

EXAMINATION REPORT OF
IOWA MEDICAL MUTUAL INSURANCE COMPANY
IOWA CITY, IOWA
AS OF DECEMBER 31, 2015

Iowa City, Iowa
July 31, 2017

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

IOWA MEDICAL MUTUAL INSURANCE COMPANY

IOWA CITY, IOWA

AS OF DECEMBER 31, 2015

at its Home Office, 200 College of Medicine Administrative Building, Iowa City, Iowa.

INTRODUCTION

Iowa Medical Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2010 by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2011 to the close of business on December 31, 2015, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2015.

HISTORY

The Company was organized as a captive mutual insurance company to insure the professional medical liability exposures of the University Of Iowa Carver College Of Medicine's (CCOM) University of Iowa Physicians (UIP). The Company is a nonprofit corporation under the laws of the State of Iowa, owned by the policyholders to whom policies of insurance will be issued. The UIP includes teaching faculty of the College of Medicine who will be insured by the Company. Membership in the UIP is limited to faculty within the CCOM involved in clinical care.

This Company was incorporated on May 19, 2004 and commenced business on June 2, 2004. The Company properly filed Articles of Incorporation and Bylaws with the State of Iowa.

MANAGEMENT AND CONTROL

MEMBERSHIP

Article 3, Section 3.1 of the Bylaws identifies a member as every person or other legal entity to whom a policy of insurance has been issued, or may hereafter be issued by the Corporation, or who at any time be insured by the Corporation against loss or damage arising from any of the risks or hazards insured by the Corporation. A Member of the Corporation shall be entitled to the rights and privileges of such memberships as defined in the Articles, Bylaws, and contract of insurance, so long only as said contract of insurance is in force and effect.

Section 3.2 of the Bylaws establishes Guaranty Shareholders which are shareholders of guaranty capital of the Corporation pursuant to Section 515.20 of the Iowa Code. Guaranty Shareholders, if any, shall be members of the Corporation.

Section 3.3 of the Bylaws states, members, other than those members serving as Directors and acting in their capacities as Directors, shall not be entitled to vote on any proposed amendment to the Articles of Incorporation or on any proposal for dissolution of this Corporation.

Section 4.6 of the Bylaws states that all votes of the members of the Corporation shall be proxy submitted in consideration for the contracts of insurance issued by the Corporation. Each proxy shall be written and executed by the Member and shall designate the Chair of the Board as the proxy of the Member and state the duration, if any, of its validity. Each proxy shall entitle the proxy holder to one vote on any matter that may properly come to a vote of the members.

Section 4.7 of the Bylaws state that a quorum shall be present at any meeting at which at least 10 percent of the members are present in person or by proxy.

Section 4.1 of the Bylaws states that the regular annual meeting of the members shall be held immediately following the conclusion of the meeting of the UIP of CCOM as amended in 2014. The meeting shall be held in the same location as the meeting of the UIP.

Section 4.3 of the Bylaws states in lieu of the regular annual meeting, set forth in Section 4.1, the Board may designate by resolution a different

date, time and place to hold an annual meeting, so long as notice thereof is given at twenty (20) days prior to any such annual meeting informing the members of the date, time and place of the annual meeting.

BOARD OF DIRECTORS

The Bylaws provide that the Company shall be managed by a Board of Directors consisting of not less than five nor more than seven members. Pursuant to Iowa Code Section 515.20, two of the total number of Directors serving on the Board at any time shall be representatives of the Guaranty Shareholders of the Corporation whenever there are Guaranty Shareholders of the Corporation. Only one Guaranty Shareholder was serving as of December 31, 2015.

Regular meetings of the Board of Directors may be held at such places and at such times as the Board of Directors may determine from time to time. Special meetings may be held at any time whenever called by the chairman of the Board, President or a majority of Directors.

According to the Bylaws, elected directors serve three year terms. The term of any Director may be renewed for any number of additional terms.

As of December 31, 2015, the following were Directors:

<u>Name</u>	<u>Principal Affiliation</u>	<u>Term Expires</u>
Thomas Berry-Stoelzle*	Associate Professor University of Iowa	2016
Janet Fairley, M.D.	Professor Carver College of Medicine	2016
Terry Johnson*	Chief Financial Officer and Treasurer University of Iowa	2017
Jean E. Robillard, M.D.	Vice President for Medical Affairs Dean, Carver College of Medicine	2017
Daniel S. Fick, M.D.	Clinical Professor Carver College of Medicine	2017
Debra Schwinn, M.D.	Associate Vice President for Medical Affairs Carver College of Medicine	2018
John Buatti, M.D.	Chair, Department of Radiation Oncology Carver College of Medicine	2018

* - Serving as a Guaranty Shareholder as of December 31, 2015.

All Directors were employees of the University of Iowa.

COMMITTEES

The Bylaws states "the Board of Directors at each annual meeting shall appoint an Executive Committee and may from time to time designate such other committees as the Board deems appropriate." The Executive Committee shall consist of the Chair of the Board and two Directors, one of whom shall be a representative of any Guaranty Shareholder. There were no Directors appointed to the Executive Committee during the exam period and there were no Executive Committee meetings held.

OFFICERS

The Bylaws provides that the officers of the Corporation shall consist of a Chair of the Board, President, Vice President, Secretary and Treasurer. The Board of Directors shall elect the officers, each of whom shall serve for a term of three years, which may be renewed for any number of additional terms at the discretion of the Board of Directors.

Elected officers serving at December 31, 2015 were:

<u>Elected Officers</u>	<u>Title</u>	<u>Term Expires</u>
Daniel S. Fick, M.D.	President	2017
Mark Hingtgen	Vice President and Treasurer	2017
Gay D. Pelzer	Secretary	2017

CONFLICT OF INTEREST

The University has a conflict of interest policy for its employees, but there are no conflict of interest statements signed by the Board of Directors, its officers nor those handling the accounting for the Company by CCOM staff.

CORPORATE RECORDS

The recorded minutes of the meetings of the Board of Directors and members minutes were read and noted.

Articles and Bylaws were amended in 2014. Articles and Bylaws were changed so that in the event of the Company dissolved, all of its net assets be distributed to the University of Iowa. Both were amended to account for income and assets being distributable for the benefit of one member, University of Iowa. In addition, the Bylaws changed so that the annual meeting of the members be held each year immediately following the conclusion of the annual meeting of the UIP and at the same location. The Board of Director approved of the changes in the Articles and Bylaws on September 4, 2014. Iowa Insurance Division approved the revised Articles on January 15, 2015. Bylaws allow for Directors to approve of amendments to Articles and Bylaws.

The minutes of the Board of Directors were silent regarding the Examination Report as of December 31, 2010 being reviewed or accepted by the Board of Directors.

FIDELITY BONDS AND OTHER INSURANCE

All Directors and officers are employees of the University of Iowa and are employees for the State of Iowa. State employees are protected by Iowa Code chapters 669 and 504 and separate fidelity coverage is not needed.

EMPLOYEES WELFARE

The Company does not have any employees.

28E AGREEMENT

The University of Iowa self-insures exposures up to \$3,000,000. The Company provides coverage of \$2,000,000 per occurrence excess layer of coverage above the retention of \$3,000,000. Pursuant to the 28E Agreement, the State of Iowa covers all amounts in excess of \$5,000,000 per occurrence and \$9,000,000 aggregate per fiscal year. The Company has no reinsurance for the \$2,000,000 that they insure.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to sell insurance only in Iowa.

MARKET CONDUCT

RATES, RATE FILINGS, RULES AND FORMS

All rates have been filed with the Iowa Insurance Division as required by Section 515.109, Code of Iowa.

CLAIMS

The Company has had no claims since the beginning of operations.

GROWTH OF COMPANY

The following historical financial data, taken from the Company's filed annual statements for the years indicated, reflects the growth of the Company.

	Admitted		Net Premiums	Losses	Investment
	<u>Assets</u>	<u>Surplus</u>	<u>Earned</u>	<u>Incurred</u>	<u>Income</u>
2011	26,419,890	22,604,928	2,710,103	-	54,732
2012	26,196,134	22,635,236	2,846,723	-	38,980
2013	25,666,732	22,375,679	2,850,708	-	36,510
2014	25,534,841	22,374,518	3,021,610	-	51,666
2015	25,681,718	22,448,435	3,036,666	-	49,304

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. The Company uses a shared accounting system with the University of Iowa and they also share a cash account with the University. Cash receipts and disbursements were tested to the extent deemed necessary.

Other than temporary impairments (OTTI) was listed for most bonds on Schedule D of the 2016 Annual Statement. OTTI is reserved for those bonds that have had a nearly or actual permanent decline in market value below its amortized cost.

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, 2015 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>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$22,673,085	\$	\$22,673,085
Cash	2,911,770		2,911,770
Investment income due and accrued	53,228		53,228
Current federal and foreign income tax	<u>43,635</u>	<u>0</u>	<u>43,635</u>
Total Assets	<u>\$25,681,718</u>	<u>\$ 0</u>	<u>\$25,681,718</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Other expenses	\$ 235,522
Taxes, licenses and fees	140
Policyholders	2,800,262
Aggregate write-ins for liabilities:	
Surplus noted interest payable	<u>197,359</u>
Total liabilities	<u>\$ 3,233,283</u>
Surplus notes	\$22,000,000
Unassigned funds (surplus)	<u>448,435</u>
Surplus as regards policyholders	<u>\$22,448,435</u>
Total Liabilities and Surplus	<u>\$25,681,718</u>

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2015

Underwriting Income

Premiums earned \$ 3,036,666

Deductions

Salaries	\$209,017	
Taxes, licenses and fees	(1,188)	
Other underwriting expenses incurred	<u>77,889</u>	
Total underwriting deductions		<u>285,718</u>

Net underwriting gain (loss) \$ 2,750,948

Investment Income

Net investment income earned	\$ 49,304	
Net realized capital gain (loss)	<u>(25,224)</u>	
Net investment gain (loss)		<u>24,080</u>

Net income before dividends to policyholders
and federal and foreign income taxes \$ 2,775,028

Dividends to policyholders 2,800,252

Net income after dividends to policyholders and
federal and foreign income taxes \$ (25,224)

Federal and foreign income taxes incurred (99,142)

Net income \$ 73,918

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014 \$22,374,517

Gains and (Losses) in Surplus

Net income \$ 73,918

Surplus as regards policyholders, December 31, 2015 \$22,448,435

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2015

UNDERWRITING INCOME

Premiums earned \$14,465,810

Deductions

Salaries	\$982,386	
Taxes, licenses and fees	27,583	
Other underwriting expenses incurred	<u>363,130</u>	
Total underwriting deductions		<u>1,373,099</u>

Net underwriting gain (loss) \$13,092,711

Investment Income

Net investment income earned	\$231,192	
Net realized capital gain (loss)	<u>939,833</u>	
Net investment gain (loss)		<u>1,171,025</u>

Net income before dividends to policyholders and before Federal and foreign income taxes	\$14,263,736
Dividends to policyholders	<u>13,314,508</u>
Net income after dividends to policyholders but before Federal and foreign income taxes	\$ 949,228
Federal and foreign income taxes incurred	<u>287,082</u>
Net income	<u>\$ 662,146</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010 \$21,786,289

Gains and (Losses) in Surplus

Net income \$ 662,146

Surplus as regards policyholders, December 31, 2015 \$22,448,435

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 3,036,664
Net investment income	<u>58,642</u>
Total income	\$ 3,095,306
Commissions, expenses paid and aggregate write-ins	\$ 288,273
Dividends paid to policyholders	2,779,599
Federal income taxes paid (recovered) net	<u>(103,533)</u>
Total expenses	<u>\$ 2,964,339</u>
Net cash from operations	<u>\$ 130,967</u>

Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$14,436,476
Cost of investments acquired (long-term) only	
Bonds	<u>\$14,441,640</u>
Net cash from investments	<u>\$ (5,164)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>\$ 52,250</u>
Net cash from financing and miscellaneous sources	<u>\$ 52,250</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 178,053
Cash and short-term investments:	
Beginning of year	<u>\$ 2,733,717</u>
End of year	<u>\$ 2,911,770</u>

CONCLUSION

Acknowledgement is hereby made of the assistance extended by the officers and contractors of the Company during this examination.

Respectfully submitted,

/s/ Jerry Cihota
Jerry P. Cihota, CPA, CFE
Insurance Examiner Specialist
Insurance Division
State of Iowa