

CERTIFICATION

October 2, 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
FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF SEWARD
COUNTY

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 02 2014

FILED



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF SEWARD COUNTY

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

Dated this 22 day of September, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

Farmers Mutual Fire Insurance Association of Seward County

as of

December 31, 2013



Pleasant Dale, NE
August 14, 2014

Honorable Bruce R. Ramage
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:

FARMERS MUTUAL INSURANCE ASSOCIATION OF SEWARD COUNTY
1856 Holdrege Road
Pleasant Dale, NE 68423

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

INTRODUCTION

The Association 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 Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". 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 Association. 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 Association'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 Association's general plan of operation.

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

The Association'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 Association'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 Association 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 Association'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 ASSOCIATION

HISTORY

The Association was organized as an assessment fire and lighting association in 1883 under the name "Farmers Mutual Fire Insurance Association". On January 16, 1954, the Articles of Incorporation and By-Laws were amended, authorizing the Association to expand its operations to include the writing of wind and hail insurance.

Currently, the Association operates pursuant to Amended Articles of Incorporation that were approved by the Nebraska Department of Insurance on October 24, 1972. The Association also amended By-Laws that were adopted and approved by the Board of Directors July 27, 1978, and filed with the Nebraska Department of Insurance January 10, 1979.

MANAGEMENT AND CONTROL

Membership

The Association's Amended Articles of Incorporation states, "every person, corporation, association or partnership insuring in this Association shall be a member thereof and entitled to one vote at any annual or special meeting of the Association in person." The annual meeting of the Association shall be held on the fourth Saturday of January of each year in Seward, NE. Special meetings may be called by the Board of Directors thirty days after notice thereof has been given by mail to all members. All elections and changes in the Articles of Incorporation shall be by ballot. Quorum shall be constituted when fifteen members are present at any meeting of the members.

Board of Directors

The general management of the Association is vested in a Board of Directors consisting of not less than five nor more than twenty-one members. Directors shall be elected at each annual meeting for a term of three years.

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

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Robert W. Menze	Gresham, Nebraska	2014
Willard Nagel	Seward, Nebraska	2014
Jeffery J. Sieck	Columbus, Nebraska	2014
Thomas L. Sieck	Pleasant Dale, Nebraska	2015
Steve Wobbecke	Pleasant Dale, Nebraska	2015
Lyal C. Zwick	Staplehurst, Nebraska	2015
Alan Hans	Seward, Nebraska	2016
Howard Krieser	Garland, Nebraska	2016
Chris Simonsen	Seward, Nebraska	2016

Directors receive \$25.00 for attendance at Board meetings, continuing education, and \$50.00 for other meetings. Directors receive \$0.50 per mile while traveling for meetings and loss adjusting. Premiums are collected by Directors who receive a commission of 7.5% if the premium collected. Loss adjustments on claims are handled by both the Board of Directors and agents who collect \$15.00 per hour with \$0.50 per mile while traveling on Association business.

Officers

The Association's Amended Articles of Incorporation provide, "the members of this association shall elect ... a President, Vice-President, Secretary, and a Treasurer, each of whom shall be elected by the Directors." One person may hold any two offices except the office of President and Vice-President. All Officers serving the Association at December 31, 2013, were as follows:

<u>Name</u>	<u>Office</u>
Robert W. Menze	President
Jeffery J. Sieck	Vice-President
Thomas L. Sieck	Secretary & Treasurer

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Association is licensed to transact business in Nebraska. The Association writes fire, lightning, wind, and hail insurance on the assessment plan in Seward and surrounding counties. Fire and lightning coverage is written on farm and town dwellings, farm implements, livestock, hay, grain. Windstorm and hail coverage is available on all risks. Business is secured through three Directors who serve as agents of the Company in addition to one local agent. Assessments are collected on an annual basis.

The Association, as a convenience for its policyholders and agents, makes available three general liability insurance coverages written by Acceptance Casualty Insurance Company. The Association handles the accounting on such business for premiums and agents fees. Commissions received by the Association are transferred and disbursed to the agents responsible for the production of such business.

The general liability insurance items, such as premiums and commissions, pertaining to these agency operations have been specifically designated by the use of the word "liability" in the financial statement presented in the examination report.

FIDELITY BOND AND OTHER INSURANCE

The Association has in force an individual fidelity bond on the Secretary-Treasurer in the amount of \$25,000.00. The said fidelity bond is written by an authorized insurer.

REINSURANCE

During each year covered by this examination, the Association 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, 2013.

At the time of the execution of the reinsurance agreement in effect on December 31, 2013, with NFMRA, the Association, as a member Association, represented that it had the sum of \$76,698,840 of fire insurance in-force and \$76,698,840 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 Association'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 Association 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 Association'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 Association 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 Association's operations during the examination period and the financial condition of the Association 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>\$972,335</u>	<u>\$1,003,979</u>	<u>\$932,777</u>	<u>\$759,481</u>
<u>INCOME</u>				
Gross receipts from assessments	\$274,275	\$ 293,038	\$315,113	\$360,709
Less return on cancellations	<u>3,818</u>	<u>3,234</u>	<u>5,044</u>	<u>9,978</u>
Net received from members	\$270,457	\$ 289,804	\$310,069	\$350,730
Interest on investment	29,376	25,649	17,679	12,728
Liability premium	24,773	23,147	24,102	25,078
Reinsurance premium refund	<u> </u>	<u> </u>	<u> </u>	<u>21,976</u>
Total income	<u>\$324,606</u>	<u>\$ 338,599</u>	<u>\$351,850</u>	<u>\$410,513</u>

STATEMENT OF INCOME AND DISBURSEMENTS (cont.)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>DISBURSEMENTS</u>				
Gross losses paid	\$ 215,581	\$237,550	\$455,823	\$115,343
Less discount & salvage	3,655	15,000	2,500	
Less reinsurance recovered	<u>93,290</u>	<u>4,500</u>	<u>215,947</u>	<u>11,044</u>
Net losses paid	<u>\$ 118,636</u>	<u>\$218,050</u>	<u>\$237,376</u>	<u>\$104,298</u>
Adjusting expense	\$ 585	\$ 825	\$ 3,613	\$ 1,145
Commission paid	22,165	24,100	26,175	27,813
Expenses of agents	2,419	2,684	2,651	395
Salaries & expenses of Directors	14,461	14,351	10,500	15,670
Directors E&O			3,801	3,823
Insurance department licenses & fees	4,533	3,464	3,693	3,931
All other taxes	1,235	2,785	2,426	1,581
Advertising & printing	480	758	1,533	472
Telephone & postage	1,039	1,122	999	1,136
Reinsurance premiums paid	102,574	116,012	153,449	152,028
NAMIC & SAMIC dues	1,680	1,808	1,549	2,079
Miscellaneous	911	693	836	863
Repay of 2010 reins. recovery			55,093	
Liability premium	<u>22,245</u>	<u>23,149</u>	<u>21,452</u>	<u>21,337</u>
Total expenses	<u>\$ 174,326</u>	<u>\$191,751</u>	<u>\$287,769</u>	<u>\$232,273</u>
Total disbursements	<u>\$ 292,962</u>	<u>\$409,802</u>	<u>\$525,145</u>	<u>\$336,571</u>
Balance, end of year	<u>\$1,003,979</u>	<u>\$932,777</u>	<u>\$759,481</u>	<u>\$833,423</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2013

ASSETS

Certificates of deposit	\$621,500	
Cash deposited in banks	195,139	
NFMRA surplus note	<u>19,784</u>	
Total ledger assets		<u>\$833,423</u>

Assets Not Admitted

NFMRA surplus note	<u>\$ 19,784</u>	
Total assets not admitted		<u>\$ 19,784</u>
Total admitted assets		<u>\$813,639</u>

LIABILITIES AND SURPLUS

Net unpaid losses		\$ 17,849
Unearned premiums		120,767
Premium taxes payable		<u>4,385</u>
Total liabilities		<u>\$143,001</u>
Surplus as regards policyholders		<u>\$670,638</u>
Total liabilities and surplus		<u>\$813,639</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 Association to comply therewith:

Largest Amount in Any One Risk After Reinsurance – It is recommended that the Association should state its retention on the Annual Statement page 6 line 6 of General Interrogatories at 1/8 of 1% or .00125 of in-force amount at the beginning of the year.

Action: The Association has complied with this recommendation.

Unearned Premium - It is recommended that the Association report an unearned premium reserve in future annual statements.

Action: The Association has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Certificates of Deposit

\$621,500

This asset consists of twenty certificates of deposit in the amount of \$621,500, which are held with six separate banks located in Nebraska. All deposits were verified by certifications signed by officials of the respective banks.

Other Cash Deposited in Banks

\$192,139

This asset consists of a checking account with Jones National Bank & Trust Company. The balance at December 31, 2013 for the checking account was \$192,139. These deposits were verified by certifications signed by officials at the Jones National Bank & Trust.

Surplus Note

\$ 19,784

The surplus note issued by NFMRA had a value of \$19,784 as of December 31, 2013. This item is deducted, as an asset not admitted in both the Association'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
\$4,964,770	Total capital, surplus and surplus note

\$5,323,238	
<u>5%</u>	of admitted assets
\$ 266,162	

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

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

Net Unpaid Losses

\$ 17,849

This amount consists of four 2013 unpaid losses, totaling \$17,849. A loss development calculation was completed and it indicated that the reserve established at December 31, 2013 was sufficient.

Unearned Premiums

\$120,767

The unearned premium reserve was calculated by the Association by dividing the premiums into 12 months and multiplying by a monthly factor. This formula and unearned premium

calculation documentation was not retained during the exam period under review. It is recommended that the Association retain this documentation going forward so a more accurate review of this area can be completed. The unearned premium reserve established at December 31, 2013 of \$120,767 is accepted for purposes of the examination.

Premium Taxes Payable **\$ 4,385**

This amount consists of the 2013 premium taxes due at year-end and paid in 2014.

Surplus as Regards Policyholders **\$670,638**

The surplus as regards members, as determined by this examination, amounted to \$670,638.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Unearned Premium - It is recommended the Association retain all documentation used to calculate Unearned Premiums. This would allow the examiner to complete an accurate review of this area in future exams.

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

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Association 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 solid 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 Farmers Mutual Fire Insurance Association of Seward County. 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 Farmers Mutual Fire Insurance Association of Seward 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.

Erin Garvin

Examiner-in-Charge's Signature

Subscribed and sworn before me by Erin Garvin on this 3rd day of Sept, 2014.



(SEAL)

TERRI A. KELLER
Notary Public

My commission expires December 24, 2017 [date].