

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 24 2023

FILED

CERTIFICATION

June 24, 2023

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

NORFOLK MUTUAL INSURANCE COMPANY

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.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

NORFOLK MUTUAL INSURANCE COMPANY

300 W. BENJAMIN AVENUE

NORFOLK, NE 68701

dated as of December 31, 2021, verified under oath by the examiner-in-charge on
May 31, 2023, and received by the company on May 31, 2023, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 14th day of June 2023.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "L. Crawford".

Lindsay Crawford, CFE
Chief Financial Regulator

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

NORFOLK MUTUAL INSURANCE COMPANY

as of

December 31, 2021

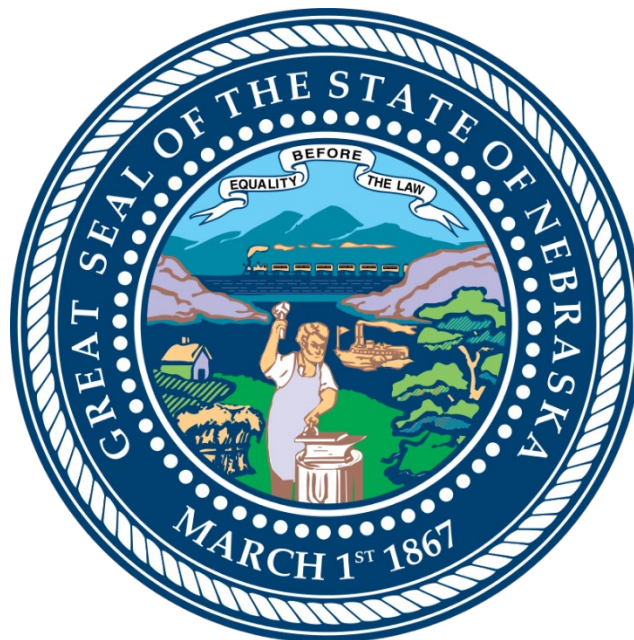


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	1
Description of Company	3
History.....	3
Management and Control.....	3
Members	3
Board of Directors.....	4
Officers	5
Committees	5
Territory and Plan of Operations	6
Reinsurance.....	7
Ceded	7
General.....	8
Body of the Report.....	8
Growth	8
Financial Statements	9
Examination Changes In Financial Statements.....	12
Compliance With Previous Recommendations	12
Commentary on Current Examination Findings.....	13
Custodial Agreement	13
Summary of Comments and Recommendations.....	13
Acknowledgment	14

Lincoln, Nebraska
May 17, 2023

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:

NORFOLK MUTUAL INSURANCE COMPANY
300 W. Benjamin Avenue
Norfolk, Nebraska 68701

(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 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, including provisions for conflicts of interest disclosures to the Board of Directors, and the departmental organization of the Company. 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 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.

Data reflecting the Company's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report."

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 examination process. The Company'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 Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. This included a review of workpapers prepared by Seim Johnson, LLP, the Company's external auditors, during their audit of the Company's accounts for the examination period. Portions of the auditor's workpapers have

been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

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, formerly the Farmers Fire Insurance Association of Norfolk, Nebraska, was incorporated on March 3, 1890, as a mutual assessment association. In 1957, the Articles of Incorporation were amended and the corporate name of the Company was changed to the “Norfolk Mutual Insurance Company.” The Company’s Articles of Incorporation provide for perpetual corporate existence. The Company is the surviving entity as a result of accomplishing consolidations, mergers, and bulk reinsurance arrangements with the following:

<u>Effective Date</u>	<u>Corporation</u>	<u>Type</u>
July 1, 1957	Farmers Mutual Insurance Association	Merger
August 1, 1959	Farmers Mutual Insurance Company of Madison	Reinsurance
November 30, 1962	Elkhorn Mutual Insurance Company	Merger
February 1, 1993	Cedar County German Farmers Mutual Ins. Co.	Merger
January 28, 1997	Antelope Mutual Insurance Company	Merger
July 1, 2020	Boone and Antelope Mutual Insurance Company	Merger

MANAGEMENT AND CONTROL

Members

Article IV, Section 1 of the By-Laws states that, “any person owning property in Nebraska may become a member of this Company by making a written application therefor in such form as may be required and, upon paying the fees, charges and assessments provided for herein, and each member shall be entitled to all the benefits and be subject to all the obligations of this Company.”

Per Article I, Section 6 of the By-Laws, “each member shall be entitled to one vote, either in person or by proxy, and a majority vote shall decide each question voted on, unless otherwise required by law or specifically provided in these By-Laws.”

Article I, Section 1 of the By-Laws provides that, “the annual meeting of the members of this Company for the election of Directors and for the transaction of such other business as may properly come before such meeting shall be held on the fourth Saturday of March of each year in Norfolk, Madison County, Nebraska, at 1:00 p.m.”

Board of Directors

Article IX of the Company’s Articles of Incorporation states that, “the business of this Company shall be conducted and managed by no less than five nor more than nine Directors. Directors shall be elected each year for terms of three years or until their successors have been duly elected and qualified.”

Article II, Section 2 of the By-Laws provides that, “the Board of Directors shall be elected by the members by ballot at the annual meeting of the members.”

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

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Joe Aschoff Osmond, NE	Realtor/Auctioneer	2022
Jon Moyer Madison, NE	Banker	2022
David Nissen Hartington, NE	Business Owner Nissen Wines	2022
Loren Eckert Pilger, NE	Retired Farmer	2023
David Lubischer Lindsay, NE	Farmer	2023

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Mark Fleer Hoskins, NE	Farmer	2024
Tim Tighe Humphrey, NE	Banker	2024

As of December 31, 2021, Directors were compensated \$750 per meeting

Officers

Article V of the Company’s Articles of Incorporation states that, “the Officers of this Company shall be a President, Vice-President, Secretary and Treasurer and any other office that may be created by the Board of Directors. The Officers shall be elected by the Board of Directors from the members of this Company and said Officers shall hold office for a period of one year and until their successors shall be elected and qualify. The Secretary and Treasurer may be one and the same person.”

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

<u>Name</u>	<u>Office</u>
Loren Eckert	President
Mark Fleer	Vice President
Timothy Tighe	Secretary and Treasurer

Committees

Article III, Section 9 of the Company’s By-Laws states that, “the President, Vice-President, Secretary and Treasurer shall constitute an Executive Committee and shall have the general management of the business of the Company in the absence of the Board of Directors.” The last written report of Executive Committee actions to the Board was November 18, 1996. It was noted that during the current examination, no Executive Committee meetings took place.

The following persons were serving on the Executive Committee at December 31, 2021:

Loren Eckert
Mark Fler

Timothy Tighe

The Finance Committee was formed in September of 2003 with the purpose of minimizing the time spent by the Board of Directors discussing detailed financial information. This committee receives and discusses financials and other related matters as appropriate. Recommendations from this committee are presented to the Board of Directors for approval.

The following persons were serving on the Finance Committee at December 31, 2021:

Mark Fler

Tim Tighe

The Company also utilized an Agency Review Committee and Merger Committee at times over the examination period.

TERRITORY AND PLAN OF OPERATIONS

As evidenced by current Certificates of Authority, the Company is licensed to transact business in the State of Nebraska as prescribed by Section §44-201, subsections (5), (10), (12), and (18) of the Nebraska Insurance Statutes.

The Company's Articles of Incorporation authorize it to conduct mutual insurance business on an assessment basis and to issue insurance upon property, or any valuable interest therein. The coverage insures against loss or damage caused by fire, lightning, windstorm, and perils listed under the extended coverage which are liability insurance except workers' compensation and employers liability insurance, and vehicle insurance.

No property shall be insured for more than its actual cash value, with the exception of replacement cost endorsements. A description of the property shall be stated in the application and in the policy. The Company reserves the right to deny any application for membership. All new and renewal policies are written on a one-year basis.

Currently, the Company's business is produced by approximately 442 licensed agents through 64 agencies who receive a commission of 15% on new and renewal premiums. All agents are independent contractors.

REINSURANCE

Ceded

The Company is a member of the Grinnell Mutual Reinsurance Company 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 Company once they are filed and accepted by Grinnell.

The Property Per Risk Excess of Loss coverage for 2021 has the Company's individual per risk retention at \$300,000. 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 the Reinsurer for facultative coverage.

The Property Aggregate Excess of Loss coverage for 2021 has the Company's aggregate net loss retention at \$5,300,000. Grinnell is liable for all aggregate losses in excess of this retention.

The Catastrophe Excess of Loss coverage for 2021 has the Company's net retention of \$1,700,000. Grinnell is liable for all aggregate losses in excess of this retention.

The Company also has a liability reinsurance agreement to cede business classified as farmers' comprehensive personal liability, home guard comprehensive personal liability,

comprehensive personal liability, rented dwelling liability, and personal umbrella liability for the period of January 1, 2021 to January 1, 2021. The Company cedes 100% of the liability premiums charged to its insureds, less a 20% ceding commission, and 100% of the liability claims to Grinnell.

General

The reviewed contracts contained a standard insolvency clause, an arbitration clause, an offset clause, and an errors and omissions clause. The contracts 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 Company during the period covered by this examination:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Bonds	\$ 4,614,136	\$ 4,456,637	\$ 3,357,223	\$ 1,556,402
Common stocks	7,625,216	9,671,710	12,631,691	16,506,140
Cash & cash equivalents	2,119,595	3,111,963	4,036,182	4,253,730
Admitted assets	15,404,842	18,305,367	21,184,457	23,561,782
Loss reserves	316,187	245,863	668,836	1,371,567
Unearned premium	3,881,632	4,099,651	4,596,458	4,735,717
Total liabilities	4,833,858	5,316,442	6,101,183	6,969,066
Capital and surplus	10,570,984	12,988,925	15,083,274	16,592,716
Premiums earned	6,194,572	6,268,356	7,308,540	7,332,914
Losses incurred	3,942,827	3,065,330	3,502,416	4,962,509
Net income	277,368	810,745	980,353	248,998

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2021 and its transactions during the year 2021 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, 2021

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 1,556,402		\$ 1,556,402
Preferred Stock	60,960		60,960
Common stocks	16,506,140		16,506,140
Real estate occupied	198,803		198,803
Cash and short-term investments	<u>4,253,730</u>		<u>4,253,730</u>
Subtotal, cash and invested assets	\$22,576,035		\$22,576,035
Investment income due and accrued	13,438		13,438
Uncollected premiums	27,328		27,328
Deferred premiums	838,968		838,968
Amounts recoverable from reinsurance	95,246		95,246
Current federal income tax recoverable	321,774	\$321,774	
Electronic data processing equipment	12,510	1,742	10,768
Furniture and equipment	19,137	19,137	
State income tax recoverable	48,093	48,093	
Automobiles	<u>14,750</u>	<u>14,750</u>	
Totals	<u>\$23,967,279</u>	<u>\$405,497</u>	<u>\$23,561,782</u>
<u>Liabilities, Surplus, and Other Funds</u>			
Losses			\$ 1,371,567
Loss adjustment expense			33,771
Commissions payable			288,691
Other expenses			36,559
Taxes, licenses and fees			17,400
Unearned premiums			4,735,717
Advanced premium			236,581
Ceded reinsurance premiums payable			248,487
Amounts withheld or retained for account of others			<u>294</u>
Total liabilities			<u>\$ 6,969,066</u>
Unassigned funds (surplus)			<u>\$16,592,716</u>
Totals			<u>\$23,561,782</u>

STATEMENT OF INCOME – 2021

Underwriting Income

Premiums earned	<u>\$7,332,914</u>
Losses incurred	\$4,962,509
Loss adjustment expenses incurred	295,114
Other underwriting expenses incurred	<u>2,595,918</u>
Total underwriting deductions	<u>\$7,853,541</u>
Net underwriting gain	(<u>\$ 520,628</u>)

Investment Income

Net investment income earned	\$ 247,313
Net realized capital gain	<u>418,521</u>
Net investment gain	<u>\$ 665,835</u>

Other Income

Finance and service charges	\$ 43,884
Liability commission	119,069
Commission income	41,163
Miscellaneous income	1,761
(Loss) on fixed assets	(549)
EFT Fees	<u>\$ 690</u>
Total other income	<u>\$ 206,018</u>
Net income before federal income taxes	\$ 351,224
Federal income taxes incurred	<u>102,226</u>
Net income	<u>\$ 248,998</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, beginning	\$10,841,523	\$10,570,984	\$12,988,925	\$15,083,274
Net income	\$ 277,368	\$ 810,745	\$ 980,353	\$ 248,998
Change in net unrealized capital gains	(562,799)	1,606,144	1,401,660	1,593,105
Change in nonadmitted assets	14,892	1,052	(4,780)	(332,661)
Assumption of Boone & Antelope Mutual Insurance Company	_____	_____	(282,884)	_____
Net change for the year	\$ (270,539)	\$ 2,417,941	\$ 2,094,349	\$ 1,509,442
Capital and surplus, ending	<u>\$10,570,984</u>	<u>\$12,988,925</u>	<u>\$15,083,274</u>	<u>\$16,592,716</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$16,592,716, as reported in the Company's 2021 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company'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 Company to comply therewith:

Liability Loss Reporting – It is recommended the Company report \$0 on the U&I Exhibit, Parts 2 and 2A, Line 17.1 related to liability losses in future annual statement filings.

Action: The Company has complied with this recommendation.

Large Claims – It is recommended the Company track large claims to ensure all subsequent payments are submitted for reinsurance recovery.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreement

The Custodial agreement with the Private Trust Company does not contain all provisions required under Nebraska Administrative Rules and Regulations Title 210 Chapter 81. It is recommended that the Company amend its existing custodial agreement to address Nebraska Administrative Rules and Regulations Title 210 Chapter 81.003.02, provisions (a) through (d) to ensure compliance.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

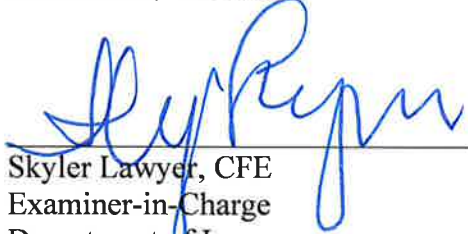
Custodial Agreement - It is recommended that the Company amend its existing custodial agreement to address Nebraska Administrative Rules and Regulations Title Chapter 81.003.02, provisions (a) through (d) to ensure compliance.

ACKNOWLEDGMENT

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

In addition to the undersigned, Alexis Anderson, Financial Examiner with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



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

State of Nebraska,
County of Lancaster,

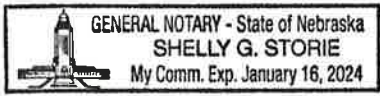
Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Norfolk Mutual Insurance Company.
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 Norfolk Mutual Insurance Company 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.

Skyler Lawyer
Examiner-in-Charge's Signature

Subscribed and sworn before me by *Skyler Lawyer* on this 31st day of May, 2023.



(SEAL)

Shelly G. Storie
Notary Public

My commission expires 1/16/24 [date].