mutual Insurance Company, through a Quota Share Reinsurance Agreement. The parent pays the quota share of losses, LAE, extra contractual obligations, and loss of excess policy limits.

Ceded premiums reported for 2020 totaled \$2,628,659.

STATUTORY DEPOSIT

As of December 31, 2020, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner for the benefit of all policyholders totaled \$2,606,490. A schedule of the book/adjusted carrying value of all other special deposits held for the benefit of policyholder in the respective jurisdiction follows:

Arkansas	\$149,481	New Mexico	\$309,823
Idaho	255,229	Oregon	150,000
Nevada	304,613		

TERRITORY AND PLAN OF OPERATION

The Company is licensed for personal and commercial lines in 32 states, but currently only writes worker's compensation in 9 states. The Company markets through independent agents with the top five states being Iowa, Illinois, Utah, Idaho, and Nebraska which account for 89.5% of total direct premiums written.

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>
2018	10,443,886	10,240,287	0	0	280,123
2019	11,085,610	10,572,929	0	0	278,247
2020	11,756,087	11,027,817	0	0	238,752

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 annual statements for assets, liabilities, income or disbursements.

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

SUBSEQUENT EVENTS

Quota Share Reinsurance Agreement

Effective January 1, 2022, the quota share reinsurance agreement with Midwest Family Mutual Insurance Company was amended where Midwest Family Advantage Insurance Company will now retain 10% of the premiums written.

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: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2020 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

<u>Ledger</u>	<u>Admitted</u>	<u>Not Admitted</u>	<u>Total</u>
Bonds	\$ 9,979,039	\$ -	\$ 9,979,039
Cash and short-term investments	427,285		427,285
Receivable for securities	6,511		6,511
Investment income due and accrued	74,757		74,757
Uncollected premiums in course of collection	161,882		161,882
Deferred premiums booked and not yet due	1,048,917		1,048,917
Amounts recoverable from reinsurers	57,697		57,697
Prepaid Expenses	<u>4,244</u>	<u>4,244</u>	<u>0</u>
Total assets	<u>\$ 11,760,331</u>	<u>\$ 4,244</u>	<u>\$ 11,756,087</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent and other	\$ 19,740
Other expenses	32,010
Taxes, licenses and fees	22,801
Current federal and foreign income tax	272,616
Net deferred tax liability	5,190
Advanced Premium	120,211
Ceded reinsurance premiums payable	255,594
Payable to parent, subsidiaries and affiliates	<u>108</u>
Total liabilities	<u>\$ 728,270</u>
Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	5,000,000
Unassigned funds (Surplus)	<u>1,027,817</u>
Surplus as regards policyholders	<u>\$ 11,027,817</u>
Total liabilities and surplus	<u>\$ 11,756,087</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 0
 <u>Deductions</u>		
Other underwriting expenses incurred	\$ (347,878)	
Total underwriting deductions		<u>(347,878)</u>
Net underwriting gain (loss)		\$ 347,878

Investment Income

Net investment income earned	\$ 238,752	
Net realized capital gains (losses)	<u>(16,949)</u>	
Net investment gain (loss)		221,803

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (2)	
Finance and service charges not included in premiums	3,721	
Miscellaneous Income	<u>(125)</u>	
Total other income		<u>3,844</u>
Net income before federal income tax		\$ 573,525
Federal and foreign income taxes incurred		<u>125,022</u>
Net income		<u>\$ 448,503</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019		<u>\$ 10,572,929</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 448,503
Change in net deferred income tax		(419)
Change in non-admitted assets		<u>6,804</u>
Change in surplus as regards policyholders for the year		<u>\$ 454,888</u>
Surplus as regards policyholders, December 31, 2020		<u>\$ 11,027,817</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ (430,472)	
Net investment income	238,804	
Miscellaneous income	<u>3,844</u>	
Total		\$ (187,824)
Benefit and loss related payments	\$ 15,798	
Commissions, expenses paid and aggregate write-ins	<u>(387,472)</u>	
Total		<u>(371,674)</u>
Net cash from operations		<u>\$ 183,850</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$ 5,134,047</u>	
Total investment proceeds		\$ 5,134,047
Cost of investments acquired (long-term only):		
Bonds	\$ 8,054,174	
Miscellaneous applications	<u>6,511</u>	
Total investments acquired		<u>8,054,174</u>
Net cash from investments		<u>\$ (2,920,127)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ (81,331)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (81,331)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ (2,817,608)
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>3,244,894</u>
End of period		<u>\$ 427,285</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 examiners participated in the examination and preparation of this report: Mick Jepsen, Aaron Syverson, Logan Thomsen, John Echeveste.

A review of the information technology system was contracted with Kristina Gaddis – CFE, CISA, AES.

A review and evaluation of actuarial processes and procedures was performed under the direction of Mike Hall – FCAS, MAAA and Scott Merkord – FCAS, MAAA of Risk and Regulatory Consulting.

Respectfully submitted,

/s/ Amanda Theisen
Amanda Theisen, CFE
Examiner-in-Charge
Insurance Division
State of Iowa