

# *CERTIFICATE*

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION

OF

MUTUALAID EXCHANGE

4400 COLLEGE BOULEVARD, SUITE 250

OVERLAND PARK, KANSAS 66211

AS OF

DECEMBER 31, 2016

the original of which is now on file and a matter of record in this office.

*In Witness Whereof*, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 3<sup>rd</sup> day of October, 2017



\_\_\_\_\_  
*Commissioner of Insurance*

**FILED**  
**OCT - 3 2017**  
**KEN SELZER**  
**Commissioner of Insurance**

**REPORT ON EXAMINATION  
OF  
MUTUALAID EXCHANGE  
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OVERLAND PARK, KANSAS 66211  
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Overland Park, Kansas  
September 19, 2017

Honorable Ken Selzer  
Commissioner of Insurance  
Kansas Insurance Department  
420 SW 9th Street  
Topeka, Kansas 66612-1678

Dear Commissioner:

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

**MUTUALAID EXCHANGE  
4400 COLLEGE BOULEVARD, SUITE 250  
OVERLAND PARK, KANSAS 66211**

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

**SCOPE OF EXAMINATION**

The examiners have performed a property and casualty multi-state financial examination of MAX. The last examination covered the four-year period from January 1, 2009 through December 31, 2012. This examination covers the four-year period from January 1, 2013, through December 31, 2016.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (KID) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Exchange 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.

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 will be documented separately following the Exchange's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, *Examination of Condition of Company*, 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 Exchange were audited by BKD, LLC for the years ending December 31, 2013 and December 31, 2014 and Brown Smith Wallace, LLC for the years ending December 31, 2015 and December 31, 2016. 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 and 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 KID.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the course of the examination.

### **COMPANY HISTORY**

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**

As of December 31, 2016, there were several outstanding surplus notes issued to various entities with various maturity dates in the amount of \$2,759,030. Certain surplus notes had been issued in exchange for surplus value of a predecessor entity, Mennonite

Indemnity, Inc., and others were issued for funds received. The interest and principal payments on these surplus notes can only be paid upon prior approval by the KID.

### **MANAGEMENT AND CONTROL**

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.

The Board will consist of no less than nine (9) or more than fifteen (15) 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 chairman of the Board (chairman), a president and chief executive officer, vice presidents, a secretary and a treasurer. The chairman and president will be elected from the directors, while the other officers do not need to be directors. Two or more offices may be held by the same person, except for the offices of the president, secretary and the offices of the president and the vice presidents.

The bylaws authorize the chairman to appoint a nominating committee, an audit committee and other committees. The following exhibits show the members of the Board, Board committees and the officers at December 31, 2016:

<b>Director Name</b>	<b>Position and Employer</b>	<b>Term</b>
S. Joan Hershey	Office Manager, Wenger Chiropractic Group	2017
Elaine L. Shantz	Chief Operating Officer, PeopleCare Inc.	2019
Joan K. Cohen	Consultant	2017
Steven L. Garboden	Vice President, IU Health Goshen Hospital	2019
Elmer F. Goering, Jr	Director of Fund Development, Pine Village	2018
David A. Hanson	Retired Attorney	2018
Michael J. Lally	Vice President, Olsson Associates	2019
James B. Reeve	Attorney, Cassels Brock & Blackwell, LLP	2017
Kathy Goering. Reid	Executive Director, Family Abuse Center	2019
Karen M. Zecy	Owner and President, American Micro Co.	2018
David M. Wine	President and Chief Executive Officer, MAX	Ex Officio

<b>Director Name</b>	<b>Executive Committee</b>	<b>Nominating Committee</b>	<b>Audit Committee</b>	<b>Investment Committee</b>
S. Joan Hershey	Chairman	Chairman		
Elaine L. Shantz	Vice Chairman	Vice Chairman		
Joan K. Cohen	Member		Member	
Steven L. Garboden			Member	Chairman
Elmer F. Goering, Jr		Member		
David A. Hanson			Chairman	
Michael J. Lally	Member		Member	Member
James B. Reeve				
Kathy Goering Reid				Member
Karen M. Zecy			Member	
David M. Wine	Ex Officio	Ex Officio		
Scott T. Forland	Ex Officio	Ex Officio		

<b>Officer Name</b>	<b>Position</b>
S. Joan Hershey	Chairman
Elaine L. Shantz	Vice Chairman
David M. Wine	President and Chief Executive Officer
Scott T. Forland	Executive Vice President, Chief Legal Officer, Secretary
Dan J. Boxell	Treasurer and Chief Financial Officer
Lisa K. Bage	Chief Operating Officer

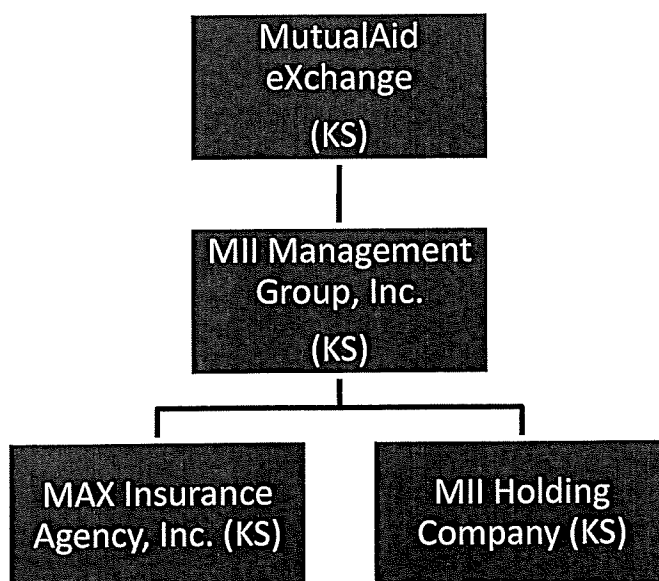


## **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-3301, et seq. - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Exchange has submitted Form "B" and "C" registration statements to the KID for each of the years under examination. A review of the registration statements indicated that the Exchange is properly reporting items and events as required by statute.

Effective November 30, 2016, the Exchange sold all of its ownership interest of MAX Canada Insurance Company which was a wholly owned subsidiary. In addition, MII Holding Corporation which is a subsidiary of MIIMG, the Company's Attorney-in-Fact also sold its wholly owned subsidiary, Mutual Aid Insurance Brokers Company, to an independent third party.

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, 2016.



### **Intercompany/Cost Sharing Agreements**

MIIMG provides all management and administrative services to the Exchange under a contract last amended on April 27, 2001. The Exchange advances to MIIMG the estimated costs for the subsequent quarter's operation, plus a six percent (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.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2016, the Exchange is authorized to transact business as a direct writer in the following 18 states: Georgia, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Virginia and West Virginia. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

As of December 31, 2016, the Exchange's largest lines of business were home owners multiple peril at 63.4% of direct premiums written, farm owners at 30.4% and fire at 3%. The remaining 3.2% was in allied lines, inland marine, earthquake and other liability lines of business.

### **GROWTH OF COMPANY**

The exhibit below shows [REDACTED] the Exchange's financial growth (in thousands) for the period of December 31, 2012, through December

31, 2016. The financial growth amounts were obtained from annual statements filed by the Exchange.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>[REDACTED]</b>					
<i>(in thousands)</i>					
Admitted Assets	25,587	25,901	25,912	26,492	27,136
Liabilities	9,277	10,809	9,693	10,538	10,864
Capital and Surplus	16,310	15,092	16,219	15,954	16,272
Net Underwriting Gain/(Loss)	(998)	(1,998)	(44)	105	(221)
Net Income	(275)	(1,229)	638	1,147	2,547
Net Premiums Written	9,261	10,501	10,861	11,123	12,981

### REINSURANCE

In 2016, the Exchange terminated its reinsurance agreement with GuideOne Mutual Insurance Company that it assumed commercial church business from. The Exchange assumes no other significant amount of business through any other reinsurance agreement.

In 2016, the Exchange ceded 35% of its business except for equipment breakdown through a quota share agreement with GuideOne Mutual Insurance Company. The equipment breakdown is ceded through a 100% quota share agreement with Mutual Boiler Re. The remaining 65% of the business is ceded by the Exchange through a multi-line per risk excess of loss agreement, a property excess catastrophe reinsurance agreement and a semi-automatic property per risk facultative agreement. The multi-line per risk excess of loss agreement which covers property and casualty losses has three layers of coverage of \$250,000 in excess of \$250,000 for the first layer, the second layer is \$500,000 in excess of \$500,000 and the third layer is \$2,000,000 in excess of \$1,000,000, which is placed with multiple reinsurers through a reinsurance intermediary, Guy Carpenter. The property excess catastrophe reinsurance agreement has two layers

and covers losses of \$4 million in excess of \$1 million for the first layer and the second layer covers losses of \$25 million in excess of \$5 million, which is placed with multiple reinsurers through Guy Carpenter. The semi- automatic property per risk facultative agreement with Everest Reinsurance Company is for large exposures covering \$6 million in excess of \$3 million on all property risks with the exception of US churches, which is limited to \$4 million.

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a–*Reinsurance of risks of and by Kansas companies*. All reinsurance agreements reviewed provided for the transfer of risk.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Exchange with the Kansas Insurance Department and present the financial condition of the Exchange for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**MUTUALAID EXCHANGE  
ANALYSIS OF ASSETS  
AS OF DECEMBER 31, 2016**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 10,535,853		\$ 10,535,853
Common stocks	6,461,220		6,461,220
Cash and short-term investments	7,416,459		7,416,459
Investment income due & accrued	121,812		121,812
Uncollected premiums and agents' balances in the course of collection	346,621	\$ 44	346,577
Deferred premiums, agents' balances deferred and not yet due	1,354,660		1,354,660
Amounts recoverable from reinsurers	473,834		473,834
Receivables from parent, subsidiaries and affiliates	72,366		72,366
Aggregate write-ins for other than invested assets	353,121		353,121
Totals	<u>\$ 27,135,946</u>	<u>\$ 44</u>	<u>\$ 27,135,902</u>

**MUTUALAID EXCHANGE  
LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2016**

Losses	\$ 1,645,028
Reinsurance payable on paid losses and loss adjustment expenses	1,191
Loss adjustment expenses	408,983
Commissions payable	419,512
Other expenses	54,105
Taxes, licenses and fees	96,000
Current federal and foreign income tax payable	23,015
Unearned premiums	7,286,595
Advance premiums	765,860
Ceded reinsurance premiums payable	(357,840)
Funds held by company under reinsurance treaties	35,419
Payable to parent, subsidiaries and affiliates	485,898
Total liabilities	<u>10,863,766</u>
Surplus notes	2,759,030
Gross paid in and contributed surplus	4,829,659
Unassigned funds	<u>8,683,447</u>
Surplus as regards policyholders	<u>16,272,136</u>
Totals	<u>\$ 27,135,902</u>

**MUTUALAID EXCHANGE  
STATEMENT OF INCOME  
CAPITAL AND SURPLUS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Underwriting Income:</u>	
Premiums earned	\$ 11,891,392
<u>Deduct:</u>	
Losses incurred	5,925,636
Loss adjustment expenses incurred	1,380,055
Other underwriting expenses incurred	4,806,768
Total underwriting deductions	<u>12,112,459</u>
Net underwriting gain or (loss)	(221,067)
<u>Investment Income:</u>	
Net investment income earned	194,278
Net realized capital gains or (losses)	<u>1,776,913</u>
Net investment gain or (loss)	1,971,191
<u>Other Income:</u>	
Net gain (loss) from agents' or premium balances charged off	(59,971)
Finance and service charges not included in premiums	800,820
Aggregate write-ins for miscellaneous income	<u>92,330</u>
Total other income	833,179
Net income after dividends to policyholders and before federal income taxes	2,583,303
Federal income taxes incurred	<u>36,225</u>
Net income	<u>\$ 2,547,078</u>

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2015	\$ 15,953,763
Net income	2,547,078
Change in net unrealized capital gains (losses)	(2,423,808)
Change in net unrealized foreign exchange capital gains (losses)	125,038
Change in net deferred income tax	61,000
Change in nonadmitted assets	(19)
Change in provision for reinsurance	9,084
Aggregate write-ins for gains and losses in surplus	<u>318,373</u>
Change in surplus as regards policyholders for the year	<u>318,373</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 16,272,136</u>

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

Surplus as regards policyholders, December 31, 2012			<u>\$ 16,309,339</u>
Net income	2013	(1,228,791)	
	2014	637,627	
	2015	1,146,630	
	2016	<u>2,547,078</u>	3,102,544
Change in net unrealized capital gains or (losses)	2013	521,808	
	2014	643,816	
	2015	(541,232)	
	2016	<u>(2,423,808)</u>	(1,799,416)
Change in net unrealized foreign exchange capital gains or (losses)	2013	(512,517)	
	2014	(491,322)	
	2015	(863,248)	
	2016	<u>125,038</u>	(1,742,049)
Change in net deferred income tax	2016	<u>61,000</u>	61,000
Change in nonadmitted assets	2013	447	
	2014	1,102	
	2015	1,380	
	2016	<u>(19)</u>	2,910
Change in provision for reinsurance	2013	797	
	2014	-	
	2015	(9,084)	
	2016	<u>9,084</u>	797
Aggregate write-ins for gains and losses in surplus	2014	<u>337,011</u>	<u>337,011</u>
Surplus as regards policyholders, December 31, 2016			<u><u>\$ 16,272,136</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 Exchange, as of December 31, 2016, was \$16,272,136, which was the same amount, reported by the Exchange in its 2016 filed Annual Statement.

### **COMMENTS ON FINANCIAL STATEMENTS**

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

### **SUBSEQUENT EVENTS**

In 2017, the Exchange revised its 2016 Annual Statement to reflect the reduction of the common stock investment in the attorney-in-fact, MIIMG due to its investment in the Exchange's surplus note of \$2,759,030. This reduction is reflected in the report on examination.

### **SUMMARY OF RECOMMENDATIONS**

There were no findings or recommendations identified as a result of this examination that was included in the report on examination.

### **MANAGEMENT LETTER**

A management letter was issued to the Exchange's Board of Directors for response to the KID on recommendations that were not significant or appropriate to include in the report of examination.

**CONCLUSION**

The assistance and cooperation by the officers of the Exchange during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Ms. Tamara House, CFE, financial examiner and Mr. Shane Mead, CISA, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink, consisting of several overlapping loops and a horizontal line at the bottom, positioned above the printed name.

Christopher W. Buchanan, CPA, CFE  
Senior Insurance Examiner  
Examiner-in-Charge

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

State of Kansas

County of Shawnee County

Christopher W. Buchanan being duly sworn, states as follows:

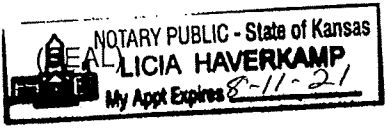
1. I have authority to represent the Kansas Insurance Department in the examination of MutualAid eXchange
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers 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 Christopher Buchanan on this  
31<sup>st</sup> day of August, 2017.



Alicia Haverkamp  
\_\_\_\_\_  
Notary Public

My commission expires 8-11-21  
\_\_\_\_\_  
(date)