

JUN 20 2021

FILED

CERTIFICATION

June 20, 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

SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY

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.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY

305 COMMERCIAL STREET

STROMSBURG, NEBRASKA 68666

dated as of December 31, 2020 verified under oath by the examiner-in-charge on
June 8, 2021, and received by the company on June 8, 2021, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 10th June 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

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

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

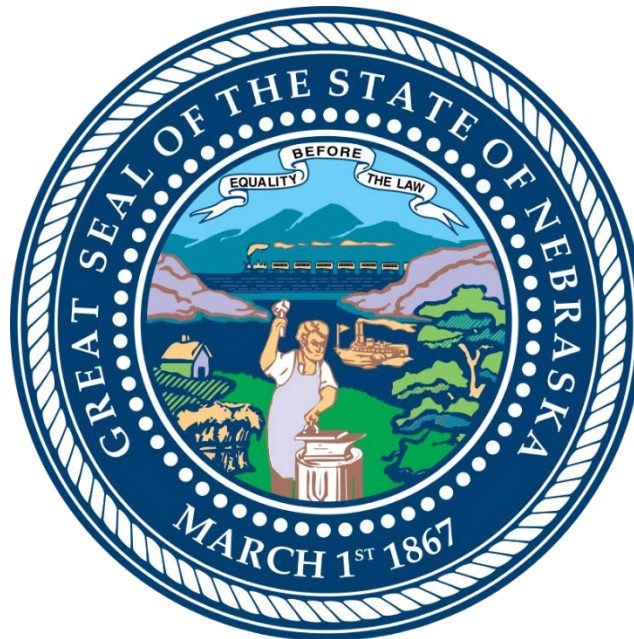
EXAMINATION REPORT

OF

SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY

as of

December 31, 2020



Lincoln, Nebraska
May 4, 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:

SCANDINAVIAN MUTUAL INSURANCE COMPANY OF POLK COUNTY
305 Commercial Street
Stromsburg, Nebraska 68666

(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, 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

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

The Department 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, 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 COMPANY

HISTORY

The Company was organized on March 26, 1887 and incorporated under the laws of the State of Nebraska, as a mutual assessment fire insurance company with perpetual existence.

MANAGEMENT AND CONTROL

Members

Article IV, Section 1 of the By-Laws states, “any person, corporation, association, or partnership owning personal property or buildings, churches, or parsonages in rural, village, or city areas may become a member of this Company...” Membership is obtained by presenting an application for membership, approval of the application by the President or Secretary and one other member of the Board of Directors, and the payment of the authorized premium. Each member is entitled to one vote at any annual or special meeting.

Article VI, Section 1 of the By-Laws states, “annual meetings of the Members shall be held on the second Tuesday of February of each year...” Section 2 goes on to add, “special meetings of the Members of the Company may be called by the President or Vice-President, and in their absence, by the Secretary or by any fifteen members of the Company...”

Board of Directors

Article 1, Section 1 of the By-Laws states, “the affairs of this corporation shall be conducted by a Board of Directors, consisting of seven members, all of whom shall hold a current and valid membership in this corporation.” Furthermore, the Section 2 of the By-Laws states, “the Board of Directors shall be elected at the annual meeting, except for those appointed to fill vacancies. The term of each Board of Directors shall be three years.”

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

<u>Name</u>	<u>Residency</u>	<u>Term Expires</u>
Carl Brown	Polk, Nebraska	2021
Ronald Girard	Osceola, Nebraska	2021
Corwin Hengelfelt	Stromsburg, Nebraska	2021
Douglas Jones	Osceola, Nebraska	2022
Lisa Shoup	Stromsburg, Nebraska	2022
Mickey Hoffman	Polk, Nebraska	2023
Colin Petersen	Stromsburg, Nebraska	2023

The unexpired terms of vacancies occurring by death or resignation may be filled by the remaining Directors from among the members.

Directors are paid \$100.00 per meeting. Mileage is reimbursed at the rate of 58 cents per a mile.

Officers

Article VI, Section 1 of the Articles of Incorporation states, “immediately following the annual meeting in each year, this Board shall hold an organizational meeting, and shall select one of their members to serve as President for the ensuing year, one as Vice-President, one as Secretary and one as Treasurer. Each Officer shall serve in the capacity to which he is elected until the next ensuing organizational meeting, or until his office is vacated for some other reason.”

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

<u>Name</u>	<u>Office</u>
Douglas Jones	President
Colin Petersen	Vice-President
Lisa Shoup	Secretary & Treasurer

FIDELITY BOND AND OTHER INSURANCE

The Company is protected by an Employee Dishonesty policy, which provides coverage up to \$25,000. In addition, the Company also carries an insurance agents and brokers professional liability policy in the amount of \$1,000,000. This coverage is subject to a \$2,500 deductible. A workers compensation and business owners liability policy, with a \$500,000 policy limit, is carried by the Company. All of the above policies are written in authorized companies.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska.

The Company issues policies for the perils of fire, lightning, wind, and hail. All applications are referred to the Treasurer and one member of the Board of Directors who make an appraisal of the property to be insured. All policies are issued for three years and are renewable annually with a \$1,000 deductible for wind and hail. Policies for towers and antennas have a \$50 deductible.

The Company also issues a Multi-Peril endorsement covering theft, vandalism, malicious mischief, overturn, collision, water damage; and smothering, freezing and electrocution of livestock.

Assessments are made for the following year at each annual meeting. The annual assessment on fire, wind, and lightning coverage is \$5.51 per thousand. The rate for pivot irrigation systems is \$13.65 per thousand.

The Company, as a convenience for its policyholders and agents, makes available general liability insurance coverage written by Acceptance Casualty Insurance Company. The

accounting on such business for premiums and agents fees is handled by the Company.

Commissions received by the Company are transferred and disbursed to the agent responsible for the production of such business.

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 2020, the Company retained a liability up to an amount equal to \$2,700 per million of the 2020 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2020 was noted as being \$237,955.

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 (\$1,160,000 as respects risks of single farm outbuildings, and contents therein). 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, 2020. All amounts are based on the findings of the current examination:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Balance, beginning of year	<u>\$1,585,206</u>	<u>\$1,480,846</u>	<u>\$1,402,562</u>	<u>\$1,764,065</u>
<u>Income</u>				
Gross receipts from assessments	\$ 634,914	\$ 338,797	\$ 605,772	\$ 571,815
Gross membership fees			397	611
Electric premium	11,948			
Assessments paid in advance		259,440	15,420	
Return on cancellations	<u>15,821</u>	<u>9,221</u>	<u>9,410</u>	<u> </u>
Net received from members	\$ 631,041	\$ 589,016	\$ 612,179	\$ 572,426
Interest on investments	8,028	55,860	32,732	85,889
Liability premiums	29,019	21,936	8,668	(489)
Vehicle commissions & premiums	1,001	1,012	481	8
Gain on mutual fund	44,539			
ACIC mutual commissions			732	2,136
Change in bank account				20

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Other income	_____	_____ 2,707	_____ 19,964	_____ (351)
Total income	<u>\$ 713,628</u>	<u>\$ 670,531</u>	<u>\$ 674,756</u>	<u>\$ 659,639</u>
Gross losses paid	\$ 544,735	\$ 632,323	\$ 109,687	\$ 176,983
Less discount and salvage	4,200	500	300	
Less recovered from reinsurance	<u>119,498</u>	<u>359,604</u>	<u>35,207</u>	<u>33,898</u>
Net losses paid	\$ 421,037	\$ 272,219	\$ 74,180	\$ 143,085
Adjusting expense	1,411	9,699	1,954	3,947
Legal expense on losses	8,098	4,165	3,546	4,535
Commissions to agents	68,943	36,785	50,212	37,148
Director, agents & office insurance	8,930			
Company dues	4,466			
Salaries and expenses of Directors & Officers	4,742	64,699		
Salaries of office employees	27,511		52,413	74,720
Rent	5,700	5,700	5,800	6,300
Office equipment/repairs	798			
Accounting	835			
Insurance Department licenses and fees	7,804	21,189	7,490	7,017
All other taxes	18,179	8,824	6,607	4,209
Advertising, printing and stationery	11,491	6,611	5,568	4,843
Telephone & postage	1,948	1,574	2,360	902
Reinsurance premiums paid	192,040	225,147	58,683	196,362
Interest on borrowed money				11
Liability premiums	26,819	26,226	9,342	
ACH charges, donations & miscellaneous	5,041			
Unrealized loss on mutual funds		49,842		
Bank Fees		565	765	540
Director, agent & officer insurance		9,115	7,982	5,470
Donations		314	589	50
Dues		5,384	4,694	4,230
Meeting expense		2,105	888	
Milage expenses		775		
Office equipment and repairs		884	869	1,867
Operating supplies		1,769	3,576	4,336
Other expenses		1,536		
Professional fees		2,770	6,950	9,050
Utilities	2,195	2,418	4,289	5,160
Equipment purchased		1,460	2,708	
Prior year NSF checks returned		(3,718)		

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Change in payroll taxes payable		(2,670)	2,423	747
Change in premium tax payable		(7,324)	(166)	473
Rounding		1		
Travel and transportation			494	700
Continuing education			388	260
Repairs and maintenance			5	90
Over/under			386	25
Adjustments related to change in accounting software			(1,742)	
Other insurance				1,106
Change in reinsurance payable				92,506
Change in customer receivable				7,369
Change in assessments paid in advance				2,359
Change in unpaid claims				(4,000)
Change in unearned premiums	_____	_____	_____	_____3,954
Total disbursements	<u>\$ 817,988</u>	<u>\$ 748,815</u>	<u>\$ 313,253</u>	<u>\$ 619,372</u>
Balance, end of year	<u>\$1,480,846</u>	<u>\$1,402,562</u>	<u>\$1,764,065</u>	<u>\$1,804,332</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2020

ASSETS

Ledger Assets

Certificates of deposit	\$345,000	
Cash deposited in banks	747,812	
NFMRA surplus note	281,690	
Mutual fund	<u>429,830</u>	
Total ledger assets		<u>\$1,804,332</u>

Non-Ledger Assets

Unpaid assessments	\$ 38,102	
Furniture and supplies	2,652	
Reinsurance recoverable	<u>15,057</u>	
Total non-ledger assets		<u>\$ 55,811</u>

Gross assets		<u>\$1,860,143</u>
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Assets Not Admitted

Surplus note	\$281,690	
Furniture and supplies	<u>2,652</u>	
Total assets not admitted		<u>\$ 284,342</u>
Total admitted assets		<u>\$1,575,801</u>

LIABILITIES AND SURPLUS

Losses adjusted and unpaid	\$ 4,000	
Unearned premiums	225,909	
Payroll taxes payable	(501)	
Premium taxes payable	7,017	
Commissions payable	1,472	
Premiums collected in advance	<u>13,061</u>	
Total liabilities		<u>\$ 250,959</u>
Surplus as regards policyholders		<u>\$1,324,842</u>
Total liabilities and surplus		<u>\$1,575,801</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:

Reinsurance Clauses – It is recommended that the Company amend its property reinsurance contract to include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual

Action: The Company has complied with this recommendation.

Premium Tax Liability - It is recommended that the Company accrue a liability for premium tax within the Annual Statement on page 5, line 34.

Action: The Company has complied with this recommendation.

Conflict of Interest Statements - It is recommended that the Company have the Board of Directors and Officers complete a conflict of interest statement on an annual basis.

Action: The Company has complied with the recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Certificates of Deposit

\$345,000

As of December 31, 2020, the Company had four certificates of deposit with a value of \$345,000. Each certificate of deposit was verified by direct confirmation from the respective depositories.

Cash Deposited in Banks

\$747,812

This asset consisted of three checking account balances. These deposits were verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2020 by giving consideration to outstanding checks.

NFMRA Surplus Note

\$281,690

The Company obtained a surplus note from NFMRA on January 1st, 2015. The surplus note bears an interest rate of 2.5% per annum. The surplus note is not considered a liability or claim against the assets of NFRMA. The principal and/or interest can be paid only when the amount of the surplus of the reinsurance association over all liabilities is double that of the amount of the principal and/or interest then being paid. The Company agreed to buy the note in lieu of realizing substantial increases in their reinsurance rates. The amount of the surplus note was confirmed with NFMRA.

The surplus note is non-admitted in the Society's 2020 Annual Statement in accordance with the NAIC Accounting Practices and Procedures Manual due to the restrictions based upon Membership with NFMRA, the fact that there is no established market or fair value, and that the notes have no independent rating.

Mutual Fund

\$429,830

The Company held one mutual fund with Waddell & Reed with a December 31, 2020, balance of \$429,830. The balance was verified by direct confirmation from the respective investment firm.

Unpaid Assessments levied on or after October 1st

\$ 38,102

The asset represents premiums receivable on policies with 2020 effective dates. This amount has been accepted for purposes of this examination.

Furniture and Supplies

\$ 2,652

The non-ledger amount of \$2,652 reflects the depreciated cost of the Company's office equipment. This item is deducted as an asset not admitted in both the Company's 2020 Annual

Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

Reinsurance Recoverable **\$ 15,057**

This Company reported reinsurance recoverable of \$15,057 on its December 31, 2020 Annual Statement. The amount was recovered in 2021. Reinsurance recoverable has been accepted for purposes of this examination.

Losses Adjusted and Unpaid **\$ 4,000**

The Company established a liability for losses adjusted and unpaid amounting to \$4,000 in its December 31, 2020 Annual Statement. Losses adjusted and unpaid were tested for subsequent settlement and it appears the reserve was appropriate.

Unearned Premiums **\$225,909**

The Company reported unearned premiums of \$225,909 in its December 31, 2020 Annual Statement. Amounts are calculated in the computer system with unearned factors based on the policy effective date.

Payroll Taxes Payable **\$ (501)**

This accrued liability represents payroll taxes payable incurred in 2020 and paid after the valuation date. This amount has been accepted for purposes of this examination.

Premium Tax Liability **\$ 7,017**

This accrued liability represents premium taxes, licenses, and fees incurred in 2020 and paid after the valuation date. This amount has been accepted for purposes of this examination.

Commissions Payable **\$ 1,472**

This accrued liability represents commission payable incurred in 2020 and paid after the valuation date. This amount has been accepted for purposes of this examination.

Premiums Collected in Advance

\$ 13,061

This accrued liability represents premiums collected in 2020 for policies with effective date in 2021. This amount has been accepted for purposes of this examination.

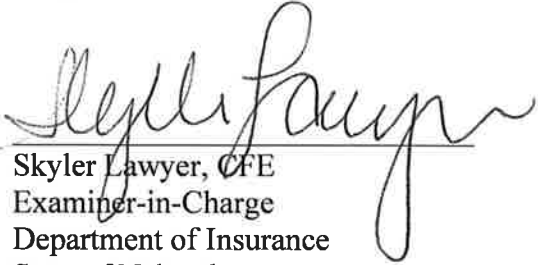
SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no findings warranting comment as a result of this examination.

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 Scandinavian Mutual Insurance Company of Polk 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 the Scandinavian Mutual Insurance Company of Polk 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.

[Handwritten Signature]
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 8 day of June, 2021.

(SEAL)

Patricia K Hill
Notary Public



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