

**REPORT ON EXAMINATION**  
**OF**  
**MUTUALAID EXCHANGE**  
**4400 COLLEGE BLVD, SUITE 250**  
**OVERLAND PARK, KANSAS 66211**  
**AS OF**  
**DECEMBER 31, 2020**

## Table of Contents

<b><u>SUBJECT</u></b>	<b><u>PAGE NUMBER</u></b>
SCOPE OF EXAMINATION .....	1
Independent Audit Reports .....	3
Actuarial Review.....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	4
COMPANY HISTORY .....	4
General .....	4
Surplus Notes .....	4
CORPORATE RECORDS.....	5
MANAGEMENT AND CONTROL .....	5
Subscribers .....	5
Board of Directors.....	5
Committees.....	6
Officers .....	7
INSURANCE HOLDING COMPANY SYSTEM .....	7
Intercompany/Cost Sharing Agreements .....	8
TERRITORY AND PLAN OF OPERATION.....	8
SELECT FINANCIAL INFORMATION. ....	9
REINSURANCE .....	9
General .....	9
Assumed Reinsurance .....	10
Ceded Reinsurance .....	10
FINANCIAL STATEMENTS .....	11
ASSETS.....	12
LIABILITIES, SURPLUS, AND OTHER FUNDS .....	13
STATEMENT OF INCOME.....	14
CAPITAL AND SURPLUS ACCOUNT .....	15
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	16
COMMENTS ON FINANCIAL STATEMENTS .....	16
SUBSEQUENT EVENTS .....	16
SUMMARY OF RECOMMENDATIONS.....	16
CONCLUSION .....	17
SUPERVISION.....	17

Overland Park, Kansas  
May 16, 2022

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead Road  
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

**MUTUALAID EXCHANGE**

with its statutory home office and main administrative office at:

**4400 COLLEGE BLVD, SUITE 250  
OVERLAND PARK, KANSAS 66211**

hereinafter referred to as the “Exchange” or “Company”. The following report on such examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The examiners have performed a multi-state financial examination of MutualAid eXchange, a Kansas domiciled reciprocal insurance exchange. The last examination covered the four-year period from January 1, 2013, through December 31, 2016. This examination covers the four-year period from January 1, 2017, through December 31, 2020.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance

Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively. Key activities of the Exchange reviewed as part of the examination included Capital & Surplus, Reserving/Claims Handling, Investments, Reinsurance, Related Party Transactions, and Underwriting. The examination also included a review and evaluation of the information technology general controls.

All accounts and activities of the Exchange were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment is documented separately following the Exchange’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Exchange.

### **Independent Audit Reports**

Financial statements of the Company were audited by Brown Smith Wallace LLC (“BSW”) of St. Louis, Missouri for the years ending December 31, 2019, and December 31, 2020. BSW was later merged with Armanino LLP of (San Ramon, California) effective August 1, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Exchange present fairly, in all material respects, the admitted assets, liabilities and policyholders’ surplus of the Exchange, the results of its operations, and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor’s workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

### **Actuarial Review**

The Exchange’s Appointed Actuary who issued the December 31, 2020 Statement of Actuarial Opinion was Alan J. Hapke, FCAS, MAAA, Consulting Actuary of Streff Insurance Services, Stilwell, Kansas.

The Department retained the services of Lewis & Ellis, Inc. (“L&E”) of Kansas City, Missouri to perform a review of the Company’s actuarial practices and reserves as of December 31, 2020. L&E’s review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the examination.

## **COMPANY HISTORY**

### **General**

The Exchange was incorporated as a Pennsylvania stock property and casualty insurance company on October 22, 1957, under the name Mennonite Indemnity, Inc. On January 1, 2001, the company re-domesticated from Pennsylvania to Kansas and changed its corporate structure from a capital stock insurance company to a reciprocal insurance exchange in accordance with a Plan of Conversion and Re-domestication approved by the Pennsylvania and Kansas Insurance Commissioners. Concurrent with the re-domestication and change in corporate structure, the name was changed to MutualAid eXchange. The Exchange is subject to the provisions of Article 16, Chapter 40 of the Kansas Statutes Annotated – Reciprocal or Interinsurance Contracts. Pursuant to the Plan of Conversion and Re-domestication, the Exchange retained its original NAIC company code number 11878.

### **Surplus Notes**

On March 20, 2017, the Exchange issued one surplus note in the amount of \$2,759,030 with a maturity date of not later than April 1, 2037, with an interest rate of 5% per annum, payable annually on April 1 of each year commencing April 1, 2018. This surplus note was issued to MII Management Group, Inc. (“MIIMG”). On August 22, 2018, the MIIMG Board of Directors authorized MIIMG to dividend and assign this Surplus Note to the Exchange. As a result of the assignment actions, the Exchange took possession of Surplus Note No. 49 with complete ownership rights. Effective September 28, 2018, the Department approved the retirement of this surplus note.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation and Bylaws were reviewed. The bylaws were amended on August 22, 2017, modifying the board of directors to consist of no less than seven (7) from nine (9) members and no more than eleven (11) from fifteen (15) and changing the audit committee from five (5) to three (3), among other minor changes.

## **MANAGEMENT AND CONTROL**

### **Subscribers**

The bylaws provide the framework for the operation, management and control of a reciprocal insurance exchange in the state of Kansas. The Exchange is owned by its subscribers and managed by a Board and MII Management Group, Inc. (MIIMG), its Attorney-in-Fact. Each subscriber shall be entitled to one (1) vote for each matter submitted to a vote at a meeting of the subscribers.

### **Board of Directors**

The Board will consist of directors who will be elected by the subscribers and will serve until their successors are duly elected and qualified. There are three (3) staggered classes of directors with each director serving a three (3) year term. The Board may designate three (3) or more directors to an executive committee. The executive committee will exercise the full authority of the board in the management of the Exchange but does not relieve the Board of its responsibilities imposed upon the board by the bylaws. The Board will elect a chair of the Board (chair), a president and chief executive officer, vice presidents, a secretary and a treasurer. The chair and president will be elected from the directors, while the other officers do not need to be directors.

The members of the Board of Directors elected and serving at December 31, 2020, were as follows:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Joan K. Cohen	Independent Consultant
Steven L. Garboden	Retired
E. Fred Goering, Jr.	Director of Fund Development
Michael J. Lally	Head of Business Development for Replica, Inc.
Kathy Goering Reid	Retired
Karen M. Zecy	President of American Micro
David M. Wine	President and CEO, MutualAid eXchange

\*Effective February 15, 2021, David M. Wine retired as President and CEO and resigned from the Board and was replaced by Lisa K. Bage, current President and CEO, and ex-officio member of the Board.

### **Committees**

The Exchange's bylaws indicate that the Board may designate three (3) or more directors, to constitute an Executive Committee. The Chair of the Board will appoint a Nominating Committee consisting of at least three (3) and not more than five (5) directors. A joint Audit Committee and its Attorney-in-Fact comprised of three (3) total members. The Chair will appoint two (2) of the directors to serve on the Audit Committee and at least two-thirds (2/3) of the joint Audit Committee is comprised of outside directors of the Exchange and its Attorney-in-Fact. The Board, by resolution adopted by the majority of the Board may designate three (3) or more Directors to constitute other committees. The established committees and the members elected and serving as of December 31, 2020, were as follows:

#### **Executive Committee**

Steven L. Garboden, Chair  
 Joan K. Cohen  
 Michael J. Lally  
 Karen M. Zecy  
 David M. Wine, Ex-Officio

#### **Audit Committee**

Joan K. Cohen, Chair  
 E. Fred Goerign Jr.  
 Michael J. Lally

#### **Investment Committee**

Kathy G. Reid, Chair  
 Michael J. Lally

#### **Nominating Committee**

Steven L. Garboden, Chair  
 E. Fred Goerign Jr.  
 David M. Wine, Ex-Officio



## **Officers**

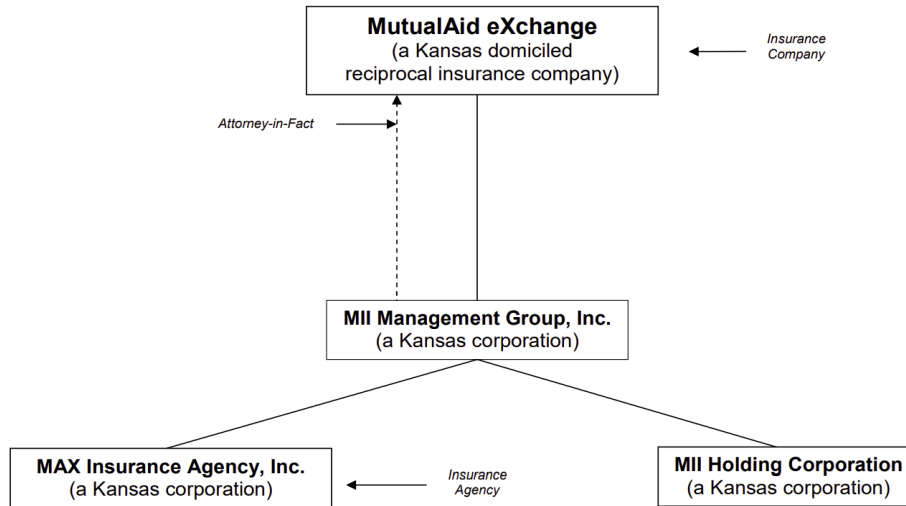
Pursuant to the bylaws, the Exchange will have a Chair of the Board, a president and chief executive officer, vice presidents, a secretary, and a treasurer. The chair and the president are elected by the board. Two or more offices may be held by the same person, except for those offices of the president, secretary and the offices of the president and vice presidents. The following is a listing of officers and their position(s) held as of December 31, 2020:

<b>Officer Name</b>	<b>Position</b>
Steven L. Garboden	Chair
Karen M. Zecy	Vice Chair
David M. Wine	President and Chief Executive Officer
Lisa K. Bage	Chief Operating Officer
Daniel J. Boxell	Secretary, Treasurer and Chief Financial Officer

## **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2020.



**Intercompany/Cost Sharing Agreements**

On April 27, 2001, the Company and MIIMG entered into an Amended Management Agreement whereby MIIMG performs certain management services for the Exchange in accordance with MIIMG's appointment as attorney-in-fact under the Company's Subscriber's Agreement. As attorney-in-fact, MIIMG provides management services to the Exchange for a fee of actual expenses plus a 6% profit margin. MIIMG will reconcile within 30 days after the end of the quarter the estimate against the actual quarterly costs paid for the Exchange's operations. Any amounts due to or due from the Exchange will be subtracted or added to the following estimate of the Exchange's quarterly operating costs. This agreement may be terminated upon at least a 120-day prior written notice. The Company recorded management fees of \$4,781,455, \$5,456,355, \$5,272,060, and \$5,552,698 during 2020, 2019, 2018, and 2017, respectively.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2020, the Exchange was authorized to transact business in the following 28 states: Arizona, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,

Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Oklahoma, Pennsylvania, South Carolina, South Dakota, Utah, Virginia, Washington, West Virginia, Wisconsin and Wyoming. The NAIC Schedule T was reviewed for each of the states where the Company is licensed. No exceptions were noted.

As of December 31, 2020, the Exchange's largest line of business were homeowners' multiple peril at 69% of direct premiums written and farm owners multiple peril at 26.4%. The remaining 4.7% was in fire, allied lines, inland marine, earthquake, and other liability lines of business.

### **SELECT FINANCIAL INFORMATION.**

The exhibit below shows the Company's financial results for the period of December 31, 2017, through December 31, 2020. The financial amounts were obtained from annual statements filed by the Company.

<i>(in \$000s)</i>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Admitted Assets	32,397	32,397	31,179	28,935
Liabilities	18,510	20,517	15,865	13,069
Policyholder Surplus	13,887	11,880	15,314	15,865
Net Underwriting Gain/(Loss)	398	(5,678)	(1,860)	(2,967)
Net Income	1,701	(4,117)	1,970	(1,779)
Net Premiums Written	21,658	20,225	17,895	15,422

### **REINSURANCE**

#### **General**

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000 omitted)

<b>Premium Type</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Direct Written Premium	\$32,493	\$29,185	\$25,213	\$22,438
Reinsurance Assumed	0	0	0	0
Reinsurance Ceded	(10,835)	(8,959)	(7,318)	(7,016)
<b>Net Premiums Written</b>	<b><u>\$21,658</u></b>	<b><u>\$20,226</u></b>	<b><u>\$17,895</u></b>	<b><u>\$15,422</u></b>

### **Assumed Reinsurance**

The Company assumes no business from other insurance carriers.

### **Ceded Reinsurance**

As of December 31, 2020, the Exchange was a party to the following ceded reinsurance treaties.

A Multi-line Per Risk Excess agreement was in place with one layer providing total protection for property and casualty losses of \$2,750,000 excess of \$250,000. This agreement was placed at 100% and with multiple reinsurers participating on this agreement.

On December 31, 2019, the Exchange entered into a 20% Quota Share agreement with Swiss Reinsurance America Corporation ceding the net liability of the Company's property and casualty net business. This agreement applies after all other reinsurance with the exception of the Property Aggregate.

A Property Excess Catastrophe Reinsurance agreement was in place ceding \$29,000,000 excess of \$1,000,000 for any one loss occurrence. This agreement was also placed at 100% for the 1st and 2nd layers with multiple reinsurers participating on this agreement.

In addition, an Excess Property Aggregate Reinsurance agreement was in place ceding Net Losses Incurred in excess of 65% of Net Premium Earned for all property lines to Grinnell Mutual Reinsurance Company. An additional layer was added in 2020 ceding

Net Losses Incurred in excess of 80% of Net Premium Earned for all property lines. The reinsurers participating on this layer were Grinnell Mutual Reinsurance Company and other reinsurers. This contract was placed at 100% and the reinsurer's liability was limited to 15% of the subject Net Premium Earned for each layer.

The Company has a 100% quota share cession covering equipment breakdown and service line coverage. Mutual Boiler Re is the reinsurer on this agreement.

Finally, the Company has a Semi-Automatic Property Per Risk Facultative agreement with Arch Reinsurance Company for large exposures covering \$5 million excess \$3 million for 2020. For losses arising out of an Act of Terrorism, the reinsurer's aggregate limit is \$10,000,000. All reinsurance agreements reviewed provided for the transfer of risk.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. Any accompanying comments on the financial statements reflect examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

**MUTUALAID EXCHANGE**  
**ASSETS**  
**AS OF DECEMBER 31, 2020**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 16,438,475	\$ -	\$ 16,438,475
Common stocks	7,441,840		7,441,840
Cash and short-term investments	3,587,259		3,587,259
Investment income due & accrued	94,286		94,286
Uncollected premiums and agents' balances in the course of collection	313,737	\$ 1,037	312,700
Deferred premiums and agents' balances and installments booked but deferred and not yet due	2,267,605		2,267,605
Amounts recoverable from reinsurers	1,357,945		1,357,945
Current federal and foreign income tax recoverable	79,674		79,674
Net deferred tax asset	884,560	67,323	817,237
Totals	<u>\$ 32,465,381</u>	<u>\$ 68,360</u>	<u>\$ 32,397,021</u>

**MUTUALAID EXCHANGE**  
**LIABILITIES, SURPLUS, AND OTHER FUNDS**  
**AS OF DECEMBER 31, 2020**

Losses	\$ 1,614,054
Loss adjustment expense	421,926
Commissions Payable	538,653
Other expenses	37,741
Taxes, licenses and fees	163,000
Current federal and foreign income taxes	234,469
Borrowed money	842,787
Unearned premiums	13,079,396
Advance premiums	999,330
Ceded reinsurance premiums payable	1,062,148
Funds held by company under reinsurance treaties	110,389
Provision for Reinsurance	24,538
Payable to parent, subsidiaries and affiliates	459,165
Total liabilities	<u>18,510,340</u>
Gross paid in and contributed surplus	4,829,659
Unassigned funds	<u>9,057,022</u>
Surplus as regards policyholders	<u>13,886,681</u>
Totals	<u><u>\$32,397,021</u></u>

**MUTUALAID EXCHANGE  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2020**

Premiums earned	\$ 20,326,513
Losses incurred	11,159,584
Loss adjustment expenses incurred	1,851,213
Other underwriting expenses incurred	6,917,281
Total underwriting deductions	<u>19,928,078</u>
Net underwriting gain	<u>398,435</u>
Net investment income earned	323,109
Net realized capital losses	<u>140,850</u>
Net investment gain	<u>463,959</u>
Net gain (loss) from agents' or premium balances charged off	(162,661)
Finance and service charges not included in premiums	961,158
Aggregate write-ins for miscellaneous income	<u>276</u>
Net income after dividends to policyholders and before federal income taxes	<u>1,661,168</u>
Federal income taxes incurred	<u>(39,837)</u>
Net income	<u><u>\$ 1,701,005</u></u>



**MUTUALAID EXCHANGE  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2017			<u>\$ 16,272,136</u>
Net income (loss)	2017	\$ (1,778,851)	
	2018	1,969,622	
	2019	(4,117,050)	
	2020	<u>1,701,005</u>	(2,225,274)
Change in net unrealized capital gains or (losses) less capital gains tax	2017	\$ 440,092	
	2018	(30,468)	
	2019	637,441	
	2020	<u>379,814</u>	1,426,879
Change in net deferred income tax	2017	\$ 1,358,818	
	2018	121,754	
	2019	68,463	
	2020	<u>(284,210)</u>	1,264,825
Change in nonadmitted assets	2017	\$ (417,338)	
	2018	137,111	
	2019	(22,786)	
	2020	<u>234,697</u>	(68,316)
Change in provision for reinsurance	2017	\$ (9,699)	
	2018	9,699	
	2019	-	
	2020	<u>(24,538)</u>	(24,538)
Change in surplus notes	2017	\$ -	
	2018	(2,759,030)	
	2019	-	
	2020	<u>-</u>	(2,759,030)
Surplus as regards policyholders, December 31, 2020			<u><u>\$ 13,886,681</u></u>

### **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2020, was \$13,886,681, which was the same amount reported by the Company in its 2020 filed Annual Statement.

### **COMMENTS ON FINANCIAL STATEMENTS**

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

### **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

### **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

## **CONCLUSION**

The assistance and cooperation of the officers of the Exchange during this examination is hereby acknowledged and appreciated. In addition to the undersigned, David Palmer, CFE, Exam Manager, Justin Parr, CFE, and Katie Koch, FSA, MAAA, Consulting Exam Actuary from Lewis & Ellis, Inc., both representing the Department, participated in this examination.

Respectfully submitted,

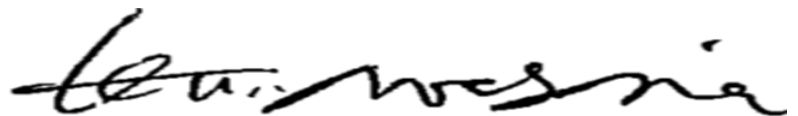


---

Omar D. Akel, CFE  
Examiner-in-Charge  
Lewis & Ellis, Inc. representing the Kansas  
Insurance Department

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.



---

Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Insurance Department

**EXHIBIT S**  
**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND**  
**PROCEDURES USED IN AN EXAMINATION**

State of Arkansas,

County of Pulaski,

Omar D. Akel, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of MutualAid eXchange.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of MutualAid eXchange was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.

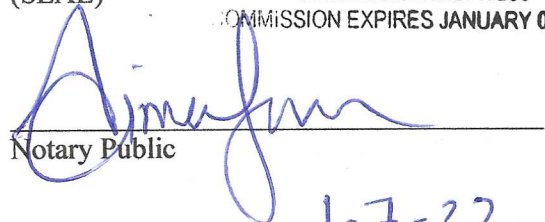


\_\_\_\_\_  
Examiner's Signature

Subscribed and sworn before me by Omar Akel on this 27<sup>th</sup> day of May, 2022.

AIMEE JONES  
NOTARY PUBLIC  
PULASKI COUNTY, ARKANSAS  
COMMISSION #12717230  
COMMISSION EXPIRES JANUARY 07, 2032

(SEAL)



\_\_\_\_\_  
Notary Public

My commission expires 1-7-32 [date].