

EXAMINATION REPORT OF
PIONEER MUTUAL INSURANCE ASSOCIATION
MONTGOMERY COUNTY, RED OAK, IOWA
AS OF DECEMBER 31, 2015

Red Oak, Iowa
October 17, 2016

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Gerhart:

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

PIONEER MUTUAL INSURANCE ASSOCIATION

MONTGOMERY COUNTY, RED OAK, IOWA

AS OF DECEMBER 31, 2015

at its Home Office, 412 E Reed Street, Red Oak, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2012 to December 31, 2015. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

During the course of the examination, which was conducted in accordance with the procedures recommended by the (E) Committee of the N.A.I.C., a general review and survey was made of the Association's operations and business transactions during the stated period. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed adequate. The Association'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 Association was incorporated in 1870 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 1955. In 1991, the Association converted to an Association operating under the provisions of Chapter 518A of the Code of Iowa.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership of the Association shall consist of every individual or organization having insurance herein. Membership and insurance may be obtained only upon written application signed by the applicant and shall commence only when accepted by the Association and shall cease when such insurance is canceled or terminated for any cause.

The regular annual meeting of the members is held in Red Oak, Iowa on the first Tuesday in April at 1:30 p.m. Special meetings of the members may be called by the President and shall be called by him upon written request of the majority of the members of the Board of Directors or upon written request of one-fourth of the

members of the Association. Due notice of the time and place of special meetings shall be given to the members as specified in the Bylaws.

Each member present at any meeting shall be entitled to one vote on each question voted on at any membership meeting regardless of the number of policies owned by the member. No voting shall be permitted by proxy. A quorum shall consist of the number of directors plus one for the transaction of any business at any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of seven members, each elected by a majority vote at the annual meeting of the members for terms of three years. The number of directors can be increased or decreased by resolution by the Board. 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, 2015 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Richard Johnson	Stanton, Iowa	2016
Karl Lundgren	Red Oak, Iowa	2016
Phil Tornholm	Clarinda, Iowa	2016
David Magel	Sidney, Iowa	2017
Patrick Sheldon	Percival, Iowa	2017
Thomas Hummel	Glenwood, Iowa	2018
Ed Oster	Elliott, Iowa	2018

The regular annual meeting of the Board shall be held within ten days following the adjournment of the regular annual meeting of the members and thereafter on the call of the Secretary. A majority of the number of directors fixed by the Bylaws shall constitute a quorum for the transaction of business, unless a greater number is required by the Bylaws.

Directors receive a fee of \$250 for each regular board meeting and \$250 for each committee meeting attended and reimbursement of travel expense.

Salaries and remunerations of directors are shown on Exhibit A following this report.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a Chairman, Vice-Chairman, 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, 2015 were:

<u>Name</u>	<u>Office</u>
Phil Tornholm	Chairman
Scott Arenholz	President
Thomas Hummel	Treasurer
Karl Lundgren	Vice Chairman/Secretary

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and directors. Conflicts were disclosed to the Board by one Director who was also an agent.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended or substituted during the period covered by this examination.

Amendments as of April 16, 2013 were as follows:

- Pioneer Mutual Insurance Association. Its principal place of business is Red Oak, Iowa.
- Insurance business pursuant to Chapter 518A, Code of Iowa (2011).
- There is no capital stock.
- The corporation commenced business in 1870.
- The affairs of the corporation are conducted by a Board of Directors elected by the members and such officers as the Board may elect. The annual meeting is the third Tuesday in April of each year.
- Private property shall be exempt from corporate debts.

Amendment as of February 21, 2015 was as follows:

- To strike section 1 of Article VI the word "third" and substitute the word "first".

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, 2012 was reviewed and accepted at the December 12, 2013 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$100,000 for any one loss occurrence. The bond is written for an indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

Workers' compensation and employers' liability
Professional liability
Officers' and directors' 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 provides full-time eligible employees dental, medical, life, and accidental death and dismemberment benefits on a non-contributory basis. The Association also has a Health Savings Account plan and contributes 3% annually to each employee who participates in the plan. Contributions of \$3,396 (2013), \$3,509 (2014), and \$3,608 (2015) were paid by the Association.

A bonus was paid to the manager and office staff for 2013, 2014, and 2015 for \$36,364, \$0, and \$13,823, respectively, by approval of the Board. The bonus is reviewed, approved or disapproved yearly by the board.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2015 with an authorized insurer which provides the following:

Individual Occurrence of Loss Excess

Fire, Lightning and Extended Coverage (Other Than Windstorm and Hail)

One hundred percent in excess of \$175,000 at one location, arising out of one event, insured on one or more policies, up to the limit stated in the coverage schedule.

Windstorm and Hail (Excluding Hail on Growing Crops)

One hundred percent in excess of \$175,000 at one location, arising out of one windstorm or hailstorm, insured on one or more policies; and/or the total of losses occurring on items insured on one policy at multiple locations arising out of one windstorm or hailstorm.

Aggregate Excess of Loss

Fire, Windstorm and Extended Coverages:

One hundred percent of the amount in excess of \$874,064 for the net aggregate loss occurring during the 2015 contract year subject to the following limitations:

Livestock/Poultry/Horse Operations: including swine and poultry confinements dairy, beef and veal operations, and horse training and boarding facilities. \$1,000,000

Commercial and Public Property: including community halls, schools, churches, agribusiness risks, and other commercial type risks. \$1,000,000

Farm Product Storage Structures: including farm product storage buildings and grain storage operations. \$1,000,000

Farm Machinery and Equipment Storage Buildings: including farm storage outbuildings, grain storage operations, and other farm related buildings. This class does not include livestock, poultry, horse operations, or farm product storage structures \$2,000,000

Dwelling: including dwelling, contents, additional living expense, other structures, and scheduled personal property coverages. \$1,000,000

Earthquake

The reinsurer will reinsure 100 percent of each loss.

Pollution Clean Up and Removal

The reinsurer will reinsure 100 percent of liability.

Facultative

Risks in excess of the Association's reinsurance contract are ceded on a facultative basis. As of December 31, 2015 there were no risks identified which warranted a facultative agreement.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a state mutual insurance association under the provisions of Chapter 518A, Code of Iowa. Business is authorized to be written in the following counties: Montgomery, Mills, Adams, Union, Freemont, Page, Taylor, Ringgold, Pottawattamie, Cass, Adair, Harrison, Shelby, Audubon, Guthrie, Madison, Dallas, Clarke, and Decatur.

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

PRODUCER LICENSING

Business is written by 8 licensed and approved agents.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and suburban security classes in insurance covering fire, allied lines and inland marine.

ADVERTISING

The Association's advertising material was reviewed and found to be in compliance with statutory requirements.

RATING AND STATISTICAL REPORTING

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

TREATMENT OF POLICYHOLDERS

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. There was one instance where a claim took 44 days to settle.

Rental

The Association rents space to an unrelated third party organization. Rental income received was \$200 for 2013, \$0 for 2014, and \$4,400 for 2015.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination. The two formal insurance division complaints were handled in a fair and timely manner.

GROWTH OF THE ASSOCIATION

The following historical data was taken from office copies of filed annual statements for the years indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2013	5,388,459	4,668,752	1,023,640	178,169	117,550
2014	5,280,281	4,580,789	1,099,572	945,480	118,564
2015	5,696,815	4,961,621	1,045,649	205,443	124,640

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the three-year period ended December 31, 2015 were as follows:

<u>Classification</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Premiums earned	<u>\$1,023,640</u>	<u>\$1,099,572</u>	<u>\$1,045,649</u>	<u>\$3,168,861</u>
<u>Deductions</u>				
Losses incurred	178,169	945,480	200,082	1,323,731
Loss expenses incurred	156,126	204,696	77,861	438,683
Commission and brokerage	189,633	236,010	213,542	639,185
Salaries	131,623	139,192	150,657	421,472
Taxes, licenses and fees	13,247	13,833	12,586	39,666
Other underwriting expenses	<u>99,421</u>	<u>75,549</u>	<u>103,670</u>	<u>278,640</u>
Total deductions	<u>\$ 768,219</u>	<u>\$1,614,760</u>	<u>\$ 758,398</u>	<u>\$3,141,377</u>
Net underwriting gain or (loss)	<u>\$ 255,421</u>	<u>\$ (515,188)</u>	<u>\$ 287,251</u>	<u>\$ 27,484</u>

Expressed in percentages of incurred deductions to premiums earned the ratios are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
<u>Deductions</u>				
Losses incurred	17.4%	86.0%	19.1%	41.8%
Loss expense incurred	15.3	18.6	7.4	13.8
Commission and brokerage	18.5	21.5	20.4	20.2
Salaries	12.9	12.7	14.4	13.3
Taxes, licenses and fees	1.3	1.3	1.2	1.3
Other underwriting deductions	<u>9.6</u>	<u>6.8</u>	<u>10.0</u>	<u>8.7</u>
Total underwriting deductions	<u>75.0</u>	<u>146.9</u>	<u>72.5</u>	<u>99.1</u>
Net underwriting gain (loss)	<u>25.0%</u>	<u>(46.9)%</u>	<u>27.5%</u>	<u>0.9%</u>

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, 2015 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, 2015, the gross risk in force for the Association was \$277,669,009. The Association's statutory minimum surplus level as of December 31, 2015 was \$277,669. It is noted the Association's surplus level to minimum surplus level ratio was 17.8/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2015 was 8.09/1.

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>Ledger</u>	<u>Not</u> <u>Admitted</u>	<u>Admitted</u>
Bonds	\$2,288,580	\$	\$2,288,580
Common stocks	2,936,223		2,936,223
Cash holdings	199,417		199,417
Short-term investments	12,903		12,903
Real Estate			
Properties occupied by Company	34,785		34,785
Properties held for production of income	16,602		16,602
Investment income due and accrued	24,260		24,260
Premiums and considerations:			
Uncollected premiums	1,333		1,333
Deferred premiums	75,017		75,017
Electronic data processing equipment	7,695		7,695
Furniture and equipment	354	354	
Prepaid reinsurance premiums	<u>100,000</u>		<u>100,000</u>
Total	<u>\$5,697,169</u>	<u>\$ 354</u>	<u>\$5,696,815</u>

LIABILITIES AND SURPLUS

Losses	\$ 47,076
Loss adjustment expenses	5,007
Commissions payable	34,117
Other expense	14,382
Tax, license and fees	1,200
Current federal and foreign income taxes	28,944
Unearned premiums	584,945
Advance premiums	14,568
Ceded reinsurance premiums payable	20,053
Amounts withheld or retained by company for account of others	4,359
Suspense	<u>(212)</u>
Total liabilities	\$ 754,439
Surplus as regards policyholders	<u>4,942,376</u>
Total liabilities and surplus	<u>\$5,696,815</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2015

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 1,045,649
<u>Deductions</u>		
Losses incurred	\$ 200,082	
Loss expenses incurred	77,861	
Other operating expenses incurred	<u>480,455</u>	
Total underwriting deductions		<u>758,398</u>
Net underwriting gain (loss)		\$ 287,251
<u>Investment Income</u>		
Net investment income earned	124,640	
Net realized capital gains	<u>155,665</u>	
Net investment gain (loss)		\$ 280,305
<u>Other Income</u>		
Finance and service charges not included in premiums	40,469	
Miscellaneous income	8	
Net premiums collected for others	<u>(25,099)</u>	
Other income		\$ <u>15,378</u>
Net income before Federal income tax		\$ 582,934
Federal income tax incurred		<u>68,950</u>
Net income		\$ <u>513,984</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		\$ <u>4,580,789</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 513,984
Change in not admitted assets		1,359
Change in net unrealized gains/losses		<u>(153,756)</u>
Change in surplus as regards policyholders for the year		\$ <u>361,587</u>
Surplus as regards policyholders, December 31, 2015		\$ <u>4,942,376</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE YEAR PERIOD ENDED DECEMBER 31, 2015

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 3,168,861
<u>Deductions</u>		
Losses incurred	\$ 1,323,731	
Loss expenses incurred	438,683	
Other operating expenses incurred	<u>1,378,963</u>	
Total underwriting deductions		<u>3,141,377</u>
Net underwriting gain (loss)		\$ 27,484
<u>Investment Income</u>		
Net investment income earned	360,754	
Net realized capital gains	<u>252,832</u>	
Net investment gain (loss)		\$ 613,586
<u>Other Income</u>		
Finance and service charges not included in premiums	124,480	
Miscellaneous income	8	
Net premiums collected for others	<u>(15,599)</u>	
Other income		\$ <u>108,889</u>
Net income before Federal income tax		\$ 749,959
Federal income tax incurred		<u>98,185</u>
Net income		\$ <u>651,774</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012		\$ <u>3,743,413</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 651,774
Change in not admitted assets		9,364
Change in net unrealized gains/losses		<u>537,825</u>
Change in surplus as regards policyholders for the year		\$ <u>1,198,963</u>
Surplus as regards policyholders, December 31, 2015		\$ <u>4,942,376</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	\$ 52,437	\$ 47,076	\$ 5,361
Loss adjustment expenses	8,528	5,007	3,521
Commissions payable	9,302	34,117	(24,815)
Other expenses	6,192	14,382	(8,190)
Taxes, licenses and fees	2,422	1,200	1,222
Current federal and foreign income taxes	32,600	28,944	<u>3,656</u>
Net change to surplus			\$ (19,245)
Surplus per Association			<u>4,961,621</u>
Surplus per Examination			\$ <u>4,942,376</u>

During the period under review, surplus funds increased \$1,252,671 from the amount of \$3,689,705 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

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

Losses \$ 47,076

The liability decreased by \$5,361 to reflect the actual amount of losses paid and outstanding in 2016 for claims incurred in 2015 or prior.

Loss adjustment expenses \$ 5,007

The liability was decreased \$3,521 to reflect the actual amount paid in 2016.

Commissions payable \$ 34,117

The liability was increased by \$24,815 to reflect actual commissions paid on premiums receivable and to include the contingency paid in 2016 related to 2015.

Other expenses \$ 14,382

This liability was increased \$8,190 to reflect actual expenses paid in 2016 but incurred in 2015.

Taxes, licenses and fees \$ 1,200

The liability decreased \$1,222 to reflect the recalculation of real estate taxes payable.

Current federal and foreign income taxes \$ 28,944

The liability decreased \$3,656 to reflect the actual amount of federal income tax paid in 2016 for 2015.

CONCLUSION

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

Respectfully submitted,

____/s/ Abby De Zeeuw_____
Abby De Zeeuw, CPA
Cain Ellsworth & Company, LLP
Representing the State of Iowa