

AUG 27 2021

FILED

# CERTIFICATION

August 27, 2021

I, Eric Dunning, 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

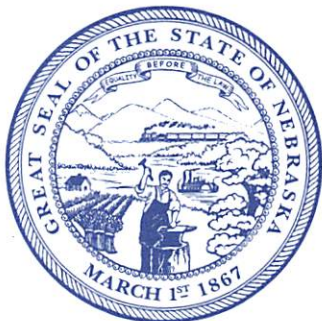
**GERMAN MUTUAL INSURANCE ASSOCIATION OF NEBRASKA**

**AS OF**

**DECEMBER 31, 2020**

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.



A handwritten signature in blue ink, appearing to read "Eric Dunning", is written over a horizontal line.

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**GERMAN MUTUAL INSURANCE ASSOCIATION OF NEBRASKA**

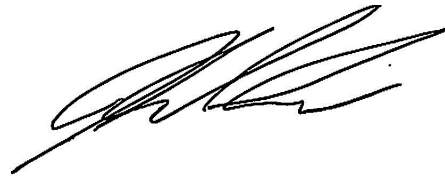
**914 ALDEN DRIVE**

**AUBURN, NEBRASKA 68305**

dated as of December 31, 2020, verified under oath by the examiner-in-charge on August 3, 2021, and received by the company on August 3, 2021, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 17<sup>th</sup> day of August 2021.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

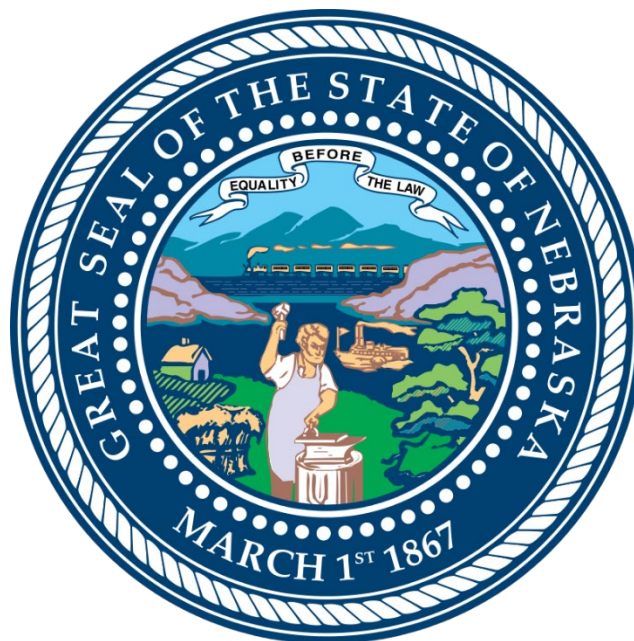
**EXAMINATION REPORT**

**OF**

**GERMAN MUTUAL INSURANCE ASSOCIATION OF NEBRASKA**

**as of**

**DECEMBER 31, 2020**



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Lincoln, Nebraska  
June 24, 2021

Honorable Eric Dunning  
Director of Insurance  
Nebraska Department of Insurance  
1526 K Street, Suite 200  
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:

**GERMAN MUTUAL INSURANCE ASSOCIATION OF NEBRASKA  
914 Alden Drive  
Auburn, NE 68305**

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

**INTRODUCTION**

The State of Nebraska last examined the Association as of December 31, 2016. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2020 and 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**

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

The Nebraska Department of Insurance made a general review 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, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Association. 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, election of Directors and Officers, approval of investment transactions, and authorizations of salaries 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.

Data reflecting the Association's growth during the period under review, as developed from the Association's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

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 testing procedures. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

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, 2020.

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 in 1890 and was incorporated on January 9, 1896 as a mutual fire and lightning assessment association. In 1932, the Articles of Incorporation were amended to include the writing of windstorm, cyclone, and tornado insurance. On January 26, 1993, the Association amended its Articles of Incorporation to provide for perpetual existence.

### **MANAGEMENT AND CONTROL**

#### **Membership**

Article IV of the Articles of Incorporation states that, "every person, corporation, association or partnership insuring in this Association shall be a Member thereof and entitled to one vote at any annual or special meeting of the Association in person or by proxy." Section 5.1 of the By-Laws states that, "the annual meetings of the Association shall be held on the last Tuesday of January of each year at one (1) o'clock P.M. at the place selected by the Board of Directors." Section 5.4 of the By-Laws states that, "a reorganizational meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting.....They shall elect for a term of one year, a President, Vice-President, Secretary and Treasurer, and such other Officers, as they deem necessary."

## **Board of Directors**

Section 6.1 of the By-Laws states that, “the Board of Directors shall consist of no less than five (5) members, with a maximum not to exceed seven (7)...A majority of the Board of Directors shall constitute a quorum for the transaction of business.” Section 5.2 of the By-Laws provides that, “Directors shall hold office for a term of three years. The terms of the Directors shall be on a staggered basis...”

The following persons were serving as Directors at December 31, 2020:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Term Expires</u></b>
Tyler Bohling Techumseh, NE	Crop Adjuster	2021
Clint Damme Talmage, NE	Crop Adjuster	2021
Steven Epler Auburn, NE	Business Owner	2021
Dennis Norvell Auburn, NE	Farmer, Woodworker, Former Agent	2022
Gary Liesemeyer Syracuse, NE	Physician	2023

## **Officers**

Section 6.1 of the By-Laws states that, “the Officers shall consist of a President, Vice-President, Secretary and Treasurer, and such other Officers as may be elected by the Board of directors for a term of one (1) year, or until their successors are elected and qualified.”



The following is a listing of Officers elected and serving the Association at December 31, 2020:

<u>Name</u>	<u>Office</u>
Dennis Norvell	President
Tyler Bohling	Vice President
Clint Swanson	Secretary/Treasurer
Janet Bohling	Assistant Secretary/Treasurer

**Committees**

Section 8 of the By-Laws states that, “the President and Secretary shall constitute an Executive Committee, which shall perform the duties of the Board of Directors between the meeting of such Board. The Secretary shall render a report of their actions at each meeting of the Board of Directors.”

The following persons were serving on the Executive Committee at December 31, 2020:

Dennis Norvell                      Clint Swanson

The following persons were serving on the Investment Committee at December 31, 2020:

Dennis Norvell                      Clint Swanson

The committees meet informally with no agenda or minutes taken. Any pertinent discussions or transactions are reported to the Board of Directors.

**TERRITORY AND PLAN OF OPERATIONS**

As evidenced by a current Certificate of Authority, the Association is licensed to transact business in the State of Nebraska as prescribed by Section §44-201, subsections (5) and (18) of the Nebraska Insurance Statutes.

The Association’s Articles of Incorporation authorize it to conduct a mutual insurance business and to issue insurance upon home and farm property. A majority of the Association's

risks are located in southeast Nebraska; however, its territory is not restricted to this area and the Association can write in any county in Nebraska.

Production of new business and servicing of renewals is handled through 19 different agencies. The Association entered into a contract services agreement on July 1, 2007 with Grinnell Mutual Reinsurance Company (Grinnell) to provide the Association with claims adjustment services.

Policies are direct billed and remitted directly to the Association. Policies are written on an annual renewable basis subject to review every three years for farm property. Premiums are collected annually, semi-annually, or monthly with a \$3 monthly service charge applied to those paying on a monthly, and a \$10 semi-annual service charge applied to those paying on a semi-annual basis. Agents receive a commission of 15 percent on policies written prior to 2006, 20 percent on new policies written from 2006 to December 2011, and 15 percent for all new business written subsequent to December 2011.

The Association provides liability coverage for its members by acting through an agent of Nebraska Farmers Mutual Reinsurance Company (NFMRA), and Grinnell. In this capacity, the Association collects the premiums and remits them to the agent of either NFMRA or Grinnell.

## **REINSURANCE**

### **Ceded**

The Association is a member of Grinnell and used the reinsurance facilities of Grinnell for each year covered by this examination. Coverage applies to all policy forms and endorsements issued by the Association once they are filed and accepted by Grinnell.

The property per risk excess of loss coverage for 2020 has the Association's individual per risk retention at \$200,000. For the first layer, Grinnell is liable for losses in excess of the

retention, up to a limit of \$1,000,000. For the second layer, Grinnell is liable up to a limit of \$4,000,000. For the third layer, Grinnell is liable for 100% in excess of \$5,000,000 for each loss with maximum recovery of \$15,000,000 per risk. Any Risk that exceeds a Total Insured Value of \$20,000,000 requires facultative coverage, and separate application must be made to Grinnell for facultative coverage.

For property catastrophe excess of loss reinsurance, the retention for the Association is \$800,000 ultimate net losses incurred, per loss occurrence, net of all other reinsurance recoveries with Grinnell responsible for 100 percent in excess of retention.

The Property Aggregate Excess of Loss coverage for 2020 has the Association's aggregate net loss retention at \$2,200,000. Grinnell is liable for all aggregate losses in excess of this retention.

### **General**

The reviewed contract contained a standard insolvency clause, an arbitration clause, an offset clause, and an errors and omissions clause. The contract also contained the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

## **BODY OF THE REPORT**

### **GROWTH**

The following comparative data reflects the growth of the Association during the period covered by this examination:

	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>
Bonds	\$1,070,000	\$1,630,196	\$3,085,196	\$3,095,000
Stocks	2,292,282	2,347,845	2,931,324	3,792,980
Admitted assets	5,606,102	6,106,983	7,178,228	8,043,637
Loss reserves	121,678	342,784	211,527	282,495
Unearned premium	1,502,608	1,544,144	1,580,993	1,626,467
Total liabilities	1,807,527	2,101,456	2,106,492	2,140,295
Capital and surplus	3,798,575	4,005,527	5,071,736	5,903,342
Premiums earned	2,941,290	3,020,687	3,145,251	3,316,697
Net investment income	85,760	165,163	203,867	191,295
Losses incurred	1,042,755	1,379,403	1,101,398	1,433,877
Net income	575,495	556,392	776,457	637,543

### **FINANCIAL STATEMENTS**

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Association at December 31, 2020 and its transactions during the year 2020 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

**FINANCIAL STATEMENT**  
**December 31, 2020**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$3,095,000		\$3,095,000
Common stocks	3,792,980		3,792,980
Real estate occupied	26,711		26,711
Cash and short-term investments	<u>686,893</u>		<u>686,893</u>
Subtotal, cash and invested assets	\$7,601,583		\$7,601,583
Investment income due and accrued	8,239		8,239
Uncollected premiums	8,323		8,323
Deferred premiums	365,583		365,583
Current federal income tax recoverable	59,908		59,908
Furniture and equipment	<u>11,494</u>	<u>\$11,494</u>	<u>                    </u>
Totals	<u>\$8,055,131</u>	<u>\$11,494</u>	<u>\$8,043,637</u>

**Liabilities, Surplus, and Other Funds**

Losses	\$ 282,495
Loss adjustment expense	15,000
Other expense	27,252
Taxes, licenses and fees	4,783
Unearned premiums	1,626,467
Advanced premium	82,872
Ceded reinsurance premiums payable	80,859
Liability premium payable	18,880
Equipment breakdown premium payable	<u>1,687</u>
Total liabilities	<u>\$2,140,295</u>
Unassigned funds (surplus)	<u>\$5,903,342</u>
Totals	<u>\$8,043,637</u>

**STATEMENT OF INCOME – 2020**

**Underwriting Income**

Premiums earned	<u>\$3,316,697</u>
Losses incurred	\$1,433,877
Loss adjustment expenses incurred	241,524
Other underwriting expenses incurred	1,012,191
Depreciation	<u>8,738</u>
Total underwriting deductions	<u>\$2,696,330</u>
Net underwriting gain	<u>\$ 620,367</u>

**Investment Income**

Net investment income earned	\$191,295
Net realized capital gain	<u>9,212</u>
Net investment gain	<u>\$ 200,507</u>

**Other Income**

Miscellaneous income	<u>\$ 74</u>
Total other income	<u>\$ 74</u>
Net income before federal income taxes	\$ 820,948
Federal income taxes incurred	<u>183,405</u>
Net income	<u>\$ 637,543</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, beginning	\$3,118,993	\$3,798,575	\$4,005,527	\$5,071,736
Net income	\$ 575,495	\$ 556,392	\$ 776,457	\$ 637,543
Change in net unrealized capital gains	129,658	(357,486)	281,703	186,015
Change in nonadmitted assets	(23,149)	8,048	8,049	8,048
Adjustment to prior year income tax recoverable	(2,422)			
Rounding	_____	(2)	_____	_____
Net change for the year	<u>\$ 679,582</u>	<u>\$ 206,952</u>	<u>\$1,066,209</u>	<u>\$ 831,606</u>
Capital and surplus, ending	<u>\$3,798,575</u>	<u>\$ 4,005,527</u>	<u>\$5,071,736</u>	<u>\$5,903,342</u>

## EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$5,903,342, as reported in the Association's 2020 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Association's financial condition.

## 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:

**Conflict of Interest Statements** – It is recommended that the Association have conflict of interest statements signed by each Director of the Board of Directors on an annual basis.

**Action:** The Association has complied with this recommendation.

**Petty Cash** – It is recommended that the Association make a general ledger adjustment in 2017 to take the general ledger amount down to the actual cash amount of \$237.

**Action:** The Association has complied with this recommendation.

**Custodial Agreement** - It is recommended that the Association have a custodial agreement in place that complies with Title 210, Chapter 81.

**Action:** The Association has not 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**

### **Fidelity Bond**

The Association is protected by an Employee Dishonesty policy, which provides coverage up to \$50,000. Based upon the Association’s size, the amounts suggested for a fidelity bond within the NAIC Financial Condition Examiners Handbook are between \$125,000 and \$150,000.

It is recommended that the Association increase its fidelity bond to \$125,000 in accordance with the suggested NAIC guidelines.

### **Custodial Agreement**

The Association has no custodial agreement in place that protects the Association and its policyholders as per Title 210, Chapter 81. The Association's investments are held with Fidelity Investments through their broker, HighTower Securities. Investments held with Fidelity Investments are stocks, CDs, and mutual funds.

It is recommended that the Association have a custodial agreement in place that complies with the Nebraska Department of Insurance Rules and Regulations Title 210, Chapter 81.

### **Short-term Investment**

The Association reported a Certificate of Deposit, valued at \$100,000 as a short-term investment, on Annual Statement page 2 line 5, which was cashed in subsequent to year end.

It is recommended that the Association ensure all bonds and short-term investments are properly reported in the future.



## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Fidelity Bond** - It is recommended that the Association increase its fidelity bond to \$125,000 in accordance with the suggested NAIC limits.

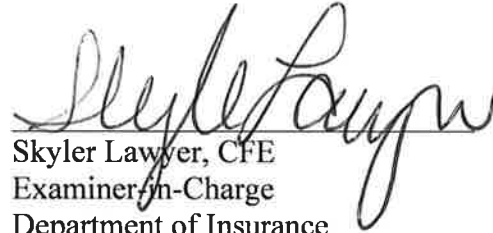
**Custodial Agreement** - It is recommended that the Association have a custodial agreement in place that complies with the Nebraska Department of Insurance Rules and Regulations Title 210, Chapter 81.

**Short-term Investments** – It is recommended that the Association ensure all bonds and short-term investments are properly reported in the future.

**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,

Skylar 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 German Mutual Insurance Association of Nebraska.
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 the German Mutual Insurance Association of Nebraska 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.

Skylar Lawyer  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skylar Lawyer on this 3 day of Aug, 2021.

(SEAL)

Patricia K. Hill  
Notary Public



My commission expires 8-8-23 [date].