

AUG 14 2019

FILED

# CERTIFICATION

August 14, 2019

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify  
that the attached is a full and correct copy of the Financial Examination Report of

**FARMERS MUTUAL FIRE INSURANCE ASSOCIATION**

**OF SEWARD COUNTY**

as of

**DECEMBER 31, 2018**

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



*Bruce R. Ramage*  
DIRECTOR OF INSURANCE

JUL 29 2019

FILED

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF SEWARD COUNTY**

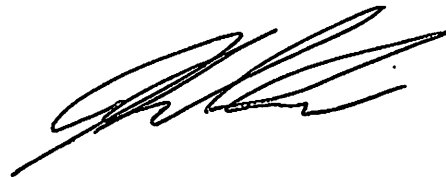
**1542 PLAINVIEW AVENUE**

**SEWARD, NEBRASKA 68434**

dated as of December 31, 2018 verified under oath by the examiner-in-charge on  
July 10, 2019 and received by the company on July 12, 2019, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 29<sup>nd</sup> day of July 2019.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF SEWARD COUNTY**

**as of**

**December 31, 2018**



Seward, Nebraska  
June 2, 2019

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
1135 M Street, Suite 300  
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF SEWARD COUNTY**  
**1542 Plainview Ave**  
**Seward, NE 68434**

(hereinafter also referred to as the "Association") and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The Association was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

**SCOPE OF EXAMINATION**

This examination was conducted pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made of the Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter

provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". All items pertaining to management and control were reviewed. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members and Board of Directors held during the examination period, were read and noted. Attendance at meetings and election of Directors and Officers were also noted.

The fidelity bond and other insurance coverages protecting the Association's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was inspected and a survey was made of the Association's general plan of operation.

The Association's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the substantive examination process.

All accounts and activities of the Association were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. The assets were verified and evaluated and the liabilities were determined in order to present the statement of the Association's financial condition as of December 31, 2018.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

## **DESCRIPTION OF ASSOCIATION**

### **HISTORY**

The Association was organized as an assessment fire and lighting association in 1883 under the name “Farmers Mutual Fire Insurance Association”. On January 16, 1954, the Articles of Incorporation and By-Laws were amended, authorizing the Association to expand its operations to include the writing of wind and hail insurance.

Currently, the Association operates pursuant to Amended Articles of Incorporation that were approved by the Nebraska Department of Insurance on October 24, 1972. The Association also amended By-Laws that were adopted and approved by the Board of Directors July 27, 1978, and filed with the Nebraska Department of Insurance January 10, 1979.

### **MANAGEMENT AND CONTROL**

#### **Members**

Article I of the Association's By-Laws states, “the annual meeting of the Members of the Company shall be held in the City of Seward, Nebraska, on the fourth Saturday of each January...the Board of Directors is empowered to call a special meeting when deemed necessary...each Member in good standing shall be entitled to one vote for the election of Directors and on all matters coming before any annual or special meeting of the Members.” Article V of the Association’s Articles of Incorporation states, “fifteen Members shall constitute a quorum for the transaction of business at an annual or special meeting of the Members.”

#### **Board of Directors**

Article IV of the Association’s Articles of Incorporation states, “the affairs of the Company shall be managed by a Board of Directors elected by the Members of not less than five nor more than twenty-one Members, all of whom shall be Members of the Company.” Article I

of the Association's By-Laws states, "Directors shall be elected for a term of three years and shall serve until their successors are duly elected and qualified."

The following persons were serving as Directors at December 31, 2018:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Philip Bangert	Seward, Nebraska	2019
Alan Hans	Seward, Nebraska	2019
Howard Krieser	Garland, Nebraska	2019
Chris Simonsen	Seward, Nebraska	2019
Robert W. Menze	Gresham, Nebraska	2020
Jeffery J. Sieck	Columbus, Nebraska	2020
Thomas L. Sieck	Pleasant Dale, Nebraska	2021
Steve Woebbecke	Pleasant Dale, Nebraska	2021

Directors receive \$35.00 for attendance at Board meetings and continuing education, and \$60.00 for other meetings. Directors receive \$0.50 per mile while traveling for meetings and loss adjusting. Premiums are collected by Directors who receive a commission of 7.5% if the premium is collected. Loss adjustments on claims are handled by both the Board of Directors and agents who collect \$15.00 per hour with \$0.50 per mile while traveling on Association business.

### Officers

Article IV of the Association's Articles of Incorporation provide, "the Officers of the Company shall be a President, a Vice-President, a Secretary, and a Treasurer, all of whom shall be elected by the Board of Directors. One person may hold any two offices except the office of President and Vice-President." The following is a listing of Officers elected and serving the Association at December 31, 2018:

<u>Name</u>	<u>Office</u>
Alan Hans	President
Jeffery Sieck	Vice-President
Philip Bangert	Secretary & Treasurer

## **FIDELITY BOND AND OTHER INSURANCE**

The Association has in force an individual fidelity bond on the Secretary-Treasurer in the amount of \$25,000. The said fidelity bond is written by an authorized insurer.

The Association also purchased a combined professional liability and Directors and Officers liability policy. The policy has a limit of \$1,000,000 per claim and \$1,000,000 in the aggregate for all claims for the policy period and a deductible of \$10,000 per claim.

## **TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, the Association is licensed to transact business in Nebraska. The Association writes fire, lightning, wind, and hail insurance on the assessment plan in Seward and surrounding counties. Fire and lightning coverage is written on farm and town dwellings, farm implements, livestock, hay, and grain. Windstorm and hail coverage is available on all risks. Assessments are collected on an annual basis.

The Association, as a convenience for its policyholders and agents, makes available three general liability insurance coverages written by Acceptance Casualty Insurance Company. The Association handles the accounting on such business for premiums and agents fees. Commissions received by the Association are transferred and disbursed to the agents responsible for the production of such business.

The general liability insurance items, such as premiums and commissions, pertaining to these agency operations have been specifically designated by the use of the word "liability" in the financial statement presented in the examination report.



## **REINSURANCE**

### **Ceded**

The Company is a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA), and used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2018, the Company retained a liability up to an amount equal to \$2,700 per million of the 2018 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2018 was noted as being \$205,995.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000, up to \$660,000. Recoveries made which are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Company makes recoveries under this coverage but their net losses do not exceed their aggregate retention for the year, the amount recovered per risk between the single risk retention and 1/8<sup>th</sup> of 1% of the January 1 insurance in-force is to be refunded to NFMRA prior to March 1 of the next year. This excess per risk coverage is not applicable once the ultimate net losses exceed the ultimate retention.

This contract also provided that the Company retain for its own account the first \$1,000 of each risk, each loss, as respects mobile home risks located in trailer courts. NFMRA's limit of coverage shall be \$48,000 for losses in any one-trailer court; with two or more trailers in any one location constituting a trailer court.

### **General**

The contract reviewed contained standard insolvency clause, arbitration clause, offset clause, and errors and omissions clause. The contract did not contain the entire agreement clause as

required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual. It is recommended that the Company include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**BODY OF REPORT**

**FINANCIAL STATEMENTS**

The following statement of assets and liabilities, together with the accompanying statement of income and disbursements, reflects the financial condition of the Company at December 31, 2018. All amounts are based on the findings of the current examination:

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Balance, beginning of year	\$ 833,423	\$718,272	\$ 867,620	\$1,009,670	\$959,542
<b><u>Income</u></b>					
Gross receipts from assessments	\$ 347,302	\$410,266	\$ 375,128	\$ 373,244	\$362,319
Less return on cancellations	<u>5,433</u>	<u>7,221</u>	<u>10,896</u>	<u>5,943</u>	<u>6,340</u>
Net received from members	\$ 341,869	\$403,045	\$ 364,232	\$ 367,302	\$355,979
Interest on investments	9,254	5,946	18,999	10,303	18,102
Liability premiums	23,449	25,159	23,738	25,923	25,456
Refund reinsurance premiums	<u>          </u>	<u>23,402</u>	<u>23,402</u>	<u>          </u>	<u>18,938</u>
Total revenue	<u>\$ 374,572</u>	<u>\$457,551</u>	<u>\$ 430,372</u>	<u>\$ 403,527</u>	<u>\$418,475</u>

**STATEMENT OF INCOME AND DISBURSEMENTS (continued)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b><u>Disbursements</u></b>					
Gross losses paid	\$1,022,905	\$263,080	\$ 112,121	\$ 173,615	\$559,934
Less discount and salvage	419		4,000	5,000	
Less reinsurance recovered	<u>788,771</u>	<u>227,332</u>	<u>106,660</u>	<u>4,713</u>	<u>345,567</u>
Net losses paid	\$ 233,715	\$ 35,748	\$1,461	\$ 163,903	\$214,368
Adjusting expense	420	895	1,345	2,818	9,100
Commissions to agents	28,843	32,295	30,298	29,651	29,231
Mileage paid					1,962
Salaries and expenses of Directors and Officers	17,356	17,802	43,271	43,496	50,020
Supplies					1,425
Bank charge	141	51	22	22	412
Errors & omissions	3,929	3,675	3,778	3,487	3,511
NAMIC Dues	2,247	2,995	2,304	3,334	2,483
Insurance department licenses & fees	\$ 6,137	\$ 4,317	\$ 5,043	\$ 4,582	
All other taxes	3,632	2,780	3,253	6,741	
Advertising, printing & stationary	326	465	576	990	
Meetings					\$ 1,870
Telephone & postage	1,192	1,149	929	1,189	724
Reinsurance premiums paid	127,650	182,938	175,083	168,011	172,720
Liability premiums	22,032	22,004	19,968	24,231	20,463
Miscellaneous	900	1,028	927	1,138	
Reinsurance assessment	41,140				
Fidelity bond	<u>63</u>	<u>63</u>	<u>63</u>	<u>63</u>	<u>63</u>
Total disbursements	<u>\$489,723</u>	<u>\$308,204</u>	<u>\$ 288,322</u>	<u>\$ 453,655</u>	<u>\$508,352</u>
Balance, end of year	<u>\$718,272</u>	<u>\$867,620</u>	<u>\$1,009,670</u>	<u>\$ 959,542</u>	<u>\$869,666</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2018**

**ASSETS**

**Ledger Assets**

Certificates of deposit	\$569,500	
Cash deposited in banks	41,950	
NFMRA surplus note	<u>258,216</u>	
Total ledger assets		<u>\$869,666</u>

**Assets Not Admitted**

NFMRA surplus note	<u>\$258,216</u>	
Total assets not admitted		<u>\$258,216</u>
Total admitted assets		<u>\$611,450</u>

**LIABILITIES AND SURPLUS**

Losses adjusted and unpaid	\$161,244	
Less reinsurance	<u>136,013</u>	
Net unpaid losses		\$ 25,231
Unearned premiums		171,713
Premium tax payable		<u>4,447</u>
Total liabilities		<u>\$201,391</u>
Surplus as regards policyholders		<u>\$410,059</u>
Total liabilities and surplus		<u>\$611,450</u>

**COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Association to comply therewith:

**Unearned Premium** - It is recommended the Association retain all documentation used to calculate Unearned Premiums. This would allow the examiner to complete an accurate review of this area in future exams.

**Action:** The Association has not complied with the recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

**Reinsurance Clause-** It is recommended that the Association amend its reinsurance contract to include an arbitration clause, an offset clause, and an error and omissions clause. It is also recommended that the Association include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**Action:** The Association has partially complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Certificates of Deposit**

**\$569,500**

This asset consists of twelve certificates of deposit in the amount of \$569,500, which are held with five separate banks located in Nebraska. All deposits were verified by certifications signed by officials of the respective banks.

### **Other Cash Deposited in Banks**

**\$ 41,950**

This asset consists of a checking account with Jones National Bank & Trust Company. The balance at December 31, 2018 for the checking account was \$41,950. These deposits were verified by certifications signed by officials at the Jones National Bank & Trust Company.

### **Surplus Note**

**\$258,516**

The surplus note issued by NFMRA had a value of \$258,516 as of December 31, 2018. This item is deducted, as an asset not admitted in both the Association’s 2018 Annual Statement and the financial statements of this report in accordance with SSAP No. 41 of the NAIC Accounting Practices and Procedures Manual.

SSAP No. 41, paragraph 10(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ to the outstanding face

amount of the capital or surplus notes. The ‘statement factor’ is equal to the total capital and surplus, including surplus notes, less than the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus. If ‘statement factor’ is negative, the surplus note(s) shall be carried at zero.”

Calculation of the NFMRA’s surplus note is as follows:

\$ 869,666	Admitted asset (including surplus note)
<u>201,391</u>	Less liabilities
\$ 668,275	Total capital, surplus and surplus note

\$ 869,666	
<u>5%</u>	of admitted assets
\$ 43,484	

Greater of \$43,484 or \$6,000,000

\$ 668,275	
<u>- 6,000,000</u>	
$$(5,331,725)/668,275 = -7.98$ statement factor	

**Net Unpaid Losses**

**\$ 25,231**

This amount consists of twenty three unpaid losses, totaling \$161,244, less reinsurance recoverable of \$136,013. Supporting documentation was not maintained and the provided support indicated that unpaid losses amounted to \$159,060. Nebraska Insurance Code 44-5905(b)(i)(A) which states that, “every company or person subject to the Insurers Examination Act shall retain all books, records, accounts, papers, documents, and computer or other recordings relating to the property, assets, financial accounts, and business of such company or person in a manner that permits examination of such books, records, accounts, papers, documents, and computer or other recordings for five years, or until the period of time in which the transaction took place has undergone a financial examination by the Director, whichever is later, following the completion

of a transaction relating to the property, assets, financial accounts, and business of such company or person.”

It is recommended that the Association maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A).

**Unearned Premiums** **\$171,713**

The Association reported unearned premiums of \$171,713 in its December 31, 2018 Annual Statement. Amounts reported are reportedly system generated and represent the unearned portion of each policy based on the remaining policy days on each policy at December 31, 2018. However, the system report indicated that unearned premiums totaled \$178,349.34. It is recommended that the Association maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A). The unearned premium reserve established at December 31, 2013 of \$171,713 is accepted for purposes of the examination.

**Premium Taxes Payable** **\$ 4,447**

This amount consists of the 2018 premium taxes due at year-end and paid in 2019.

**Surplus as Regards Policyholders** **\$410,059**

The surplus as regards members, as determined by this examination, amounted to \$410,059.

**Reporting Address**

The listed address on the Annual Statement is 1856 Holdrege Road, Pleasant Dale, NE 68423. However, the Association’s records are now retained at 1542 Plainview Avenue, Seward, NE 68434. It is recommended that the Association report the current address of 1542 Plainview Avenue, Seward, NE 68434 in future filings with the Nebraska Department of Insurance.

### **Premium Tax Expense**

Premium taxes paid to the state of Nebraska of \$4,652 were included in Annual Statement page 4 line 1, "Salaries and expenses of Directors and Officers". It is recommended that premium taxes paid to the state of Nebraska be reported on Annual Statement page 4 line 17 "Insurance department licenses and fees".

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following comments and recommendations have been made as a result of this examination:

**Entire Agreement Clause** – It is recommended that the Association include an entire agreement clause in the contract with NFMRA in order to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**Documentation Maintenance** – It is recommended that the Association maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A) for losses adjusted and unpaid and unearned premiums.

**Reporting Address** – It is recommended that the Association report the current address of 1542 Plainview Ave. Seward, NE 68434 in future filings with the Nebraska Department of Insurance.

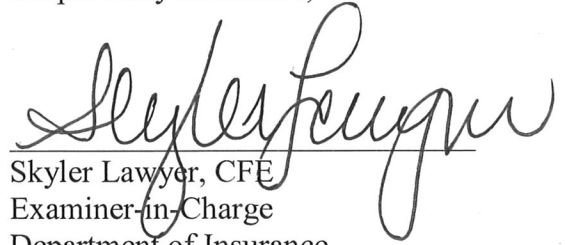
**Premium Tax Expense** – It is recommended that premium taxes paid the state of Nebraska be reported on Annual Statement page 4 line 17 "Insurance department licenses and fees".



**ACKNOWLEDGMENT**

The courteous cooperation extended by the Officers and employees of the Association during this examination is hereby acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Skyler Lawyer", is written over a horizontal line.

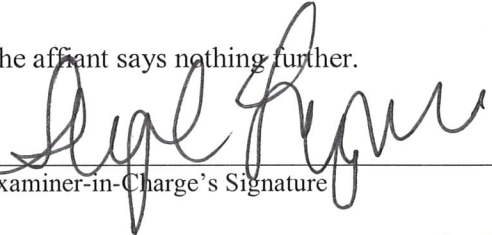
Skyler Lawyer, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,  
County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Farmers Mutual Fire Insurance Association of Seward County.
2. The Department of Insurance of the State of Nebraska 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 Farmers Mutual Fire Insurance Association of Seward County was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

  
 Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 10<sup>th</sup> day of July, 2019.

(SEAL) 

Rae Ann Mastny  
 Notary Public

My commission expires \_\_\_\_\_ [date].