

MARKET CONDUCT
EXAMINATION REPORT OF
GUIDEONE MUTUAL INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2012

West Des Moines, Iowa
January 8, 2015

HONARABLE 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

GUIDEONE MUTUAL INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2012

at its Home Office, 1111 Ashworth Road, West Des Moines, 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

GuideOne Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007. This market conduct examination covers the intervening period from January 1, 2008 to the close of business on December 31, 2012 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.

Concurrently with the examination of the Company, the Company's affiliate via interlocking directors, GuideOne Specialty Mutual Insurance Company (GuideOne Specialty) and subsidiary companies, GuideOne America Insurance Company and GuideOne Elite Insurance Company (the Group) were also examined. As business operations are performed for the companies as a whole, market conduct examination procedures have been performed on the Group as a whole and not on an individual company basis.

HISTORY

The Company was incorporated on December 26, 1946 for the purpose of insuring any and all risks permitted by Section 515.48, Subsections 5 and 6, Code of Iowa. The Articles of Incorporation were amended on January 24, 1958 authorizing the writing of multiple lines of insurance under the provisions of Chapter 515, Code of Iowa.

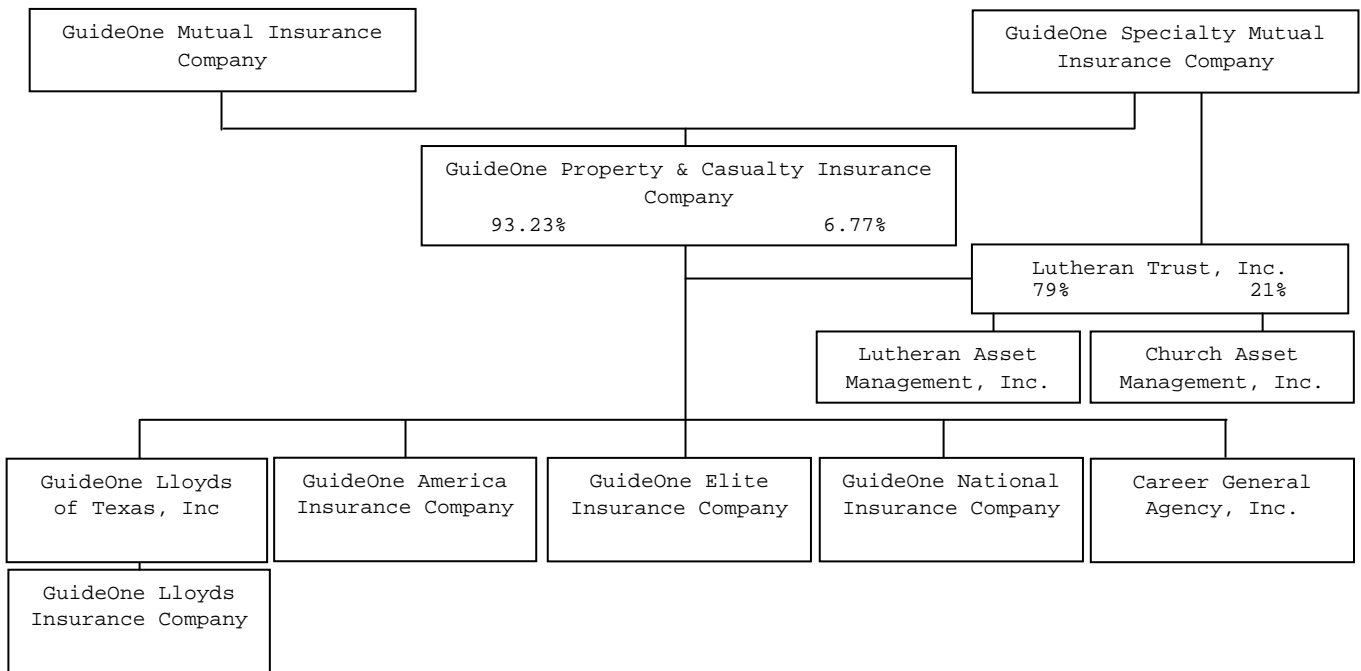
The Articles of Incorporation were amended on January 30, 1964 and on February 9, 1971 granting perpetual corporate existence and changing the principal place of business from Des Moines, Iowa to West Des Moines, Iowa, respectively.

Effective January 22, 1998, the Company changed its name from Preferred Risk Mutual Insurance Company to Guidant Mutual Insurance Company.

Effective January 29, 1999, the Company changed its name to GuideOne Mutual Insurance Company.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company has 93.23 percent and GuideOne Specialty has 6.77 percent ownership of GuideOne Property & Casualty Insurance Company (GuideOne P&C), the holding company for the downstream stock affiliates. An organizational chart identifying the Holding Company System as of December 31, 2012 follows:



AFFILIATED AGREEMENTS

Intercompany Operating Agreement

This agreement is between the Company and all insurance companies within the GuideOne Holding Company Group. The Company is obligated to provide employee and administrative services; office facilities; office supplies, equipment, furniture and fixtures, vehicles and other property. Costs are allocated to the companies based on acceptable accounting allocations. All intercompany balances shall be settled or paid no later than 90 days from the date of billing.

Inter-company Pooling Agreement

The following GuideOne companies are parties to an Inter-company Pooling Agreement whereby the companies cede all insurance business to the Company, the Pool administrator. The Company retains 64% of the net business and cedes 20% to GuideOne P&C and 16% to GuideOne Specialty.

GuideOne Mutual Insurance Company (the Company)
GuideOne Specialty Mutual Insurance Company (GuideOne Specialty)
GuideOne Property & Casualty Insurance Company (GuideOne P&C)
GuideOne America Insurance Company (America)
GuideOne Elite Insurance Company (Elite)
GuideOne National Insurance Company (GuideOne National)
GuideOne Lloyds Insurance Company (Lloyds)

Cessions to excess of loss, quota share and 100% fronting arrangements with non-affiliated reinsurers are prior to inter-company pooling. All pool members are parties to the various reinsurance agreements with non-affiliated reinsurers.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in all 50 states and the District of Columbia. Direct written premiums for 2012 totaled \$320,788,541, which included \$46,545,500 of crop insurance written by a third party, managing general agent. Florida, California, Mississippi, Missouri and Oklahoma represent the top five states in premium volume.

The Group focuses on providing property and casualty insurance products primarily to churches and church affiliated services, private schools and colleges, senior living facilities; and providing homeowners and auto policies to individuals. Products are marketed through approximately 1,600 exclusive and independent agents.

The Group has begun to increase its premium base through a number of programs. These programs include third-party reinsurance assumptions; partnerships with underwriting general agents to enter the senior living centers' workers' compensation niche and excess and surplus lines (written through GuideOne National); and acting as a service provider (front) for the multi-peril crop insurance (MPCI) program.

Multi-Peril Crop Insurance

The Company is a participant in fronting arrangements to write multi-peril crop, crop hail and livestock insurance produced by managing general agents. Under one program, the Company shall cede to the reinsurer (holder of the Standard Reinsurance Agreement) 100% of all business written. The Company is the SRA holder under another program whereby the Company shall cede a portion of the risk to the FCIC with the remaining risk ceded 100% under quota share agreements with non-affiliated reinsurers.

SUBSEQUENT EVENTS

2013 Multi-Peril Crop Program

The Company became the Standard Reinsurance Agreement (SRA) holder for the Multi-Peril Crop Insurance (MPCI) program with the Federal Crop Insurance Corporation (FCIC) for reinsurance year 2013. Premiums, losses and direct

commissions written by CGB Diversified Services, Inc., on GuideOne Specialty paper, are ceded to the Company (the SRA holder). Total MPCCI premiums are ceded 100% to the FCIC and third party reinsurers with outstanding balances pooled through the intercompany pooling agreement. Fronting fees are based upon the amount of premiums written and are booked through ceded commission.

COMPLAINT HANDLING

The Company maintains written documentation of processes and best practices for complaint handling procedures. Written complaints received by the Company are primarily administered by the Legal Compliance Department, which is also responsible for maintaining the Iowa Insurance Division complaint records for all companies within the Group. The Company maintains complaint records in accordance with Iowa Administrative Code 191-15.13 (507B).

MARKETING AND SALES

The Corporate Communications and Marketing Department designs advertising materials and submits them to Legal Compliance for review to ensure they comply with state regulations. The process is formally documented, logged and archived. The Company markets through a national commercial print ad campaign in various religious publications in addition to direct mail, email blast and direct sales. A website is also maintained at www.guideone.com.

POLICYHOLDER SERVICES

The Company's policyholder service center is located at the home office. Representatives are provided training and are subject to regular quality performance reviews. Registered policyholders may utilize online services for policy, billing and claim information.

A study of 115 random Iowa policy files was conducted to review the Group's adherence to internal underwriting best practices and verify compliance with unfair trade practices as prescribed in the Iowa Administrative Code and other relevant regulations as prescribed in Iowa Code Chapter 515.

CLAIM PRACTICES

The Company maintains written documentation of internal processes and best practices for the adjudication of claims. Loss adjusters are provided training and are subject to regular quality performance reviews.

A study, of 108 random claim files from the Group, was conducted for a statutory compliance review of unfair trade practices as prescribed by the Iowa Administrative Code and other relevant regulations as prescribed in Iowa Code Chapter 515. The sample included 43 first-party property claim payments. A time study was performed which demonstrated that 100% of the first-party claims were acknowledged within 15 days of receipt of claim notification and payment was made within 30 days of the liability being confirmed and sufficient information was received, in accordance with Iowa Administrative Code 191-15.41 and 15.42 (507B).

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>2008</u> | <u>2009</u> | <u>2010</u> |
|------------------------------|----------------|----------------|----------------|
| Premiums earned | \$ 295,796,383 | \$ 269,672,871 | \$ 258,830,805 |
| <u>Incurred deductions</u> | | | |
| Losses incurred | \$ 155,849,620 | \$ 106,211,015 | \$ 132,091,125 |
| Defense and cost containment | 16,011,178 | 14,281,415 | 6,989,297 |
| Adjusting and other expenses | 20,699,000 | 10,140,000 | 17,044,000 |
| Commission and brokerage | 39,319,680 | 35,404,836 | 34,680,749 |
| Taxes, licenses and fees | 5,592,603 | 5,563,816 | 6,068,782 |
| Other acquisition expenses | 17,001,000 | 20,721,000 | 23,453,000 |
| General expenses incurred | 15,580,000 | 14,619,000 | 15,047,000 |
| Total deductions | \$ 270,053,081 | \$ 206,941,082 | \$ 235,373,953 |
| Underwriting gain (loss) | \$ 25,743,302 | \$ 62,731,789 | \$ 23,456,852 |

| <u>Classification</u> | <u>2011</u> | <u>2012</u> | <u>Total</u> |
|------------------------------|----------------|----------------|------------------|
| Premiums earned | \$ 264,846,332 | \$ 287,416,976 | \$ 1,376,563,367 |
| <u>Incurred deductions</u> | | | |
| Losses incurred | \$ 142,135,600 | \$ 139,452,348 | \$ 675,739,708 |
| Defense and cost containment | (7,297,451) | 2,746,152 | 32,730,591 |
| Adjusting and other expenses | 26,608,000 | 14,545,000 | 89,036,000 |
| Commission and brokerage | 34,776,494 | 40,661,555 | 184,843,314 |
| Taxes, licenses and fees | 5,760,006 | 6,277,065 | 29,262,272 |
| Other acquisition expenses | 21,439,000 | 28,756,000 | 111,370,000 |
| General expenses incurred | 13,040,000 | 18,452,000 | 76,738,000 |
| Total deductions | \$ 236,461,649 | \$ 250,890,120 | \$ 1,199,719,885 |
| Underwriting gain (loss) | \$ 28,384,683 | \$ 36,526,856 | \$ 176,843,482 |

Expressed in the ratio of incurred deductions to premiums earned the percentages follow. Ratios may not precisely add to 100% due to rounding.

| <u>Incurred deductions</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>Average</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Losses incurred | 52.7% | 39.4% | 51.0% | 53.7% | 48.5% | 49.1% |
| Defense and cost containment | 5.4 | 5.3 | 2.7 | (2.8) | 1.0 | 2.4 |
| Adjusting and other expenses | 7.0 | 3.8 | 6.6 | 10.0 | 5.1 | 6.5 |
| Commission and brokerage | 13.3 | 13.1 | 13.4 | 13.1 | 14.1 | 13.4 |
| Taxes, licenses and fees | 1.9 | 2.1 | 2.3 | 2.2 | 2.2 | 2.1 |
| Other acquisition expenses | 5.7 | 7.7 | 9.1 | 8.1 | 10.0 | 8.1 |
| General expenses incurred | 5.3 | 5.4 | 5.8 | 4.9 | 6.4 | 5.6 |
| Total deductions | 91.3% | 76.7% | 90.9% | 89.3% | 87.3% | 87.2% |
| Underwriting gain (loss) | 8.7% | 23.3% | 9.1% | 10.7% | 12.7% | 12.8% |

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 Average Earned Premium | Five-Year Operating Ratio | 2012 Earned Premium | 2012 Operating Ratio |
|----------------------|--|---------------------------------|---------------------------|----------------------------|
| Alabama | \$ 7,685,151 | 100.1% | \$ 6,959,235 | 102.5% |
| Alaska | 1,006,989 | 59.5 | 947,329 | 64.9 |
| Arizona | 1,077,654 | 94.7 | 1,350,908 | 59.7 |
| Arkansas | 2,068,296 | 106.1 | 4,082,182 | 70.7 |
| California | 32,257,029 | 80.40 | 27,496,868 | 66.5 |
| Colorado | 3,465,298 | 149.7 | 4,536,902 | 130.8 |
| Connecticut | 1,482,909 | 62.3 | 1,512,951 | 21.3 |
| Delaware | 641,847 | 97.1 | 560,425 | 109.2 |
| District of Columbia | 1,606,989 | 41.8 | 1,437,262 | 39.2 |
| Florida | 31,752,185 | 59.5 | 33,582,352 | 58.1 |
| Georgia | 11,457,490 | 105.8 | 11,574,094 | 77.6 |
| Hawaii | 3,976 | 73.6 | 4,912 | 62.6 |
| Idaho | 422,286 | 74.6 | 397,293 | (416.7) |
| Illinois | 10,727,306 | 80.1 | 11,410,628 | 87.0 |
| Indiana | 8,097,580 | 105.2 | 10,457,994 | 143.1 |
| Iowa | 6,155,542 | 99.4 | 7,373,236 | 93.4 |
| Kansas | 2,825,124 | 90.2 | 4,599,128 | 82.3 |
| Kentucky | 6,063,371 | 120.6 | 7,323,491 | 204.6 |
| Louisiana | 10,515,154 | 69.8 | 13,711,658 | 63.6 |
| Maine | 89,928 | 346.2 | 167,747 | 850.3 |
| Maryland | 2,536,066 | 41.6 | 2,061,292 | 34.2 |
| Massachusetts | 818,967 | 40.8 | 860,386 | 94.9 |
| Michigan | 6,017,547 | 82.0 | 5,867,917 | 74.6 |
| Minnesota | 6,386,382 | 80.5 | 6,396,343 | 73.5 |
| Mississippi | 12,273,814 | 100.9 | 14,922,278 | 70.5 |
| Missouri | 8,892,944 | 119.5 | 11,701,419 | 113.1 |
| Montana | 543,647 | 65.2 | 437,676 | 48.5 |
| Nebraska | 2,321,748 | 101.5 | 2,196,612 | 54.3 |
| Nevada | 187,416 | 31.6 | 235,275 | 2.3 |
| New Hampshire | 407,873 | 347.1 | 573,501 | 371.4 |
| New Jersey | 6,902,863 | 96.4 | 6,322,115 | 144.9 |
| New Mexico | 172,478 | 89.3 | 196,034 | 102.1 |
| New York | 10,300,340 | 48.9 | 7,453,417 | 106.9 |
| North Carolina | 4,462,985 | 56.8 | 4,016,133 | 16.3 |
| North Dakota | 3,247,179 | 58.5 | 3,549,169 | 41.9 |
| Ohio | 8,598,465 | 122.4 | 11,117,825 | 115.1 |
| Oklahoma | 10,114,883 | 118.3 | 11,921,239 | 125.4 |
| Oregon | 2,785,676 | 102.0 | 4,017,501 | 60.9 |
| Pennsylvania | 11,321,694 | 102.9 | 8,514,044 | 148.5 |
| Rhode Island | 95,978 | 16.1 | 69,652 | 38.0 |
| South Carolina | 5,706,501 | 87.5 | 4,400,671 | 112.3 |
| South Dakota | 789,073 | 106.2 | 793,463 | 58.0 |
| Tennessee | 8,230,337 | 117.2 | 7,925,842 | 96.5 |
| Texas | 10,777,596 | 58.6 | 10,780,568 | 35.3 |
| Utah | 304,476 | 63.1 | 196,989 | 122.7 |
| Vermont | 69,193 | 42.5 | 11,421 | (71.5) |
| Virginia | 3,422,133 | 69.5 | 3,228,415 | 91.1 |
| Washington | 3,664,075 | 82.9 | 3,870,546 | 111.9 |
| West Virginia | 1,057,626 | 73.6 | 1,312,842 | 26.7 |
| Wisconsin | 3,389,738 | 78.8 | 2,821,292 | 32.4 |
| Wyoming | 110,875 | 178.5 | 158,504 | 197.7 |
| Total | \$ 275,312,673 | 87.2% | \$ 287,416,976 | 87.3% |

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, Bob Wong, CFE, Dan Mathis, AFE and Bouavan Kha, examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Virginia R. West
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Examiner-in-charge
Insurance Division
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