

# CERTIFICATION

OCTOBER 28, 2014

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

**SCANDINAVIAN MUTUAL INSURANCE COMPANY OF AXTELL**

as of

December 31, 2013

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.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

OCT 28 2014

FILED

STATE  
DEPARTMENT



*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

**SCANDINAVIAN MUTUAL INSURANCE COMPANY OF AXTELL**

dated as of December 31, 2013, verified under oath by the examiner-in-charge on October 1, 2014, and received by the company on October 2, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 16 day of October, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**Scandinavian Mutual Insurance Company of Axtell**

**as of**

**December 31, 2013**



Axtell, NE  
August 22, 2014

Honorable Bruce R. Ramge  
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:

**SCANDINAVIAN MUTUAL INSURANCE COMPANY OF AXTELL**  
**417 Main Street**  
**Axtell, NE 68924**

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

### **INTRODUCTION**

The Company was last examined as of December 31, 2009 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, and includes 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 both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made 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 disclosure of conflicts of interest 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, proxy information, 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. 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. 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. 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, 2013.

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 in 1885, and incorporated under the laws of the State of Nebraska, on February 8, 1890, as fire, lighting, and storm insurance company. Its original name was "The Swedish Mutual Fire Insurance Company of Axtell, Kearney County, Nebraska." The original Articles of Incorporation provided for a corporate life of five years.

On January 18, 1894, the original Articles of Incorporation were amended to provide coverage against loss by fire, lighting, and tornado. This amendment also changed the name to "Swedish Mutual Fire, Lighting, and Tornado Insurance Company of Axtell, Kearney County, Nebraska," and provided for a corporate existence of twenty-five years. On this same date another company "Swedish Mutual Livestock Insurance Company of Axtell, Kearney County, Nebraska," was formed by the officers, directors, and policyholders of the fire, lighting, and tornado company. It appears prior to March 1, 1910 the fire, lighting, and tornado company changed its name to "Scandinavian Mutual Insurance Company of Axtell, Kearney County, Nebraska."

On January 11, 1915, the Company again amended its Articles of Incorporation and the two companies merged with the surviving Company being Scandinavian Mutual Company of Axtell. This amendment also extended coverage to include horses, mules, and cattle.

The Company again extended its scope of operations by amending its Articles of Incorporation on January 12, 1939, and again on January 8, 1947. As a result of these amendments

the Company wrote coverage against perils of fire, lighting, windstorm, inherent explosion, including hail damage, and extended coverage on buildings, household goods, horses, cattle, gain, and implements.

In 1985, the Company amended its Articles of Incorporation to redefine its Board of Directors and Officers and the provisions applicable to its annual meeting. Such amendments were properly approved and filed with the Nebraska Department of Insurance.

In 1994 and 1995, the Board of Directors and the policyholders of the Company approved mergers with Farmers Mutual Insurance Company of Buffalo County in Kearney, Nebraska, and Nysted Farmers Assessment Insurance Company in Dannebrog, Nebraska, respectively. The mergers were effective December 31, 1994 and January 1, 1996, respectively, and were approved by the Nebraska Department of Insurance on December 29, 1994 and December 29, 1995, respectively.

## **MANAGEMENT AND CONTROL**

### **Membership**

The Amended Articles of Incorporation provide that, “all persons holding insurance in this Company shall be members thereof as long as their policies run, providing they faithfully obey the rules and regulations thereof, and meet promptly. The assessments made upon them shall be entitled to cast one vote in the election of Officers.”

The Amended Articles of Incorporation state that, “the annual meeting of the policyholders is to be held in January of each year at such place and time as is decided by the Board of Directors. Special meetings of the members may be called by the President and Secretary or by a majority of the Board of Directors by mailings to each member thirty days prior a legal notice, stating the purpose for which such meeting is called.”

**Board of Directors**

The Amended Article of Incorporation to provide for, “a Board of Director consisting of not less than 12 nor more than 14 Directors to be elected by the policyholders at their annual meeting for the terms not to exceed three years.” All Directors must be policyholders. The Company has also elected to stagger the terms of the Directors.

The following persons were serving as Directors at December 31, 2013:

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Term Expires</u></b>
Carroll Bernt	Holdrege, Nebraska	2014
Greg Linder	Loomis, Nebraska	2014
Norris Pearson	Holdrege, Nebraska	2014
Leland Scheider	Funk, Nebraska	2014
Jeri Woltalewicz	Loup City, Nebraska	2014
Milt Dahlgren	Minden, Nebraska	2015
Chris Erickson	Holdrege, Nebraska	2015
Jerry Larson	Axtell, Nebraska	2015
Robert Vandell	Funk, Nebraska	2015
Dennis Fries	Kearney, Nebraska	2016
Dan High	Bertrand, Nebraska	2016
Larry Landstrom	Axtell, Nebraska	2016
Pat Ryan	Axtell, Nebraska	2016
Walt Stoeger	Boelus, Nebraska	2016

Directors receive \$90 per meeting attended and 56.5¢ per mile for travel in the interest of the Company.

The Board of Directors signed conflict of interest statements in 2011 but no other year where they signed. It is recommended that Company’s Board of Directors sign conflict of interest statements on an annual basis.

**Officers**

The Company’s Amended Articles of Incorporation provide, “the Board shall elect each year from their membership a President, and a Vice-President, who shall serve as Officers of the

Company. A Secretary, Treasurer, or Secretary/Treasurer (non Board member) shall also be elected by the Board. Officers shall serve until their successors are elected and qualified to serve.”

Officers serving the Company at December 31, 2013, were as follows:

<u>Name</u>	<u>Office</u>
Pat Ryan	President
Jerry Larson	Vice-President
Diane Norblade	Secretary & Treasurer

#### Executive Committee

The By-Laws allow, “an Executive Committee; composed of both Officers and Board of Directors of the Company, shall conduct the business affairs of the Company in the absence of the Board of Directors.” The Amended Articles of Incorporation state the Executive Committee be, “composed of the President, Vice-President, three Board members and the Secretary/Treasurer (non-voting member). This committee meets regularly on the first Friday of each month for the purpose of approving loss payments and other disbursements. In times of more frequent losses the committee meets every two weeks. This committee also serves as the Appraisal Committee.

Members of this committee elected at the January 2013 Board Meeting were:

Leland Schneider  
Larry Landstrom  
Dennis Fries  
Jerry Larson  
Pat Ryan  
Diane Norblade

The committee members receive the same compensation for attendance at committee meetings as is allowed for attendance at all other regular meetings.

#### Auditing Committee

The By-Laws state, “The Auditing Committee shall be elected at the annual meeting for a term of one year and shall report at the next annual meeting after election”. The two policyholders

that make up this committee have the duty of reviewing the books for the year and preparing a report for the next annual meeting. This committee meets annually and no minutes are kept.

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

As evidence by current Certificate of Authority, the Company is licensed to transact business in Nebraska. Its Amended Articles of Incorporation state, “the object of the Company shall be insure its member against loss by fire, lighting, windstorm, or hail, or inherent explosion, and extended coverage on buildings, household goods, horses, cattle, gain, and implement.” The Company employs the services of seven agents.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company currently has a fidelity bond in the amount of the \$60,000 written on the Secretary/Treasurer, Diane Norblade and President, Patrick Ryan. It was noted that said bond was issued by an authorized carrier and the payment of the premium over the examination period. The NAIC Financial Condition Examiner’s Handbook’s suggested minimum coverage based upon exposure is \$75,000. It is recommended that the Company re-evaluate the adequacy of its coverage based upon its exposure.

### **REINSURANCE**

During each year covered by this examination, the Company had in effect a reinsurance agreement with the Nebraska Farmers Mutual Reinsurance Company (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, 2013.

At the time of the execution of the reinsurance agreement in effect on December 31, 2013, with NFMRA, the Company, as a member Company, represented that it had the sum of

\$222,878,366 of fire insurance in-force and \$222,878,366 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 Company's aggregate ultimate net losses incurred during the year exceed \$2,700 per million of the fire and wind insurance in force, whichever is greater, as of January 1, 2013.**

**Excess Per Risk - Prior to the Company incurring ultimate net losses, exceeding their aggregate retention mentioned above, on a single risk up to and equal to \$460,000.00, NFMRA will be liable for 100% of the excess greater than \$40,000.00. If the Company'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 Company 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 \$700,000 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 reflect the Company's operations during the examination period and the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination.

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Balance, beginning of year	<u>\$1,576,912</u>	<u>\$1,506,476</u>	<u>\$1,567,893</u>	<u>\$1,488,663</u>
<b><u>INCOME</u></b>				
Assessment paid in advance	\$1,071,566	\$1,173,841	\$1,367,109	\$1,553,716
Less return on cancellations	<u>7,462</u>	<u>8,741</u>	<u>16,089</u>	<u>17,092</u>
Net received from members	\$1,064,104	\$1,165,100	\$1,351,021	\$1,536,624
Interest on investment	27,362	24,162	19,271	38,680
Other interest	2,390	347	11,273	19,752
Surplus note repayment				43,465
Liability premium	66,913	66,988	71,009	74,638
Lost checks	2,104	674	31,559	25
Late fees	805	978	920	683
Income tax refund	5,100			
Reinsurance premium refund				7,551
Insurance proceeds (roof)		5,563		
Miscellaneous	<u>379</u>	<u>23</u>	<u>302</u>	<u>71</u>
Total income	<u>\$1,169,156</u>	<u>\$1,263,832</u>	<u>\$1,485,355</u>	<u>\$1,721,489</u>

**STATEMENT OF INCOME AND DISBURSEMENTS (cont.)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>DISBURSEMENTS</u></b>				
Gross losses paid	\$ 845,819	\$1,034,729	\$843,532	\$ 553,378
Less discount and salvage	4,250	34,901	2,050	
Less reinsurance recovered	<u>285,383</u>	<u>526,283</u>	<u>141,149</u>	<u>145,114</u>
Net losses paid	<u>\$ 556,186</u>	<u>\$ 473,545</u>	<u>\$700,333</u>	<u>\$ 408,264</u>
Adjusting expense	\$ 41,824	\$ 43,178	\$ 53,147	\$ 44,006
Auditing & tax prep	5,553	10,452	2,061	1,996
Commission paid	116,892	129,239	145,453	156,485
Insurance	11,613	11,608	12,115	12,363
Utilities	3,534	2,990	2,701	2,955
Retirement contribution	5,190	5,360	5,560	5,850
Salaries & expense of Directors & Officers	69,418	69,486	57,130	59,471
Salaries of office employees		7,337	17,220	18,967
Office supplies	4,550	6,716	8,718	7,225
Repair on real estate	764	6,144	768	4,610
Taxes on real estate	943	913	1,051	1,047
Insurance dept. licenses & fees	14,252	12,625	14,917	17,793
All other taxes	9,898	8,186	8,806	8,642
Advertising & printing	4,060	3,824	3,654	3,662
Telephone & postage	3,369	4,840	4,656	4,999
Reinsurance premiums paid	313,798	327,917	417,826	438,372
Association dues	4,460	4,769	4,686	4,843
Liability premium	67,711	69,180	68,869	73,540
Lost checks	2,104	674	31,559	25
Miscellaneous	<u>740</u>	<u>555</u>	<u>475</u>	<u>587</u>
Total expenses	<u>\$ 680,672</u>	<u>\$ 725,991</u>	<u>\$ 861,372</u>	<u>\$ 867,436</u>
CD early withdrawal penalty & MSSB fee	\$ 5	\$ 150	\$ 150	\$ 150
Depreciation of real estate	<u>2,729</u>	<u>2,729</u>	<u>2,729</u>	<u>(968)</u>
Total disbursements	<u>\$1,239,592</u>	<u>\$1,202,415</u>	<u>\$1,564,585</u>	<u>\$1,274,882</u>
Balance, end of year	<u>\$1,506,476</u>	<u>\$1,567,893</u>	<u>\$1,488,663</u>	<u>\$1,935,269</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2013**

**ASSETS**

**Ledger Assets**

Real estate	\$ 35,298	
Bonds	175,000	
Common stocks	108,986	
Certificates of deposit	1,264,995	
Other cash deposited in banks	<u>329,513</u>	
Total ledger assets		<u>\$1,913,792</u>

**Non-Ledger Assets**

Interest due or accrued on investments	\$ 105,637	
Furniture & supplies	44,181	
NFMRA surplus note	16,487	
Unrealized gain (loss)	<u>21,477</u>	
Total non-ledger assets		<u>\$ 187,782</u>

**Assets Not Admitted**

Furniture & supplies	\$ 44,181	
NFMRA surplus note	<u>16,487</u>	
Total assets not admitted		<u>\$ 60,668</u>
Total admitted assets		<u>\$2,040,906</u>

## LIABILITIES AND SURPLUS

Amount of loss adjusted & unpaid	\$ 16,774
Amount of claim report but not adjusted	98,365
Less reinsurance	<u>(40,966)</u>
Net unpaid losses	\$ 74,173
Unearned premiums	699,149
Unpaid salaries & commission	23,885
Other liabilities:	
Liability premium	5,444
Withholdings	3,302
Insurance department	<u>8,333</u>
Total liabilities	<u>\$ 814,285</u>
Surplus as regards policyholders	<u>\$1,226,621</u>
Total liabilities and surplus	<u>\$2,040,906</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:

**Surplus Note** – It is recommended that the surplus note be recorded as a non-ledger asset in the future Annual Statement filings.

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

**Unearned Premium** - It is recommended that the Company report a liability for the amount of premiums which are unearned as of year-end in the future Annual Statement filings.

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

**In-Force Documentation**- It is recommended in the future years that the Company maintain adequate documentation of its year-end in-force amount, for purpose of providing a verifiable figure and an audit trail as to how such amount was computed.

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

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Real Estate**

**\$ 35,298**

Real estate owned by the Company consists of land and a building in downtown, Axtell, Nebraska. The building houses the Company's office. The property was acquired on August 28, 1946 for \$1,000, which with subsequent net capitalized improvements of \$64,157, less depreciation, accounts for the book value of \$35,298. The warranty deed and abstract were inspected and the payment of taxes noted.

### **Bonds**

**\$175,000**

Bonds owned by the Company at December 31, 2013, consisted of United States Government Series "EE" Bonds. These bonds are valued as shown below:

<u>Book/Cost Value</u>	<u>Redemption Value</u>	<u>Accrued Interest</u>
\$175,000	\$280,492	\$105,492

The accrued interest amounting to \$105,492 has been included on the financial statement section as a non-ledger asset.

Bonds owned by the Company are held in a safe deposit box at Farmers & Merchant Bank in Axtell, Nebraska. Copies of the bonds were made by the Secretary/Treasurer, Diane Norblade, as requested by the examiner.

### **Common Stock**

**\$ 130,463**

The Company had a mutual fund, categorized under common stocks, placed with Morgan Stanley Bank with the market value at year-end of \$130,463. The mutual fund should be carried at cost, \$108,986, with an unrealized gain (loss), \$21,477, included as a non-ledger asset. All the dividends from these common stocks are re-invested by the Company.

The Company's securities are held with several brokers. A review of each client agreement noted that the agreements did not contain provisions related to safeguarding and

controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

It is recommended that the Company execute a safekeeping agreement with each broker holding securities on its behalf to be in compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

**Certificates of Deposit** **\$1,264,995**

The Company owned twenty-six certificates of deposit (CD), totaling \$1,264,995, at December 31, 2013. The CD's accrued interest in the amount of \$145. These certificates were verified by direct confirmation received from the issuing depositories. The amounts shown on the confirmations were reconciled to the Company's investment ledger.

**Other Cash Deposited in Banks** **\$ 329,513**

At December 31, 2013, this asset was comprised of the following items:

Farmers & Merchant Checking Account	\$191,876
Archer Credit Union Saving Account	15,190
NebraskaLand Money Market Account	70,377
Bank of West Money Market Account	<u>52,071</u>
Total	<u>\$329,513</u>

All accounts were verified by an official certification executed by a bank official. The examiner noted that all confirmations, after considering outstanding checks, tied without exception.

**Furniture and Supplies** **\$ 44,181**

This asset, in the amount of \$44,181, consisted of office equipment, furniture, and supplies valued at cost less accumulated depreciation. In accordance with Generally Accepted Insurance Accounting Practices, this asset has been reflected as a not admitted asset on the financial statement.

**Surplus Note****\$ 16,487**

The surplus note issued by NFMRA had a value of \$16,487 as of December 31, 2013. This item is deducted, as an asset not admitted in both the Company's 2013 Annual Statement and the financial statements of this report 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' to the outstanding face amount of the capital or 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:

\$5,323,238	Admitted asset (including surplus note)
<u>358,468</u>	Less liabilities
\$4,464,770	Total capital, surplus and surplus note

\$5,323,230	
<u>5%</u>	of admitted assets
\$ 266,162	

Greater of \$266,162 or \$6,000,000

\$ 4,964,720	
<u>- 6,000,000</u>	
\$(1,035,230)/4,964,770 = -0.21	statement factor

**Gross Unpaid Losses****\$ 115,139**

This amount consists of five 2013 unpaid losses that were adjusted and unpaid at year-end, totaling \$16,774. The remaining balance totals \$98,365 which is made up of thirty-four claims

reported and not adjusted. A loss development calculation was completed and it indicated that the reserve established at December 31, 2013 was sufficient.

**Reinsurance Recoverable** **\$ 40,966**

The Company established reinsurance recoverables in the amount of \$40,966 from prior year's outstanding losses. The calculations for the prior year's recoverables were as follow:

2008	\$ 2,000
2010	1,000
2011	14,300
2012	<u>23,666</u>
Total	<u>\$40,966</u>

**Unearned Premiums** **\$ 699,149**

The unearned premium reserve was calculated by the Company by dividing the premiums into 12 months and multiplying by a monthly factor. The Company has recorded unearned premium totaling \$699,149. It appears that the Company is using formula that is adequate and the calculation appears to be correct.

**Unpaid Salaries and Commission** **\$ 23,885**

Unpaid salaries and commission at December 31, 2013 consisted of the following:

President's Salary	\$ 1,570
Secretary Salary	3,173
Asst. Secretary Salary	1,267
Adjuster Salary & Exp	3,175
Agents' Commission	<u>14,673</u>
Total	<u>\$23,885</u>

**Other Liabilities**

**\$ 17,079**

Other liabilities at December 31, 2013 consisted of the following:

Liability Premium	\$ 5,444
State Withholding Payable	790
Federal Unemployment	177
Federal Withholding Payable	2,323
State Unemployment	12
Premium Tax Payment	<u>8,333</u>
Total	<u>\$17,079</u>

The above amounts were paid in January and February 2014.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Conflict of Interest Statements-** The Board of Directors signed conflict of interest statements in 2011 but no other year where they signed. It is recommended that the Company's Board of Directors sign conflict of interest statements on an annual basis.

**Fidelity Bond Coverage-** It is recommended the re-evaluate the adequacy of it coverage based upon its exposure.

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

**Safekeeping Agreements** - It is recommended that the Company amend its safekeeping agreements to ensure compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

**ACKNOWLEDGEMENT**

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

Respectfully submitted,

A handwritten signature in black ink that reads "Erin Garvin". The signature is written in a cursive style and is positioned above a horizontal line.

Erin Garvin, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

Erin Garvin, 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 Axtell. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
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 Scandinavian Mutual Insurance Company of Axtell was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

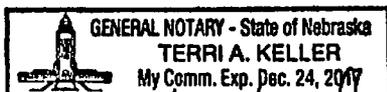
The affiant says nothing further.

Erin Garvin

Examiner-in-Charge's Signature

Subscribed and sworn before me by Erin Garvin on this 1 day of October, 2014.

(SEAL)



Terrill Keller  
Notary Public

My commission expires 12-24-2017 [date].