

EXAMINATION REPORT OF
GUIDEONE NATIONAL INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2017

West Des Moines, Iowa
June 25, 2019

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

GUIDEONE NATIONAL INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2017

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

INTRODUCTION

This is the first examination of GuideOne National Insurance Company, hereinafter referred to as the "Company". The examination reported herein was conducted solely by examiners for the Iowa Insurance Division.

Concurrently with the examination of the Company, the ultimate Parent companies, GuideOne Mutual Insurance Company and GuideOne Specialty Mutual Insurance Company, holding company GuideOne Property & Casualty Insurance Company and affiliated companies, GuideOne America Insurance Company and GuideOne Elite Insurance Company, were also examined.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2013 to the close of business on December 31, 2017, 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 the examination to be planned and performed 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, 2017.

HISTORY

Effective December 15, 2011, GuideOne National Insurance Company was organized as a wholly owned subsidiary of GuideOne Property & Casualty Insurance Company. The initial capitalization totaled \$15,000,000. The Company was also added to the GuideOne Group Reinsurance Pooling Agreement, Tax Allocation Agreement and Intercompany Operating and Services Agreement.

The Company received an additional capital contribution totaling \$7,500,000 on October 3, 2013 and \$1,000,000 on March 28, 2016.

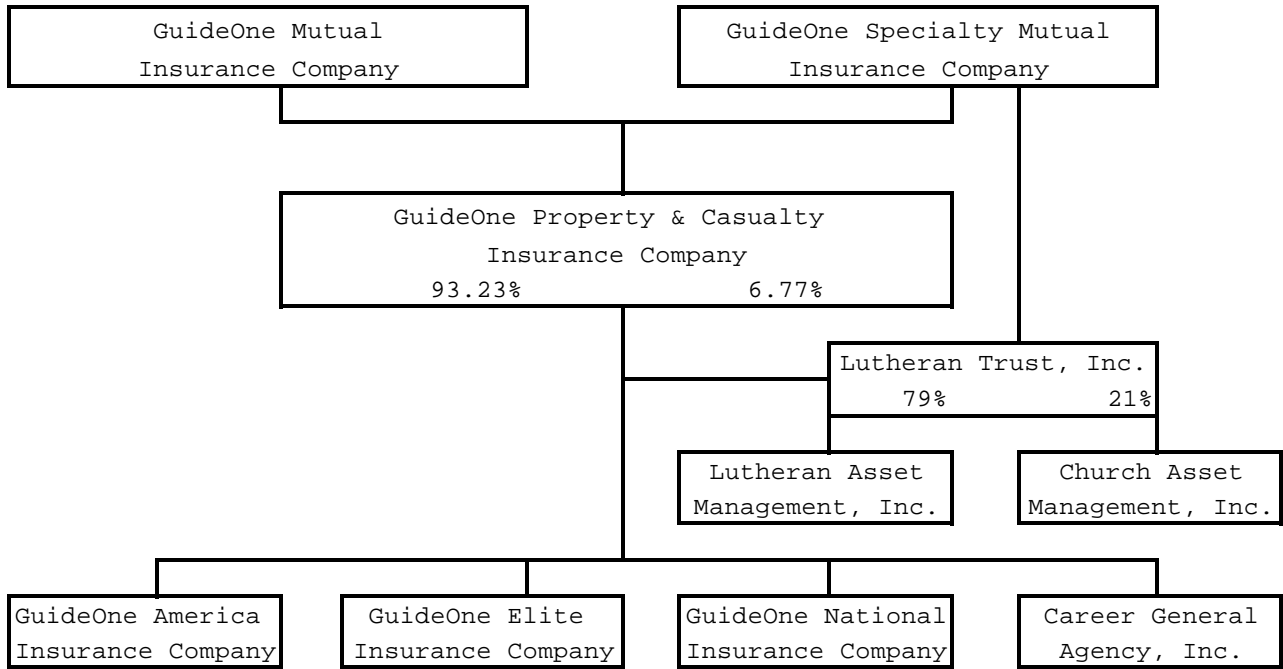
CAPITAL STOCK AND DIVIDENDS

Authorized capital stock consists of 1,000,000 shares of common stock with a par value of \$1 per share. At December 31, 2017, outstanding capital consists of 1,000,000 shares of common capital stock for \$1,000,000 and gross paid in and contributed surplus of \$44,700,000. All outstanding shares are held by GuideOne Property & Casualty Insurance Company. The Company did not pay stockholder dividends during the examination period.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. GuideOne Mutual Insurance Company has 93.23 percent and GuideOne Specialty Mutual Insurance Company has 6.77 percent ownership of GuideOne Property & Casualty Insurance Company, the holding company for the downstream stock affiliates. An organizational chart identifying the Holding Company System as of December 31, 2017 follows:

The following summarizes material holding company transactions occurring during the examination period:



October 3, 2013 and on March 28, 2016, GuideOne Property & Casualty Insurance Company contributed additional capital totaling \$7,500,000 and \$1,000,000 respectively to GuideOne National Insurance Company.

During 2016, GuideOne Property & Casualty Insurance Company declared distributions totaling \$22,375,200 and \$1,624,800 to GuideOne Mutual Insurance Company and GuideOne Specialty Insurance Company, respectively.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws provide that the regular annual meeting of the shareholders shall be held on the third Friday in January at 2:00 p.m. for the purposes of electing directors and for the transaction of such other business as may come before the meeting.

Special meetings of the shareholders may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than one-tenth of all outstanding shares of the Company entitled to vote at the meeting.

The Board of Directors may designate any place, either within or without the State of Iowa, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors.

A majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at the meeting of shareholders.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company shall be managed by a Board of Directors. The number of directors of the corporation shall be set by the Board of Directors within the number authorized by law. Each director shall hold office for one year and until his successor shall have been elected and qualified. A director shall be required to retire at the age of 65 by resigning at the next board meeting following his 65th birthday and a successor shall be elected by the board to complete the unexpired term of office.

The regular meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of the shareholders. Special meetings of the Board of Directors may be called by or at the request of the President or any two directors.

Elected members serving as directors were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Phillip R. Cole Columbus, Ohio	Senior Vice President - Commercial Line GuideOne Insurance Group	2019
David Dietz Apple Valley, Minnesota	Senior Vice President - Sales and Field Operation GuideOne Insurance Group	2019
Brian J. Hughes West Des Moines, Iowa	Senior Vice President - Investments GuideOne Insurance Group	2019

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Brian H. Nelson Altoona, Iowa	Vice President - Chief Claims Officer GuideOne Insurance Group	2019
Chad D. Zenner Johnston, Iowa	Vice President - Marketing and Corporate Communication GuideOne Insurance Group	2019
Jessica E. Clark West Des Moines, Iowa	Chairperson, President, and Chief Executive Officer GuideOne Insurance Group	2020
Elisabeth Sandersfeld Johnston, Iowa	Senior Vice President - CFO and Treasurer GuideOne Insurance Group	2020

Philip Cole elected to leave the Company in late 2018 and as of the date of the report is working remotely while the Companies perform a search for his replacement.

David Dietz changed roles in the Company in 2018 and was replaced by Rob Huber in February 2019.

All members of the Board of Directors are employees of GuideOne Mutual Insurance Company and do not receive any compensation, other than normal salary, for duties performed as a Board Member.

OFFICERS

The Bylaws provide that the officers of the Company shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected annually by the Board of Directors. Any two or more offices may be held by the same person except the offices of president and secretary. The Board is additionally empowered to elect or appoint such other officers as it may deem necessary. Each officer shall hold office until the successor shall have been duly elected and shall have qualified, or until they reach the age of 65.

Primary executive officers elected and serving, as of December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Jessica E. Clark	President and Chief Executive Officer
Andrew L. Noga	Senior Vice President, Secretary and General Counsel
Elisabeth Sandersfeld	Senior Vice President, Treasurer and Chief Financial Officer
Philip R. Cole ¹	Senior Vice President, Chief Underwriting Officer
David M. Dietz ²	Senior Vice President, Sales and Field Operations
Brian J. Hughes	Senior Vice President, Chief Investment Officer
Marquis D. James ³	Senior Vice President, Sales
Michelle L. Glasl	Vice President, Strategic Initiatives and Chief Information Officer
Brian H. Nelson	Vice President, Chief Claims Officer
Joseph S. Highbarger ⁴	Vice President, Chief Actuary

¹Philip Cole elected to leave the Company in late 2018 and as of the date of the report is working remotely while the Companies perform a search for his replacement.

²David Dietz changed roles in the Company in 2018 and was replaced by Rob Huber in February 2019.

³Marquis James left the Company in 2019, his role as head of distribution management has not yet been filled.

⁴Tim Fleming became Chief Actuary in 2018 and at that time Joseph Highbarger assumed oversight of the pricing function and later left the Company in January of 2019.

CONFLICT OF INTEREST STATEMENTS

The Company has a documented conflict of interest policy and an established procedure for the annual disclosure to its Board of Directors and Audit Committee of any material interest or affiliation on the part of its directors, officers or key employees which is in, or likely to, conflict with the official duties of such person. While conflicts were disclosed, none were found to have a material impact on the Company and all were addressed by the Parent's Audit Committee.

CORPORATE RECORDS

There were no amendments to the Articles of Incorporation during the exam period.

The following amendment (with proper approval by the Board and approved by the Iowa Insurance Commissioner) was made to the Bylaws during the examination period:

January 16, 2015. Amended and restated Article II, Section 2. The Board of Directors approved resolution to amend and restate GuideOne National Insurance Company's bylaws to hold the annual meeting of the shareholders on the third Friday in January of each year at 2:00 p.m.

AFFILIATED AGREEMENTS

Intercompany Operating Agreement

This agreement is between GuideOne Mutual Insurance Company and all companies within the GuideOne Insurance Group. GuideOne Mutual 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 of the Group based on acceptable accounting allocations. All intercompany balances shall be settled or paid no later than 90 days from the date of billing.

Consolidated Federal Income Tax Agreement

The Company files a consolidated Federal income tax return with the following entities:

GuideOne Mutual Insurance Company
GuideOne Property & Casualty Insurance Company
GuideOne Elite Insurance Company
GuideOne America Insurance Company

The written agreement, approved by the Board of Directors, states that the Parent and Subsidiaries agree that the consolidated tax liability for each year shall be allocated to the members of the group on the basis of the percentage of the total tax which the tax of such member, if computed on a separate return, would bear to the total amount of the taxes for all members of the group so computed.

FIDELITY BONDS AND OTHER INSURANCE

A \$10,000,000 fidelity bond, that meets the NAIC recommended minimum amount, covers the Company and named affiliates. Other coverages in place appear to adequately protect the interests of the Company. All policies are placed with companies authorized to transact business in the State of Iowa.

EMPLOYEES' WELFARE

Personnel services are provided to the insurance entities by GuideOne Mutual Insurance Company, through the intercompany operating agreement.

REINSURANCE

POOLING

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

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

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.

STATUTORY DEPOSIT

The book/adjusted carrying value of special deposits held in trust for the protection of all policyholders is \$2,545,386 as of December 31, 2017.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Iowa and eligible to write Surplus Lines in 49 states including the District of Columbia with direct written premiums of \$39,951,990 for 2017. Florida, New York, California, Texas, and Illinois represent the top five states in premium volume.

August 3, 2016, it was announced that all GuideOne Insurance Companies would exit the personal lines of business beginning in the fourth quarter of 2016.

July 5, 2017, it was announced that all GuideOne Insurance Companies would exit the liability coverage in the for-profit SLC business, both admitted and non-admitted and the liability coverages for the non-profit claims-made SLC business, both admitted and non-admitted.

The GuideOne Group focuses on providing property and casualty insurance products primarily to churches and church affiliated services, private schools and colleges, senior living facilities.

GROWTH OF COMPANY

The following historical data, taken from the Company's filed annual statements for the years indicated, 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>
2013	\$ 25,371,923	\$ 22,815,375			\$ 247,516
2014	48,072,098	45,391,933			580,417
2015	50,516,991	45,929,944			928,956
2016	52,185,269	47,755,244			1,171,328
2017	52,833,126	48,606,328			1,235,000

ACCOUNTS AND RECORDS

The figures contained in the Company's filed annual statements for the years under review were found to be in agreement or reconciled to those recorded in the general ledger for assets, liabilities, income, and disbursement accounts. The accounting records are generally maintained using electronically processed data, however various subsidiary records are maintained using manually prepared excel worksheets. Supporting electronic data files were reconciled to financial policy and claim records and confirmed in accordance with Financial Condition Examiners Handbook guidance.

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, 2017.

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, 2017, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES
Examination Period Ending December 31, 2017

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 47,523,247	\$	\$47,523,247
Cash and short-term investments	1,160,127		1,160,127
Investment income due and accrued	390,899		390,899
Amounts recoverable from reinsurers	2,360,786		2,360,786
Receivable from parent and affiliates	919,989		919,989
Reinsurance receivable	<u>478,078</u>		<u>478,078</u>
 Total Assets	 <u>\$ 52,833,126</u>		 <u>\$52,833,126</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Current federal and foreign income taxes	\$ 461,015
Net deferred tax liability	4,077
Ceded reinsurance premiums payable	3,766,706
Amounts withheld or retained for accounts of others	<u>(5,000)</u>
 Total Liabilities	 <u>\$ 4,226,798</u>
 Common capital stock	 \$ 1,000,000
Gross paid in and contributed capital	44,700,000
Unassigned funds (surplus)	<u>2,906,328</u>
 Surplus as regards to policyholders	 <u>\$48,606,328</u>
 Total Liabilities and surplus	 <u>\$52,833,126</u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

One-YEAR PERIOD ENDING DECEMBER 31, 2017

Investment Income

Net investment income earned	\$ 1,235,000	
Net realized capital gains (losses)	<u>59,231</u>	
Net investment income		<u>\$1,294,231</u>
Net income before Federal income tax		\$1,294,231
Federal and foreign income taxes incurred		<u>427,454</u>
Net Income		<u>\$ 866,777</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$47,755,244</u>
<u>Gains and (Losses)in Surplus</u>		
Net Income	\$ 866,777	
Change in net unrealized capital gains or (losses)	(16,152)	
Change in net deferred income tax	459	
Change in surplus as regards policyholders for the year		<u>\$ 851,084</u>
Surplus as regards policyholders, December 31, 2017		<u>\$48,606,328</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ (197,574)	
Net investment income	<u>1,286,495</u>	
Total		\$ 1,088,921
Benefit and loss related payments	\$ 231,688	
Federal income taxes (paid) recovered	<u>406,025</u>	
Total		<u>\$ 637,713</u>
Net cash from operations		\$ 451,208

Cash from Investments

Proceeds from investments sold, matured or repaid		
Bonds	\$ 2,141,248	
Stocks	1,372,896	
Total investment proceeds		<u>\$ 3,514,144</u>
Cost of investments acquired (long-term only):		
Bonds	\$ 4,005,810	
Total investments acquired		<u>\$ 4,005,810</u>
Net cash from investments		<u>\$ (491,666)</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ 442,981	
Net cash from financing and miscellaneous sources		<u>\$ 442,981</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ 402,523
Cash and short-term investments:	
Beginning of year	<u>757,604</u>
End of year	<u>\$ 1,160,127</u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME
 FIVE-YEAR PERIOD ENDING DECEMBER 31, 2017

Investment Income

Net investment income earned	\$ 4,163,217	
Net realized capital gains (losses)	<u>48,898</u>	
Net investment income		<u>\$ 4,212,115</u>
Net income before Federal income tax		\$ 4,212,115
Federal and foreign income taxes incurred		<u>1,438,508</u>
Net Income		<u>\$ 2,773,607</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012		<u>\$15,148,895</u>
<u>Gains and (Losses)in Surplus</u>		
Net Income		\$ 2,773,607
Change in net unrealized capital gains or (losses)		(16,370)
Change in net deferred income tax		196
Surplus adjustments: Paid in		30,700,000
Change in surplus as regards policyholders for the period		<u>\$33,457,433</u>
Surplus as regards policyholders, December 31, 2017		<u>\$48,606,328</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, examiners from the Iowa Insurance Division and Assurity Resources, Inc. participated in the examination and the preparation of this report.

A review of loss and loss adjusting expense reserves was performed under the direction of Wes Campbell, FCAS, FSA, MAAA, Principal & Consulting Actuary, Apex Actuarial Solutions, LLC.

A review of the information technology system was performed by Bob Wong, CFE, examiner for the Iowa Insurance Division.

Respectfully submitted,

 /s/ Thomas Allen

Thomas Allen, CFE
Examiner-in-Charge
Assurity Resources, Inc. on behalf of the
Iowa Insurance Division

 /s/ Daniel Mathis

Daniel Mathis, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division