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CERTIFICATION

November 12, 2022

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 COMPANY OF DODGE COUNTY

AS OF

DECEMBER 31, 2021

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".

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

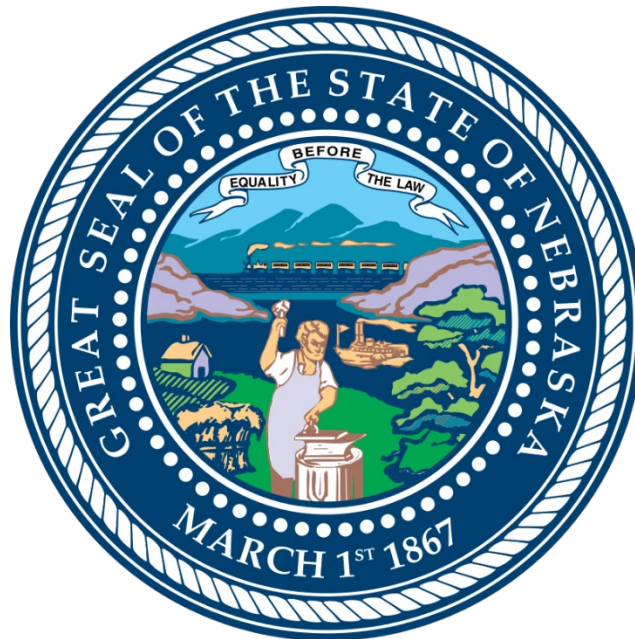
EXAMINATION REPORT

OF

GERMAN MUTUAL INSURANCE COMPANY OF DODGE COUNTY

as of

December 31, 2021



Lincoln, Nebraska
October 14, 2022

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 COMPANY OF DODGE COUNTY
409 Main Street
Scribner, Nebraska 68057

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

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2017. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2021 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 the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

The Nebraska Department of Insurance made a general review of the Company’s operations and the manner in which its business has been conducted in order to determine

compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." 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 Company'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 Company's general plan of operation.

The Company'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 Company 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 Company's financial condition as of December 31, 2021.

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

DESCRIPTION OF COMPANY

HISTORY

The Company was organized on March 1, 1883 as a mutual fire and lightning insurance company operating on the assessment plan. Windstorm, tornado, vandalism, and hail coverage were later written. Risks accepted are farm and town residences, real and personal property, churches, and commercial property.

The Articles of Incorporation state that the corporate existence of the Company shall be perpetual.

MANAGEMENT AND CONTROL

Members

Section 5 of the Company's Articles of Incorporation states that, “every person who conforms to the regulations of the Corporation, who declares himself willing to be guided by its rules and By-Laws may become a member of the Corporation and have his property insured therein and secure to himself the full benefits of this Corporation and be entitled to one vote.”

Board of Directors

Section 4 of the Company's By-Laws states that, “the Board of Directors shall consist of nine (9) members and shall be elected for a term of three (3) years and shall have general management and control of the business of the Company, and shall meet at such time as they may determine.” At year end 2021 the Company had only eight (8) Directors. The ninth position was subsequently filled at the Annual Meeting held in January of 2022.

Section 3 of the Company's By-Laws further states that, “the Annual Meeting of the Company shall be held in Scribner, Nebraska, on the third Thursday in January of each year at 1:30 p.m. At each Annual Meeting such Directors shall be elected by ballots as may be necessary

to fill all vacancies... Five (5) Directors present shall constitute a quorum at all meetings of the Board.”

The following persons were serving as Directors at December 31, 2021:

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Jerald Bode	Hooper, Nebraska	2022
Loree Dahl	Scribner, Nebraska	2022
David Ortmeier	West Point, Nebraska	2022
Duane Muller	Scribner, Nebraska	2023
Ed Neesen	Rogers, Nebraska	2023
Richard Svoboda	Schuyler, Nebraska	2023
Leroy Timmerman	West Point, Nebraska	2024
Jim Pieper	Dodge, Nebraska	2024

For 2021, each Director received \$80 for each meeting attended in addition to mileage.

When the Directors are required to be present all day, they receive \$95 for each meeting.

Officers

Section 4 of the Company's By-Laws states that, “the Executive Officers of the Company shall consist of a President, Vice-President, Secretary and Treasurer and such other Officers as may be elected, all of whom shall be elected annually by the Directors, and shall hold office during the pleasure of the Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2021:

<u>Name</u>	<u>Office</u>
Jerald Bode	President
Jim Pieper	Vice-President
Dave Dahl	Secretary & Treasurer

FIDELITY BOND AND OTHER INSURANCE

A continuous employee dishonesty bond for \$25,000 was issued June 17, 1994, and a rider was added that increased the bond amount to \$50,000 on July 1, 2014. Through the

calculation of “Suggested Minimum Amounts of Fidelity Insurance” found in the NAIC Financial Condition Examiner's Handbook, it was determined that the Company has adequate insurance.

The Company has a business liability policy that insures the premises and contents of its home office building.

The Company has a standard workers' compensation and employers' liability policy in-force with a \$500,000 limit.

The Company has a combined professional liability and Directors and Officers liability insurance policy with a coverage limit of \$1,000,000 per claim and a \$10,000 deductible per claim. This is a surplus lines policy written by a company that is not licensed in the State of Nebraska.

The Company has a cyber liability and breach response insurance policy with an aggregate limit of \$100,000.

TERRITORY AND PLAN OF OPERATION

The purpose of this Company, as set forth in the Articles of Incorporation, is to, “mutually insure the property of its members against loss or damage by fire, lightning, cyclone, tornado, hail, explosion, vandalism, smoke, falling aircraft or objects falling from aircraft...” As evidenced by a current or continuous Certificate of Authority, the Company is licensed to transact business in the State of Nebraska. All new business and servicing of existing business is processed by ten agents. Rates for farm properties and town dwellings are based on the type of property insured and the amount of the deductible. Agents receive a commission of either 0% or 12% on new policies, depending on the type of policy, and an 8% commission for renewal

policies. All policies are written for a term of three years and paid in annual or semi-annual installments.

The Company has available to its members general liability insurance coverage written by Nebraska Farmers Mutual Reinsurance Association.

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 2021, the Company retained a liability up to an amount equal to \$2,700 per million of the 2021 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2021 was noted as being \$529,377.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000. 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 1/8th 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 provides 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 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 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, 2021. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Balance, beginning of year	\$ 724,523	\$ 843,670	\$1,246,361	\$1,636,287
<u>Income</u>				
Gross receipts from assessments	\$1,322,781	\$1,315,844	\$1,278,909	\$1,300,781
Interest on investments	9,776	21,561	14,108	1,500
Liability premiums	57,083	57,896	57,562	54,082
Dividend income				4,960
Unrealized gain/loss on investment	(9,223)	5,060	(2,221)	4,985
Miscellaneous income	<u>24,833</u>	<u>10,499</u>	<u>3,743</u>	<u>5,523</u>
Total income	<u>\$1,405,249</u>	<u>\$1,410,860</u>	<u>\$1,352,101</u>	<u>\$1,371,830</u>
Gross losses paid	\$ 675,636	\$ 247,084	\$ 211,879	\$ 731,106
Less discount and salvage	11,500		2,052	
Less recovered from reinsurance	<u>178,378</u>	<u>60,695</u>	<u>59,258</u>	<u>107,755</u>
Net losses paid	\$ 485,758	\$ 186,389	\$ 150,569	\$ 623,351
Adjusting expense	33,867	17,291	25,068	28,279
Commissions to agents	118,517	113,002	128,069	128,246
Salaries and expenses of Directors & Officers	2,928	2,522	975	1,373
Salaries of office employees	108,524	104,754	110,253	110,706
Repair on real estate			401	34
Taxes on real estate		293	283	292
Insurance Department licenses and fees	22,001	17,521	17,736	17,116
All other taxes	16,351	13,180	13,366	12,073
Advertising, printing and stationery	13,203	13,604	10,837	12,170
Telephone & postage	5,958	5,550	6,253	5,886
Reinsurance premiums paid	405,108	467,167	436,973	456,431
Professional fees	2,615	2,815	3,690	3,420
Liability premiums	56,114	50,104	43,405	
Utilities and insurance	13,179	13,324	13,648	60,863
Bank fees	293	214	211	577
Depreciation – Furniture				855
Depreciation - Building	<u>487</u>	<u>438</u>	<u>438</u>	<u>438</u>
Total disbursements	<u>\$1,284,903</u>	<u>\$1,008,169</u>	<u>\$ 962,175</u>	<u>\$1,462,111</u>
Balance, end of year	<u>\$ 844,870</u>	<u>\$1,246,361</u>	<u>\$1,636,287</u>	<u>\$1,546,006</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2021

ASSETS

Ledger Assets

Book value of real estate	\$ 11,452	
Bonds	147,479	
Common stock	100,146	
Other cash deposited in banks	1,283,509	
Total ledger assets		<u>\$1,542,586</u>

Non-Ledger Assets

Furniture and supplies	<u>\$ 3,420</u>	
Total non-ledger assets		<u>\$ 3,420</u>
Gross assets		<u>\$1,546,006</u>

Assets Not Admitted

Furniture and supplies	<u>\$ 3,420</u>	
Total assets not admitted		<u>\$ 3,420</u>
Total admitted assets		<u>\$1,542,586</u>

LIABILITIES AND SURPLUS

Claims reported but not adjusted	\$ 263,188
Less reinsurance	<u>261,364</u>
Net unpaid losses	\$ 1,824
Unearned premiums	614,921
Unpaid salaries and commission	13,525
Premium tax liability	3,114
Liability premiums payable	<u>3,865</u>
Total liabilities	<u>\$ 637,249</u>
Surplus as regards policyholders	<u>\$ 905,337</u>
Total liabilities and surplus	<u><u>\$1,542,586</u></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 Company to comply therewith:

Other Cash Deposited in Banks - It is recommended that the Company make a general ledger adjustment in 2017 to take the general ledger amount down to the actual cash amount of \$157,071.69. It is also recommended that the Company make an adjustment to its 2017 AS line "Other Cash Deposited in Banks" to \$704,772.60 and "Total Admitted Assets" to \$718,025, to reflect the \$6,497.25 cash difference.

Action: The Company has complied with this recommendation.

Premium Tax Liability - It is recommended that this amount be accrued and reported within the Annual Statement on page 5 line 34, "Premium Tax Liability" on future Annual Statements.

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

Reinsurance Recovered - It is recommended that the Company make 2017 general ledger adjustment to the account for the \$36,949.59 difference. The examiner also recommends the Company make an update to the 2017 Annual Statement line "Recovered from Reinsurance" and "Net Losses Paid" to reflect the difference.

Action: The Company has complied with the recommendation.

Accounting Fees - It is recommended that the Company account for Accounting fees on the 2017 Annual Statement Page 4 line 23, "Other Expenses".

Action: The Company has complied with this recommendation.

Reinsurance Agreement – It is recommended that the Company amend the reinsurance agreement to comply with SSAP 62R, paragraph 8c, and include an entire agreement clause in its current Reinsurance Agreement with NFMRA.

Action: The Company has complied with this recommendation.

Conflict of Interest Statements - It is recommended that the Company have conflict of interest statements signed by each Director of the Board on an annual basis.

Action: The Company has complied with this recommendation.

Documentation Maintenance - It is recommended that Company maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A)

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Real Estate **\$ 11,452**

The Company's Home Office is located in Scribner, Nebraska. The site was purchased in 2009 for \$17,100. Amortized cost after depreciation on December 31, 2021 was \$11,452.

Other Cash Deposited in Banks **\$1,283,509**

The Company maintains a checking account with Scribner Bank located in Scribner, NE. The checking account balance was verified via confirmation with Scribner Bank. The Company also has an account with Fidelity Investments managed by Hightower Advisors, which balance was also confirmed during the examination. During review of the confirmations, it was noted that some of the assets held with Fidelity Investments are misclassified as Cash and reported on page 5, line 8 of the Annual Statement. It is recommended that the company report its Lord

Abbett mutual funds in the Annual Statement on page 5, line 3, “Bonds” and report the Pinnacle BK Marshalltown Iowa fund on page 5, line 5, “Common Stock”. The remainder of the Fidelity account should remain reported as cash.

Bonds **\$147,479**

The Company holds two Lord Abbett Bond Funds with Fidelity Investments.

Common Stock **\$100,146**

The Company holds a Fund with Pinnacle Bank Marshalltown, Iowa which matured in early 2022.

Furniture **\$ 3,420**

The Company reported \$3,420 in depreciated furniture at December 31, 2021. The account was non-admitted as a part of the 2021 examination. It is recommended that the Company report furniture on Annual Statement page 5, line 16 and further non-admit the asset on page 5, line 20.

Amount of Claims Reported but not Adjusted **\$263,188**

The Company reported \$45,027 of claims reported but not adjusted. In testing, the exam found that the Company was using a report run on February 28, 2022 to establish the December 31, 2021 reserves and thus included reserves for losses that had not yet been reported and excluding reserves for losses that were outstanding at year end but had been paid prior to the February 28, 2022 run date. Examination estimated an account balance of \$263,188 based on the claims paid listing, as well as the reported dates of the claims. It is recommended that Annual Statement page 5 line 26, “Amount of claims reported but not adjusted” include all policies reported and unpaid at December 31, 2021 and exclude any policies that had not been reported until after December 31, 2021.

Reinsurance Recoverable **\$261,188**

The Company reported a \$25,027 recoverable from the reinsurer for claims not yet paid and covered under the reinsurance contract that exceed the retention limits set in the reinsurance contract. During the examination period, the Company met their retention limits in 2017, 2018, and 2021. The Company incorrectly took credit for reserves on the 2020 accident year. The reinsurance recoverable was also adjusted to reflect the recalculation of the "Amount of claims reported but not adjusted." It is recommended that the Company only report reinsurance recoverable of loss reserves for years in which the retention has been met.

Unearned Premiums **\$614,921**

The Company reported unearned premium reserve in the amount of \$614,921, as of December 31, 2021. Amounts reported are system generated and represent the unearned portion of each policy based on the remaining policy days on each policy at December 31, 2021.

Unpaid salaries and Commissions **\$ 13,525**

The Company reports unpaid commissions of \$13,525 as of December 31, 2021.

Premium Tax Liability **\$ 3,114**

The Company did not report a premium tax liability in its Annual Statement. The liability amount reported in the corrected 2021 State of Nebraska Annual Tax Return was \$3,114. It is recommended that this amount be accrued and reported within the Annual Statement on page 5, line 34, "Premium tax liability."

Liability Premiums Payable **\$ 3,865**

As it has been noted in the "Territory and Plans of Operations" section of this report, the Company makes available general liability insurance coverage written by Nebraska Farmers Mutual Reinsurance Association (NFMRA) as a convenience for its policyholders and agents.

The \$3,865 represents the liability premiums collected by the Company which have not yet been paid to NFMRA.

Surplus as Regards Policyholders

\$905,337

Policyholder's surplus, as determined by this examination after a few examination changes, amounted to \$905,337 at December 31, 2021.

Investment Approval

It was noted during the exam that the Company does not maintain documentation of the review and approval of investments as required by Nebraska Statute §44-5105. It is recommended that the Company document the review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

Investment Policy

It was noted during the exam that the Company did not have a written investment policy which was approved by the Board of Directors. It is recommended the Company compose a written investment policy which is approved by the Board of Directors.

Custodial Agreement

The custodial agreement with Fidelity Investments was reviewed and found not to contain all requirements of Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81. It is recommended that the custodial agreement with Fidelity Investments be amended to comply with Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Asset Reporting– It is recommended that the company report its Lord Abbett mutual funds in the Annual Statement on page 5, line 3, “Bonds” and report the Pinnacle BK Marshalltown Iowa fund on page 5, line 5, “Common Stock”. The remainder of the Fidelity account should remain reported as cash.

Furniture – It is recommended that the Company report furniture on Annual Statement page 5, line 16 and further non-admit the asset on page 5, line 20.

Amount of Claims Reported but not Adjusted – It is recommended that Annual Statement page 5 line 26, “Amount of claims reported but not adjusted” include all policies reported and unpaid at December 31, 2021 and exclude any policies that had not been reported until after December 31, 2021.

Reinsurance Recoverable– It is recommended that the Company only report reinsurance recoverable of loss reserves for years in which the retention has been met.

Premium Tax Liability– It is recommended that this amount be accrued and reported within the Annual Statement on page 5 line 34, “Premium tax liability” on future Annual Statements.

Investment Approval– It is recommended the Company document the review and approval of investments on a quarterly basis to ensure compliance with Nebraska Statute §44-5105.

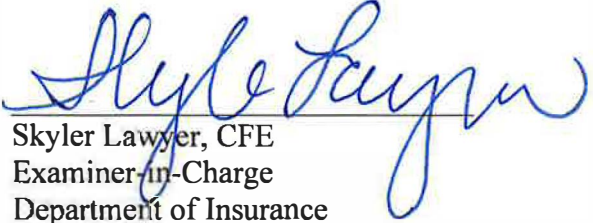
Investment Policy– It is recommended the Company compose a written investment policy which is approved by the Board of Directors.

Custodial Agreement – It is recommended that the custodial agreement with Fidelity Investments be amended to comply with Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

ACKNOWLEDGMENT

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

Respectfully submitted,



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:

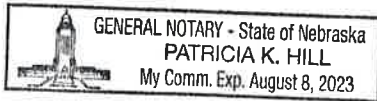
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of German Mutual Insurance Company of Dodge County.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of German Mutual Insurance Company of Dodge 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 20 day of Oct, 2022.

(SEAL)




Notary Public

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