

EXAMINATION REPORT OF
ADAMS MUTUAL INSURANCE ASSOCIATION
ADAMS COUNTY, CORNING, IOWA
AS OF DECEMBER 31, 2016

Corning, Iowa
September 11, 2017

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

Commissioner Ommen:

In accordance with your instructions and pursuant to Iowa statutory provisions, an examination has been made of the

ADAMS MUTUAL INSURANCE ASSOCIATION

ADAMS COUNTY, CORNING, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 721 Davis Avenue, Corning, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2013 to December 31, 2016. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

HISTORY

The Association was incorporated in 1884 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518, Code of Iowa. The corporate existence was made perpetual in 1946.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of those persons or organizations having insurance written by the Association which is in full force and effect.

The annual meeting of the members is held at Corning, Iowa on the fourth Thursday in February at 1:30 p.m. Special meetings may be called by the Board of Directors as provided in the Articles of Incorporation. Due notice of the time and place of special meetings shall be given the membership. Each member present is entitled to one vote on any question to be decided. Voting by proxy is not permitted. Ten members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of nine directors, each elected by a majority vote at the annual meeting of the members for terms of three years. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining directors.

Directors serving at December 31, 2016 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Charles Lundquist	Lenox, Iowa	2017
Charles Lyles	Corning, Iowa	2017
Roger Walter	Corning, Iowa	2017
*Adam Grundman	Corning, Iowa	2018
Burton Heaton	Corning, Iowa	2018
Zachary Morgan	Corning, Iowa	2018
Jeff Crill	Corning, Iowa	2019
Michael A. Grundman	Corning, Iowa	2019
Steven Hefflefinger	Corning, Iowa	2019

The annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the Secretary. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$75 for each meeting attended and reimbursement of travel expense at the rate of 54 cents per mile.

*Received commissions of \$58,338 on business written for the Association during 2016.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Vice President, Treasurer and Secretary, who when so designated by the Board, may also serve as Treasurer and such additional officers as it deems necessary.

Officers serving at December 31, 2016 were:

<u>Name</u>	<u>Office</u>
Charles Lyles	President
Charles Lundquist	Vice President
Michael A. Grundman	Treasurer
Adam Grundman	Secretary/Manager

Salaries and remunerations of officers are shown in Exhibit A following this report.

CONFLICT OF INTEREST

The Association has a policy in place to have all officers, directors, and key employees provide conflict of interest statements annually. The Association was unable to provide the 2014 signed conflict of interest statements for one of the directors.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2013 was reviewed and accepted at the December 5, 2014 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$25,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Employment practices liability
- Building and contents
- General liability

Adequate insurance is placed with authorized insurers except professional liability and officers' and directors' liability which is written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

The Association contributes 100 percent of the premium for a single hospital, surgical and major medical plan for the Secretary.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Adams, Union, Taylor, Montgomery, Page, Cass, Ringgold, and Adair counties. It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

Policies are written or renewed for a one year period with premiums payable annually, semi-annually and monthly. The Association underwrites these policies every three years.

It was noted, from a review of policies cancelled during the exam period, that two of the cancelled policies lacked supporting documentation.

At the present time, business is produced by twelve licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2016

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Premiums earned	\$ 357,232	\$ 444,881	\$ 447,812	\$1,249,925
Incurred deductions:				
Losses	297,294	132,477	270,966	700,737
Loss adjustment expenses	(50)	120	8,960	9,030
Commissions	65,731	67,638	70,053	203,422
Salaries	59,488	61,524	49,003	170,015
Taxes, licenses and fees	11,368	11,678	11,178	34,224
Other underwriting expenses	90,824	133,226	61,335	285,385
Total deductions	\$ 524,655	\$ 406,663	\$ 471,495	\$1,402,813
Underwriting gain (loss)	\$ (167,423)	\$ 38,218	\$ (23,683)	\$ (152,888)

Expressed in ratios of expenses incurred to premiums earned, the percentages would be:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Incurred deductions:				
Losses	83.23 %	29.78 %	60.51 %	56.07 %
Loss adjustment expenses	(0.01)	0.03	2.00	0.72
Commissions	18.40	15.20	15.64	16.27
Salaries	16.65	13.83	10.94	13.60
Taxes, licenses and fees	3.18	2.62	2.50	2.74
Other underwriting expenses	25.42	29.95	13.70	22.83
Total deductions	146.87 %	91.41 %	105.29 %	112.23 %
Underwriting gain (loss)	(46.87)%	8.59 %	(5.29)%	(12.23)%

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First \$100,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer will pay 100% of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000. Second layer has a recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has a maximum recovery of \$15,000,000 in excess of \$5,000,000. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Aggregate Excess of Loss

First \$300,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100% of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. Applies to new and renewal and in-force policies of the Association effective and becoming effective at and after the effective date of the contract until expiration of the contract.

Facultative

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

CLAIMS

From a review of numerous claims, it appeared that the Association made prompt and equitable settlements which were in keeping with the terms of the policy contracts.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Grundman Insurance Agency, an unaffiliated agency.

The agency is 100 percent owned by Adam Grundman, who is also a director, agent and the Secretary/Manager of the Association. Adam Grundman is the son of Michael Grundman, the Treasurer of the Association. This agency produced approximately 74 percent of the Association's business during 2016.

The Grundman Insurance Agency paid \$130 monthly rent to the Association. The rental charge did not appear to be unreasonable.

The Association and the Grundman Insurance Agency each pay for their own expenses with the only shared item being office salaries, which are split on a 60/40 percent basis, respectively. The expense allocation between the agency and Association does not appear to be unreasonable.

ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were found to be in agreement with or reconciled to the general ledger balances of assets, liabilities, income and disbursements.

Selected cash receipts recorded during the period were checked and traced to the Association's depository. Checks paid during selected months were compared to the disbursement records and were scrutinized as to payees, amounts, and authorized signatures. Cash receipts and disbursements for selected months were proven by comparison and reconciliation to the monthly bank statements.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2016 relative to security custodial requirements.

In accordance with Section 518.25, Code of Iowa, surplus must be maintained at a level of not less than fifty thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2016, the gross risk in force for the Association was \$129,469,332. The Association's statutory minimum surplus level as of December 31, 2016 was \$129,469. It is noted the Association's surplus level to minimum surplus level ratio was 6.7/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2016 was 9.2/1.

The Association currently provides policyholders with a privacy notice every three years. A privacy notification is required annually.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2016 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>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 423,439	\$	\$	\$ 423,439
Stocks	310,571	2,805		313,376
Bank balances:				
Subject to check	51,217			51,217
On interest	358,124			358,124
Real estate	33,171			33,171
Cash in office	100			100
Accrued interest		2,782		2,782
Equipment and furniture	635		635	
EDP Equipment	371			371
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$1,177,628	\$ 5,587	\$ 635	\$1,182,580

LIABILITIES AND SURPLUS

Losses	\$ 65,929
Unpaid adjusting expenses	944
Ceded reinsurance balances payable	12,918
Unpaid salaries and commissions	5,937
Taxes payable	798
Other unpaid expenses	1,031
Premiums collected for other companies - not remitted	2,873
Premiums received in advance	6,154
Unearned premium reserve	223,000
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Total liabilities	\$ 319,584
Surplus as regards policyholders	862,996
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Total liabilities and surplus	\$1,182,580

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015 \$1,159,795

INCOME

Net premiums and fees	\$ 420,311
Net interest received on bonds	11,607
Decrease by adjustment - bonds	(1,106)
Dividends received	6,637
Interest received on bank deposits	2,471
Profit on sale of investments	110
Rents received	6,060
Premiums collected for other companies	42,882
Increase in ledger liabilities	1,025
Total income	<u>\$ 489,997</u>
Total assets and income	<u>\$1,649,792</u>

DISBURSEMENTS

Losses paid	\$ 216,037
<u>Operating Expense</u>	
Adjusting expense	\$ 8,236
Commissions	70,010
Advertising	3,728
Boards, bureaus and associations	3,799
Inspection and loss prevention	6,230
Salaries of officers	25,875
Expenses of officers	13
Salaries of office employees	23,128
Employee welfare	6,555
Insurance	5,582
Directors' compensation	1,125
Directors' expenses	131
Rent and rent items	2,400
Equipment	11,000
Printing, stationery and supplies	3,244
Postage and telephone	9,709
Legal and auditing	6,295
State insurance taxes	6,789
Insurance Division licenses and fees	100
Payroll taxes	5,047
All other taxes (excluding Federal income)	3
Real estate expenses	9,454
Real estate taxes	799
Miscellaneous	22
Annual and agent meeting expense	956
Travel and travel items	1,462
Over and short	105
Total operating expense	<u>\$ 211,797</u>

Non-Operating Expense

Depreciation on real estate	1,269
Federal income tax	1,991
Premium collections transmitted to other companies	34,693
Commissions paid agents for other companies	6,377
Total disbursements	<u>\$ 472,164</u>
Balance - ledger assets, December 31, 2016	<u>\$1,177,628</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 447,812
<u>Deductions</u>		
Losses incurred	\$270,966	
Loss expenses incurred	8,960	
Other operating expenses incurred	191,569	
Total underwriting deductions		<u>471,495</u>
Net underwriting gain (loss)		\$ (23,683)
<u>Investment Income</u>		
Net investment income earned		14,725
<u>Other Income</u>		
Premiums collected for other companies (net)		<u>1,317</u>
Net income before Federal income tax		\$ (7,641)
Federal income tax incurred		<u>991</u>
Net income		<u>\$ (8,632)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$ 843,571</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (8,632)
Change in not admitted assets	(635)
Change in net unrealized gains/losses	<u>28,692</u>
Change in surplus as regards policyholders for the year	<u>\$ 19,425</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 862,996</u>

UNDERWRITING AND INVESTMENT EXHIBIT
THREE-YEAR PERIOD ENDED DECEMBER 31, 2016
STATEMENT OF INCOME

<u>Underwriting Income</u>		\$1,249,925
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$700,737	
Loss expenses incurred	9,030	
Other operating expenses incurred	693,046	
Total underwriting deductions		<u>1,402,813</u>
Net underwriting gain (loss)		\$ (152,888)
<u>Investment Income</u>		
Net investment income earned		43,284
<u>Other Income</u>		
Premiums collected for other companies (net)		9,350
Miscellaneous income		<u>7</u>
Net income before Federal income tax		\$ (100,247)
Federal income tax incurred		<u>1,991</u>
Net income		<u>\$ (102,238)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	<u>\$ 934,392</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (102,238)
Change in not admitted assets	(454)
Change in net unrealized gains/losses	<u>31,296</u>
Change in surplus as regards policyholders for the period	<u>\$ (71,396)</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 862,996</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease are shown in the following statement of differences:

<u>Classification</u>	<u>Association Annual Statement</u>	<u>Examination Financial Statement</u>	<u>Surplus Increase (Decrease)</u>
<u>Liabilities</u>			
Losses	\$ 55,000	\$ 65,929	\$ (10,929)
Unpaid adjusting expenses	2,044	944	1,100
Premiums received in advance	8,998	6,154	2,844
Unearned premium reserve	222,000	223,000	<u>(1,000)</u>
Net change to surplus			\$ (7,985)
Surplus per Association			<u>870,981</u>
Surplus per examination			<u>\$ 862,996</u>

During the period under review, surplus funds decreased \$71,396 from the amount of \$934,392 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

Losses \$ 65,929

Losses increased by \$10,929 to reflect actual loss development.

Unpaid adjusting expenses \$ 944

This liability was decreased by \$1,100 to reflect the actual amount paid in 2017.

Premiums received in advance \$ 6,154

The liability was decreased by \$2,844 due to the recalculation of the liability.

Unearned premium reserve \$223,000

A recalculation of unearned premium reserve using exam adjustments increased the liability by \$1,000.

CONCLUSION

The cooperation and assistance extended by the officers and personnel of the Association is hereby acknowledged.

Respectfully submitted,

/s/ Andria Baker _____
ANDRIA BAKER, CPA
Cain Ellsworth & Company, LLP
Representing the State of Iowa