

# CERTIFICATION

October 2, 2015

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

**OLIVE BRANCH ASSESSMENT INSURANCE SOCIETY, INC.**

as of

December 31, 2014

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

CERTIFICATE OF ADOPTION

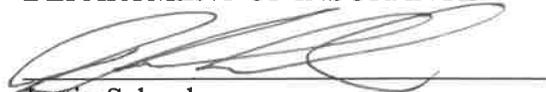
Take notice that the proposed report of the financial examination of

**OLIVE BRANCH ASSESSMENT INSURANCE SOCIETY, INC.**

dated as of December 31, 2014, verified under oath by the examiner-in-charge on September 15, 2015, and received by the company on September 16, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 2 day of October, 2015.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**OLIVE BRANCH ASSESSMENT INSURANCE SOCIETY, INC.**

**as of**

**December 31, 2014**



Sprague, Nebraska  
August 3, 2015

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
941 "O" Street, Suite 400  
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:

**OLIVE BRANCH ASSESSMENT INSURANCE SOCIETY, INC.**  
**18930 Market Street**  
**Sprague, Nebraska 68438**

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

**INTRODUCTION**

The Society was last examined as of December 31, 2010 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2014, and includes such subsequent events and transactions as were considered pertinent to 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 Society's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Society'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 was also noted.

The fidelity bond and other insurance coverages protecting the Society’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 Society’s general plan of operation.

The Society’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 Society 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 Society’s financial condition as of December 31, 2014.

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 Society was organized as Olive Branch Fire and Lightning Aid Society, an unincorporated mutual association, in 1873. On February 10, 1969, the Society was incorporated with the amended Articles of Incorporation providing for a name change to Olive Branch Assessment Insurance Society, Inc. with its principal office to be located in Sprague, Nebraska. The Society was subsequently licensed on April 1, 1969.

The Articles of Incorporation were amended in 1993 to further provide for the Society's perpetual existence. The purpose of the Society, as set forth in the Articles of Incorporation, is to, "engage in the business of making insurance upon property or any valuable interest therein as permitted by the laws of the State of Nebraska relating to assessment associations."

### **MANAGEMENT AND CONTROL**

#### **Members**

The Articles of Incorporation state that, "every person, corporation, association or partnership insured by the corporation shall be a member of the corporation and entitled to one vote on each matter submitted to a vote at an annual or special meeting of the members." Article VI of the By-Laws states that, "the annual meeting of the members of this Society shall be held in Sprague, Nebraska, on or before May 31<sup>st</sup> of each year as required by law. The specific time and date of the annual meeting shall be set by the Board of Directors." The By-Laws further state that, "special meetings of the members may be called by the President or the Board of Directors or by a request in writing of twenty-five or more members of the Society for any special purpose." The By-Laws also provides that, "at all meetings of the members, twelve

members shall constitute a quorum, provided however, a smaller number may adjourn any meeting to a future date.”

**Board of Directors**

Article VII of the Society’s Articles of Incorporation states that, “the business and affairs of the corporation shall be managed by a Board of Directors, seven in number. All members of the Board shall be insured policyholders of the corporation. The Directors shall be elected at the annual meeting of the corporation members each year and shall serve for a term of three years.”

The By-Laws further state that, “in case of a vacancy on the Board of Directors, the Directors shall elect a member for the unexpired term.”

The By-Laws require that, “the annual meeting of the members of this Society shall be held in Sprague, Nebraska, on or before May 31<sup>st</sup> of each year as required by law. The specific time and date of the annual meeting shall be set by the Board of Directors.”

The following persons were serving as Directors at December 31, 2014:

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Term Expires</u></b>
Lynn Doolittle	Roca, Nebraska	2015
Eugene Keller	Sprague, Nebraska	2015
Gary Williams	Martell, Nebraska	2015
Larry Behrends	Martell, Nebraska	2016
Ron Oelling	Lincoln, Nebraska	2016
Gary Gerner	Crete, Nebraska	2017
Marilyn Palmer	Sprague, Nebraska	2017

Directors as of February 6, 2014 receive \$1,000 annually for serving on the Board, \$40 for each meeting attended, and expenses of \$0.56 per mile. If a Board meeting exceeds two hours in length, fees revert to an hourly rate of \$17.00.

## **Committees**

An Investment Committee serving the Society at December 31, 2014 was composed of the following members:

Lynn Doolittle  
Eugene Keller  
Marilyn Palmer  
Gary Williams

## **Officers**

Article II of the Articles of Incorporation states that, “the Directors shall organize and elect from their own number a President, a Vice-President, a Secretary and Treasurer.”

The following is a listing of Officers elected and serving the Society at December 31, 2014:

<b><u>Name</u></b>	<b><u>Office</u></b>
Gary Williams	President
Eugene Keller	Vice-President
Marilyn Palmer	Secretary
Lynn Doolittle	Treasurer

Officers receive remuneration as follows: Vice-President, \$62,000 per year; Secretary, \$29,000; and Treasurer, \$15,000 per year. In addition to their annual salaries, Officers in 2014 received \$17 per hour for any Society business other than Directors meetings, and the federal rate for mileage for use of their personal vehicles for any Society business.

## **FIDELITY BOND AND OTHER INSURANCE**

The Society has a fidelity bond providing coverage in the amount of \$75,000 on the President, Vice-President, Secretary, Treasurer, and remaining three Directors. This bond was issued by an authorized insurer.

Directors and Officers are protected under a liability policy providing a \$2,000,000 limit each claim and in the aggregate, subject to a \$10,000 deductible on each.

Agents of the Society are protected under an Insurance Agents Errors and Omissions policy providing \$1,000,000 limit each claim and in the aggregate, subject to a \$5,000 deductible.

The Society also maintains a workers' compensation policy providing coverage of \$100,000 each accident and \$100,000 each employee for disease with an aggregate limit each disease of \$500,000. This coverage is written with an authorized insurer.

The Society's office building is protected by hazard insurance in the amount of \$286,000, including contents coverage of \$25,000. Also, a commercial liability policy is in effect providing \$300,000 coverage for each occurrence. These coverages are written through authorized insurers.

### **TERRITORY AND PLAN OF OPERATION**

As evidenced by a current or continuous Certificates of Authority, the Society is licensed to transact business in the State of Nebraska. The Society is authorized to write lines (5) (7) and (18) of Section 44-201 of the Revised Nebraska Insurance Statutes.

Business is secured through four agents in the districts in which they reside. In addition to wages, agents receive a bonus of 25% of their personally generated first year premium volume.

The Society writes an annually renewable policy, which is reviewed every three years. The new rates vary by deductible taken.

The Society collects all premium assessments directly rather than through the use of its agents. Assessments are levied annually in accordance with the effective date of the policy, which coincides with the due date of the policyholder's liability premium.

The Society, acting as an agent of Acceptance Casualty Insurance Company, Omaha, Nebraska, provides liability coverage for its members. In this capacity, the Society collects the premiums due and remits the net premium to a general agent of Acceptance Casualty Insurance Company.

## **REINSURANCE**

During each year covered by this examination, the Society had in effect a reinsurance agreement with the Nebraska Farmers Mutual Reinsurance Association (NFMRA), Wahoo, Nebraska. The term of each reinsurance agreement was for a period of one year. The latest agreement was executed as of January 1, 2015.

At the time of the execution of the reinsurance agreement in effect on December 31, 2014, the Society, as a member Association, represented that it had the sum of \$263,961,709 of fire insurance in-force and \$263,961,709 of wind insurance in-force covered by this agreement.

The coverage under this agreement is as follows:

Aggregate - NFMRA is liable for 100% of the amount, if any, by which the Society's aggregate ultimate net losses incurred during the term of this contract exceed the 2014 Retention (\$2,700 per million). The Society's preliminary aggregate retention for 2014 is \$783,966.

Excess Per Risk - Prior to the Society incurring ultimate net losses exceeding their aggregate retention mentioned above, NFMRA will be liable for 100% of the excess greater than \$40,000 on a single risk up to and equal to \$460,000.00 (\$1,160,000 as respects to risks of a single farm outbuilding or contents therein). If the Society's net losses do not exceed the aggregate retention for the year, the amount recovered is to be refunded to NFMRA prior to March 1 of the following year.

Mobile Home Risk- The Society shall retain the first \$1,000 of each risk, each loss, as respects to mobile home risks located in trailer courts. Also, limit of coverage shall be \$48,000 for losses in any one trailer court. Two or more trailers in one location shall constitute a trailer court.

Limit Per Risk- Single risks in excess of \$1,200,000 as respects to farm outbuildings and machinery pertaining to farmowners policies or \$500,000 for all other covered property and/or policies, any one risk shall be pro-rata reinsured by each member company.

The contract reviewed contained a standard insolvency clause, but did not contain an arbitration clause, an offset clause, or an errors and omissions clause. The contract also did not contain 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 financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Balance, beginning of year	\$3,819,687	\$4,046,829	\$4,134,870	\$4,208,370
<b><u>Income</u></b>				
Gross receipts from assessments	\$1,007,226	\$1,018,667	\$ 988,772	\$1,089,375
Less return on cancellations	<u>13,533</u>	<u>11,881</u>	<u>15,955</u>	<u>17,946</u>
Net received from assessments	\$ 993,693	\$1,006,786	\$ 972,817	\$1,071,429
Interest on investments	104,976	98,721	84,793	101,364
Borrowed money				516,249
NF liability premium	96,377	96,042	101,259	92,128
Miscellaneous	<u>66</u>	<u>66</u>	<u>136</u>	<u>97</u>
Total income	<b><u>\$1,195,112</u></b>	<b><u>\$1,201,615</u></b>	<b><u>\$1,159,006</u></b>	<b><u>\$1,781,268</u></b>

## **Disbursements**

Gross losses paid	\$ 333,893	\$ 325,035	\$ 357,921	\$2,176,638
Less discount and salvage		7,060	367	5,600
Less recovered from reinsurance				<u>1,416,760</u>
Net losses paid	\$ 333,893	\$ 317,975	\$ 357,553	\$ 754,278
Adjusting expense				34,851
Building insurance	1,030	1,030	1,065	1,065
Commissions paid to agents	2,755	4,343	5,433	7,996
NF liability premiums	96,377	96,042	101,259	92,128
Salaries of agents	8,923	9,859	7,914	11,251
Expenses of agents	3,710	1,407	4,083	4,342
Salaries and expenses of Officers	94,689	96,301	129,640	149,537
Salaries of office employees	7,709	7,591	8,643	9,808
Insurance expenses	10,845	11,687	12,923	14,534
Repair and maintenance on real estate	6,645	979	572	1,594
Taxes on real estate	3,165	3,212	3,565	3,449
Insurance department licenses & fees	1,365	491	495	960
All other taxes	27,877	166,125	77,039	3,163
Advertising, printing, and miscellaneous	21,143	12,826	16,495	10,822
Telephone and postage	8,340	2,421	7,048	2,704
Reinsurance premiums paid and special assessments	321,737	365,107	333,049	470,299
Utilities	2,086	2,007	2,227	2,162
Dues	4,542	4,296	4,777	4,461
Contributions	25	50	100	75
Facultative and personal excess insurance	7,847	9,151	10,887	3,921
Audit expense	2,873			212
Software updates	<u>395</u>	<u>675</u>	<u>739</u>	<u>474</u>
Total expenses	\$ 634,078	\$ 795,600	\$ 727,953	\$ 829,808
Total disbursements	<u>967,970</u>	<u>1,113,575</u>	<u>1,085,506</u>	<u>1,584,086</u>
Balance, end of year	<u>\$4,046,829</u>	<u>\$4,134,870</u>	<u>\$4,208,370</u>	<u>\$4,405,551</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2014**

**ASSETS**

**Ledger Assets**

Real estate	\$ 164,449	
Bonds	801,350	
Surplus note	87,930	
Certificates of deposit	3,005,192	
Other cash deposited in banks	344,631	
Short term federal investment trust	<u>2,000</u>	
Total ledger assets		<u>\$4,405,551</u>

**Non-Ledger Assets**

Interest due or accrued on investments	\$ 4,811	
Furniture and supplies	<u>2,500</u>	
Total non-ledger assets		<u>\$ 7,311</u>
Gross assets		<u>\$4,412,862</u>

**Assets Not Admitted**

Furniture and supplies	\$ 2,500	
Surplus note	<u>87,930</u>	
Total assets not admitted		<u>\$ 90,430</u>
Total admitted assets		<u>\$4,322,433</u>

## LIABILITIES AND SURPLUS

Unpaid losses	\$ 451,215
Less: reinsurance	<u>451,215</u>
Net unpaid losses	\$ 0
Unearned premiums	509,411
Borrowed money	516,249
Unpaid taxes and fees	4,114
Liability premiums payable	<u>10,666</u>
Total liabilities	\$1,040,440
Surplus as regards members	<u>3,281,993</u>
Total liabilities and surplus	<u>\$4,322,433</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 Society to comply therewith:

**Fidelity Bond** – It is recommended that the Society evaluates its fidelity bond to ensure that it provides adequate protection.

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

**Interest Due or Accrued on Investments** – It is again recommended that the Society include interest due or accrued on investments in future annual statements.

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

**Unpaid Taxes and Fees** – It is again recommended that the Society establish liabilities for unpaid taxes in future annual statements.

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

## COMMENTARY ON CURRENT EXAMINATION FINDINGS

**Real Estate** **\$ 164,449**

In 2000, the Society purchased land in Sprague, Nebraska at a cost of \$32,000 for the purpose of constructing a new Home Office building. In 2001, the land was improved and made

ready to build, which cost an additional \$5,300. Actual construction began in 2002, and was completed just prior to year-end 2002 for a total cost of \$188,242. The total cost for the land and new Home Office building was \$225,542. The Society's reported book value as of December 31, 2014 was \$164,449. This value was accepted as reasonable by the examiner.

**Bonds**

**\$ 801,350**

The Society held two Federal Farm Credit bonds and one Federal Home Loan Bond with a combined value of \$801,350. The Society purchases federal bonds with the aide of their broker, Ameritas Investment Corp (Ameritas), and the securities are held by the custodian used by Ameritas. Effective September 11, 2013, Ameritas began using National Financial Services as their new custodian. The Society's custodial agreement was with Ameritas and their prior custodian, Pershing LLC. No updated custodial agreement was executed with the new custodian. It is recommended that the Society obtain a new custodial agreement with Ameritas Investment Corp and National Financial Services LLC that meets all the requirements of Nebraska Administrative Rules and Regulations Title 210 Chapter 81.

**Surplus Note**

**\$ 87,930**

The Society obtained a surplus note from NFMRA. The surplus note bears an interest rate of 4% 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 Society 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 2014 Annual Statement 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’ is equal to the total capital and surplus, including 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:

\$7,206,699	Admitted assets (including surplus note)
<u>6,031,077</u>	Less liabilities
\$1,175,622	Total capital, surplus, and surplus note

\$7,206,699	
<u>5%</u>	of admitted assets
\$ 360,335	

Greater of \$360,335 or \$6,000,000

\$ 1,175,622	
<u>- 6,000,000</u>	
\$(4,824,378) / 1,175,622 = -4.10	statement factor

**Certificates of Deposit** **\$3,005,192**

As of December 31, 2014 the Society had twelve certificates of deposit with a value of \$2,085,000. Each certificate of deposit was verified by direct confirmation from the respective depositories. Also included in the line item is a money market account with a balance of \$920,192. This account was also verified by direct confirmation from the depository.

**Cash Deposited in Banks** **\$ 344,631**

This asset consisted of a standard checking account balance. The value was verified by obtaining a direct confirmation from the bank. The amount indicated thereon for the checking

account was reconciled to the Society's records as of December 31, 2014, by giving consideration to outstanding checks.

**Short-Term Federal Investment Trust** **\$ 2,000**

The Society had \$2,000 in a Federal Investment Trust Fund investment with Union Bank in Lincoln, Nebraska. This investment is authorized under Nebraska Statute §44-5123. The value of the investment was confirmed by direct confirmation from the bank.

**Interest Due or Accrued on Investments** **\$ 4,811**

The Society estimated the amount of interest due or accrued on their investment holdings as of December 31, 2014 and booked the non-ledger amount of \$4,811. Examination testing found this amount to be reasonable.

**Furniture and Supplies** **\$ 2,500**

The non-ledger amount of \$2,500 reflects the Society's estimated value of office supplies on hand in their Home Office. This item is deducted, as an asset not admitted in both the Society's 2014 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

**Losses Adjusted and Unpaid/Claims Reported but Unadjusted** **\$ 451,215**

The Society established a liability for losses adjusted and unpaid in the amount of \$364,191. The Society also established a liability for claims reported but not adjusted for \$63,426. These liabilities are an estimate of losses incurred prior to December 31, 2014 which have not been settled. Examiner determined that the Annual Statement amount was booked from a report generated during Annual Statement preparation that was ran as of a certain date after year-end. Claim payments made after year-end had subsequently reduced the amount of unpaid losses. An outstanding losses report was recreated as of December 31, 2014 and the correct

amount was \$451,215. The 2014 Annual Statement unpaid losses amount is understated by \$23,598.

It was also discovered during testing that policyholder deductibles were included in the outstanding loss amount due to limitations with the Society's computer system. The inclusion of the policyholder deductibles caused the outstanding losses to be overstated by an unknown amount. It is recommended that the Society only report the amount of outstanding losses that are its responsibility in the Annual Statement liabilities section lines 25 and 26. It is further recommended that the outstanding losses be valued as of year-end.

**Reinsurance Recoverable**

**\$ 451,215**

The Society reported a contra-liability in the amount of \$427,617 which represents the future reinsurance recoveries the Society anticipates recovering after paying the outstanding losses. As discussed in the preceding section, the Society's outstanding losses were understated by \$23,598 due to reliance on an incorrect report during annual statement preparation. The outstanding losses as of year-end were determined to be \$451,215. The Society had reached its retention in 2014 per the NFMRA reinsurance contract and any remaining outstanding losses incurred in 2014, including the additional \$23,598, would be completely covered by reinsurance.

**Unearned Premiums**

**\$ 509,411**

The Society reported unearned premiums of \$1,067,591 in its December 31, 2014 Annual Statement. Amounts reported are calculated by applying unearned factors, computed using the monthly pro rata method, to each month's premiums. However, the Society incorrectly input the net premium amount in the Annual Statement rather than their calculated unearned premium. Examiner calculated unearned premium was \$509,411 resulting in an overstatement of \$558,180

in the unearned premium liability. It is recommended that the Society only report the portion of net premiums that have yet to be earned in the unearned premium liability line item.

**Borrowed Money**

**\$ 516,249**

Due to the heavy losses sustained in 2014, the Society received multiple cash advances from its reinsurance provider. The total of the advances received was \$1,933,009 and was confirmed by examiner. The \$516,249 liability reported is the difference between the total advances and the \$1,416,760 applied towards loss payments, as reflected in the recovered from reinsurance line item in the disbursements section of the income statement.

**Premium Tax Payable**

**\$ 4,114**

This accrued liability represents premium taxes incurred in 2014 and will be paid after the valuation date. The \$4,114 amount was confirmed during the examination.

**Liability Premiums Payable**

**\$ 10,666**

The Society failed to establish a liability for amounts due to Acceptance Casualty Insurance Company (Acceptance) for liability premiums collected but not yet remitted. The Society received an invoice on December 31, 2014 from Acceptance for December 2014 liability premiums in the amount of \$10,665.88. Regardless of when the Acceptance invoice was received, the Society should have established a liability representing the liability premiums to be remitted, either in the amount of an invoice received or an estimated figure based on liability premiums collected in December of that year. It is recommended that the Society establish a liability for any amounts owed to Acceptance Casualty Insurance Company for liability premiums collected but not yet remitted as of year-end.

During the review of liability premiums, it was determined that the Society is currently only reporting the net liability premiums paid to Acceptance as liability premium income. The

commission and expense allowance granted to the Society for generating liability policies are being reported in the gross receipts from assessments line item in the income statement. This amount is used to calculate premium taxes. The Society should report the gross liability premium collected for Acceptance on the “Liability Premium” line item of the Annual Statement. The disbursement line item for Liability Premiums is correctly reported as the net premiums paid to Acceptance. It is recommended that the Society report gross premium receipts for liability premiums written with Acceptance Casualty Insurance Company in the “Liability Premiums” line item of the income statement. The “Gross Receipts” from Assessments income statement line item should only contain the premiums collected for policies issued by the Society.

**Surplus as Regards Members**

**\$3,281,993**

Surplus as regards members in the amount of \$2,734,479, as reported in the Society’s 2014 Annual Statement, has been increased to \$3,281,993 as result of examination adjustments noted below:

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<b><u>Liabilities</u></b>			
Unpaid Losses	\$ 427,617	\$451,215	\$ (23,598)
Reinsurance Recoverable	427,617	451,215	23,598
Unearned Premium	1,067,591	509,411	558,180
Liability Premiums Payable	0	10,666	<u>(10,666)</u>
<b><u>Net Increase (Decrease) to Surplus</u></b>			<b>\$ 547,514</b>
Surplus as regards members, December 31, 2014, per Company			<u>2,734,479</u>
Surplus as regards members, December 31, 2014, per Examination			<b><u>\$3,281,993</u></b>

### **Single Risk Retention**

In examiner's review of the Society's facultative reinsurance structure it was noted that the largest single risk retained by the Society was \$700,000. The Company writes policies in less than 31 counties which, according to Nebraska Statute §44-222, would limit the amount of risk the Society is allowed to retain in any single policy to 1/8<sup>th</sup> of 1% of the inforce insurance as of the prior year-end. The Society's inforce insurance was \$527,923,418 as of December 31, 2013 which would limit their risk retention to approximately \$660,000. It is recommended that the Society comply with Nebraska Statute §44-222 and only retain in any one risk 1/8<sup>th</sup> of 1% of its prior year-end inforce insurance.

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

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

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

**Custodial Agreement** – It is recommended that the Society obtain a new custodial agreement with Ameritas Investment Corp and National Financial Services LLC that meets all the requirements of Nebraska Administrative Rules and Regulations Title 210 Chapter 81.

**Outstanding Losses** - It is recommended that the Society only report the amount of outstanding losses that are its responsibility in the Annual Statement liabilities section lines 25 and 26. It is further recommended that the outstanding losses be valued as of year-end.

**Unearned Premium** - It is recommended that the Society only report the portion of net premiums that have yet to be earned in the unearned premium liability line item.

**Liability Premiums Payable** - It is recommended that the Society establish a liability for any amounts owed to Acceptance Casualty Insurance Company for liability premiums collected but not yet remitted as of year-end.

**Liability Premium Presentation** – It is recommended that the Society report gross premium receipts for liability premiums written with Acceptance Casualty Insurance Company in the “Liability Premiums” line item of the income statement. The “Gross Receipts” from Assessments income statement line item should only contain the premiums collected for policies issued by the Company.

**Single Risk Retention** - It is recommended that the Society comply with Nebraska Statute §44-222 and only retain in any one risk 1/8<sup>th</sup> of 1% of its prior year-end inforce insurance.

**ACKNOWLEDGEMENT**

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

Respectfully submitted,



---

Kevin Stubbs, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

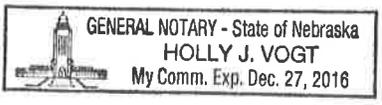
Kevin Stubbs, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the **Olive Branch Assessment Insurance Society**.
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 **Olive Branch Assessment Insurance Society** 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 Kevin Stubbs on this 15 day of September, 2015.

(SEAL) 

  
\_\_\_\_\_  
Notary Public

My commission expires 12/27/16 [date].