

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )

Echo-German Mutual Insurance Company )  
6227 Constitution Drive )  
Fort Wayne, IN 46804 )

Examination of Echo-German Mutual Insurance  
Company

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Echo-German Mutual Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on November 6, 2013, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Echo-German Mutual Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

December 18, 2013  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0025 3060 91**

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Echo-German Mutual Insurance Company )  
6227 Constitution Drive )  
Fort Wayne, IN )

Examination of Echo-German Mutual Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Echo-German Mutual Insurance Company (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 10, 2013.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on November 6, 2013 and was received by the Company on November 13, 2013.

The Company did not file any objections.

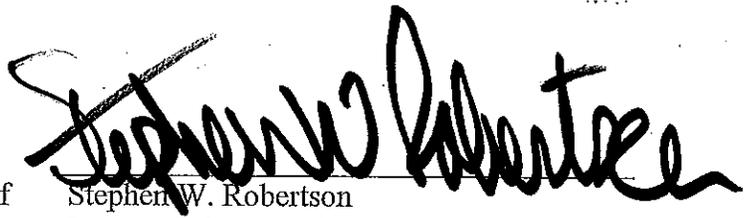
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Echo-German Mutual Insurance Company as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Echo-German Mutual Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 18 day of  
December, 2013.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

*Richard C. ...*

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

**OF**

**ECHO-GERMAN MUTUAL INSURANCE COMPANY**

NAIC Co. CODE 14466

As of

December 31, 2012



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# STATE OF INDIANA

MICHAEL R. PENCE, Governor



**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

October 10, 2013

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3755, an examination has been made of the affairs and financial condition of:

**Echo-German Mutual Insurance Company, Inc.**  
**6227 Constitution Drive**  
**Fort Wayne, Indiana 46804**

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Fort Wayne, Indiana and at the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2007. The present risk-focused examination, covering the period from January 1, 2008 through December 31, 2012, was conducted by Noble Consulting Services, Inc., (Noble) on behalf of the state of Indiana.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was organized on March 1, 1867, as German Mutual Fire Indemnity Association. In 1976, the Company merged with Echo Mutual Tornado Insurance Company, the latter being the surviving company, which subsequently changed its name to Echo-German Mutual Insurance Company, Inc.

The Company was founded for the purpose of safe-guarding its policyholders against losses to property, both real and personal, caused by cyclone, fire, hail, lightning, tornado, and windstorm by distributing, on the mutual insurance plan, such losses as may occur.

## CAPITAL AND SURPLUS

The Company is owned by its 368 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$10,909,190.

## TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in the following ten (10) counties: Adams, Allen, DeKalb, Huntington, LaGrange, Noble, Steuben, Wabash, Wells, and Whitley.

The Company insures dwellings in towns and small cities, farms and farm-related structures, livestock, machinery, and mobile homes. Policies are written on a three (3) year basis.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, as reported during the examination period and adjusted in the process of the examination:

<u>Year</u>	<u>Assets</u>	<u>Per Annual Statement</u>		<u>Per Examination</u>		<u>Examination Adjustment*</u>
		<u>Liabilities</u>	<u>Surplus</u>	<u>Liabilities</u>	<u>Surplus</u>	
2012	\$ 11,104,881	\$ 3,009,857	\$ 8,095,024	\$ 195,691	\$ 10,909,190	\$ 2,814,166
2011	10,018,094	2,220,352	7,797,742	185,173	9,832,921	2,035,179
2010	10,302,987	2,629,057	7,673,930	218,895	10,084,092	2,410,162
2009	9,187,818	1,755,849	7,431,969	181,537	9,006,281	1,574,312
2008	7,787,039	482,715	7,304,324	182,760	7,604,279	299,955

\*As also noted in the previous examination, the Company reports accumulated unrealized gains on investments as liabilities, rather than a change in Surplus. The schedule above presents the financial data as reported in the Annual Statement and as adjusted by the examination. The examination adjustments are also discussed in the Comments on the Financial Statements section of this report.

## MANAGEMENT AND CONTROL

### Policyholders

An annual meeting of policyholders is held each year for the purpose of electing a Board of Directors and addressing such other business as may arise. Each policyholder is entitled to one (1) vote.

### Directors

The corporate powers of the Company are vested in a Board of Directors consisting of no less than seven (7) nor more than fifteen (15) policyholders. Directors are elected to serve a term of three (3) years.

The following persons were serving as directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Alvin Bradtmueller	Fort Wayne, IN
Ronald Hockemeyer	New Haven, IN
Frederick Meyer	New Haven, IN
Lloyd Meyer	Ossian, IN
Delbert Scheiman	Decatur, IN
Daniel Thiele	Fremont, IN
Ralph Thiele	Fremont, IN
Dale Thomas	Uniondale, IN
James Wenger	Bluffton, IN

Officers

The officers of the Company consist of a President, a Vice President, a Secretary, and a Treasurer. Officers are elected at the annual meeting of the Board of Directors. The following persons were serving as officers at December 31, 2012:

<u>Name</u>	<u>Title</u>
Ralph Thiele	President
Delbert Scheiman	Vice President
Daniel Thiele	Secretary
Lloyd Meyer	Treasurer

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest Statements annually. Per review of the signed statements, it was noted that the officers and directors listed in the Management and Control section of this Report of Examination fulfilled that requirement.

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Per review of the signed statements, it was noted that all directors and officers listed in the Management and Control section of this Report of Examination had completed oath of office statements.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

### Bylaws

There were no amendments to the Bylaws during the examination period.

### Minutes

Minutes from the Board of Directors meetings and the annual meetings of the policyholders were reviewed for the period under examination through the fieldwork date. Minutes documented the Board of Director's oversight of operations.

## FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by The Ohio Casualty Insurance Company. The bond has blanket coverage of \$100,000. Based on the admitted assets and gross income of the Company, the Company is in compliance with the prescribed minimum coverage specified by the NAIC.

## REINSURANCE

The Company's reinsurance program is placed through Guy Carpenter, a reinsurance intermediary, with offices in Philadelphia, Pennsylvania. The Company's reinsurance contracts, effective January 1, 2012, consist of Property First Surplus, Aggregate Excess of Loss (XOL), Supplemental Aggregate XOL, and Property Facultative Pro Rata coverages.

### Property First Surplus

Cessions to this Contract are limited to an amount equal to three and two-thirds times the Company's net retention, subject to a minimum net retention by the Company of \$15,000 and to a maximum cession to the Reinsurer of \$440,000.

### Aggregate XOL

The Reinsurer is liable in the aggregate for 95% of the Ultimate Net Loss over and above an initial loss equal to the greater of \$94,500 or \$9.25 per \$1,000 of average Net Fire Insurance in Force, subject to a limit of liability to the Reinsurer of the lesser of \$324,045 (95% of \$341,100) or \$22.25 per \$1,000 of average Net Fire Insurance in Force.

### Supplemental Aggregate XOL

The Reinsurer agrees to indemnify the Company for 100% of their aggregate net loss, equal to the sum of its retention under its Aggregate XOL contract plus the reinsurers' limit of liability thereunder, subject to a limit of liability to the Reinsurer of 100% of the lesser of \$94 per \$1,000 of average Net Fire Insurance in Force.

### Property Facultative Pro Rata Reinsurance

Under this reinsurance treaty, coverage is ceded on a risk by risk basis. The facultative coverage is used to limit the Company's overall retention based on their risk appetite.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation.

**ECHO-GERMAN MUTUAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets, Liabilities, and Surplus**

	As of December 31, 2012			
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>2011</u>
<b>Assets:</b>				
Bonds	\$ 2,553,473	\$ -	\$ 2,553,473	\$ 2,147,700
Stocks - common	7,823,071	-	7,823,071	7,136,403
Bank balances	685,897	-	685,897	662,638
Reinsurance receivable on paid losses	40,969	-	40,969	61,436
Accrued interest	-	-	-	-
State income tax recoverable	803	-	803	3,639
Federal income tax recoverable	668	-	668	6,278
<b>Total Assets</b>	<u>\$11,104,881</u>	<u>\$ -</u>	<u>\$11,104,881</u>	<u>\$10,018,094</u>
<b>Liabilities and Surplus:</b>				
Total unpaid losses	\$ 4,288	\$ -	\$ 4,288	\$ 618
Less: reinsurance recoverable on unpaid losses	(3,497)	-	(3,497)	(506)
Net unpaid claims	791	-	791	112
Ceded reinsurance balances payable	35,992	-	35,992	34,208
Other unpaid expenses	1,707	-	1,707	-
Premiums received in advance	2,485	-	2,485	1,745
Unearned premium reserve	154,716	-	154,716	149,108
Unrealized gains	2,814,166	(2,814,166)	-	- *
<b>Total liabilities</b>	<u>3,009,857</u>	<u>(2,814,166)</u>	<u>195,691</u>	<u>185,173</u>
<b>Surplus</b>	<u>8,095,024</u>	<u>2,814,166</u>	<u>10,909,190</u>	<u>9,832,921 *</u>
<b>Total liabilities and surplus</b>	<u>\$11,104,881</u>	<u>\$ -</u>	<u>\$11,104,881</u>	<u>\$10,018,094</u>

\* The Company reports unrealized gains in the Annual Statement as a liability. As of December 31, 2011, the Company reported \$2,035,179 as unrealized gain liabilities. Unrealized gains are not liabilities and were reclassified to reflect a change in Surplus.

**ECHO-GERMAN MUTUAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income and Changes in Surplus**

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
<b>Income:</b>				
Total net assessment, premiums and fees	\$ 76,955	\$ -	\$ 76,955	\$ 64,400
Total income from investment	422,266	-	422,266	263,216
Other income	108,757	-	108,757	10,707
Total income	<u>607,978</u>	<u>-</u>	<u>607,978</u>	<u>338,323</u>
<b>Disbursements:</b>				
Total of all net losses	75,158	-	75,158	39,451
Total operating expense	159,038	-	159,038	151,253
Total non-operating expense	37,069	-	37,069	9,959
Change in ledger assets and liabilities	-	39,431	39,431	13,848 **
Total disbursements	<u>271,265</u>	<u>39,431</u>	<u>310,696</u>	<u>214,511</u>
Net income	336,713	(39,431)	297,282	123,812
Surplus, beginning of period	7,797,742	2,035,179	9,832,921	10,084,092 ***
Change in unrealized gains on stocks	-	778,987	778,987	(374,983) ***
Surplus, end of period	<u>\$ 8,095,024</u>	<u>\$ 2,774,735</u>	<u>\$ 10,909,190</u>	<u>\$ 9,832,921 **</u>

\*\* Farm Mutual Annual Statements require the change in some accruals to reflect only in the change in Surplus, rather than Net Income. In order to present the financial statements on a statutory basis, changes in accruals have been reclassified into the body of the income statement.

\*\*\*Unrealized gains on stocks are a change to surplus, but were reported as liabilities. Adjustments to record the change in unrealized gains were (\$374,983) in 2011.

## COMMENTS ON THE FINANCIAL STATEMENTS

The Company has reported unrealized gains in the Annual Statement as a liability throughout the exam period. As of December 31, 2011 and 2012, the Company incorrectly reported \$2,035,179 and \$2,814,166, respectively, as unrealized gain liabilities. Unrealized gains are not liabilities and were moved to accurately report them in each year of the examination period (see Growth section on page 3 and the Financial Statements on page 7) as a change in Surplus. This has been a recurring financial reporting issue during both the current and prior examinations.

The Company reports some income statement items on a cash basis. In order to properly reconcile the change in surplus, the change in ledger assets and liabilities has been adjusted through the examination process by \$13,848 and \$39,431 in 2011 and 2012 respectively.

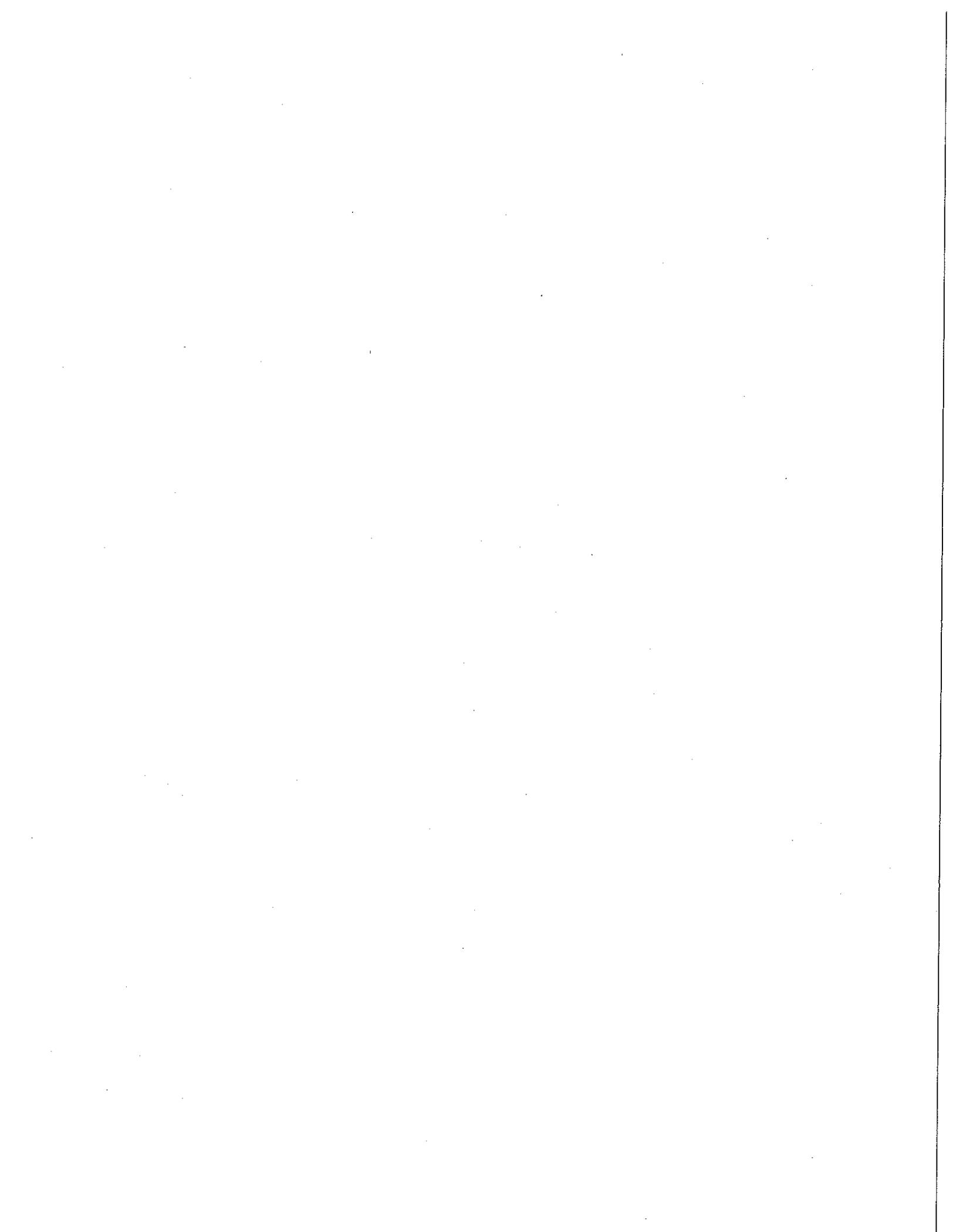
Unrealized gains on stocks are a change to surplus. Adjustments to record the change in unrealized gains were (\$374,983) and \$778,987 in 2011 and 2012 respectively.

## SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no significant findings.

## SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work that were considered material events requiring disclosure in this Report of Examination.



**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Echo-German Mutual Insurance Company**, as of **December 31, 2012**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2013 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **Echo-German Mutual Insurance Company**, as of **December 31, 2012**, as determined by the undersigned.

 CPA

Rick Mendez, CPA  
Noble Consulting Services, Inc.

State of:  
County of:

On this 2 day of December 2013, before me personally appeared, Rick Mendez, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires







THE UNIVERSITY OF CHICAGO  
LIBRARY  
540 EAST 58TH STREET  
CHICAGO, ILL. 60637  
TEL: 773-936-3300  
WWW.CHICAGO.EDU