

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

IN THE MATTER OF:)
)
Farmers Mutual Insurance Company of St. Joseph)
and Marshall Counties)
440 East Jefferson Street)
Plymouth, IN 46563)

Examination of: **Farmers Mutual Insurance Company of St. Joseph and Marshall Counties**


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 Farmers Mutual Insurance Company of St. Joseph and Marshall Counties, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 12, 2019, 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 Farmers Mutual Insurance Company of St. Joseph and Marshall Counties 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.

3/30/2020
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9148

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Examination of: **Farmers Mutual Insurance Company of St. Joseph and Marshall Counties**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Insurance Company of St. Joseph and Marshall Counties (hereinafter “Company”) for the time period January 1, 2013 through December 31, 2017.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on April 15, 2019.

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 December 12, 2019 and was received by the Company on December 16, 2019.

The Company did not file any objections.

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

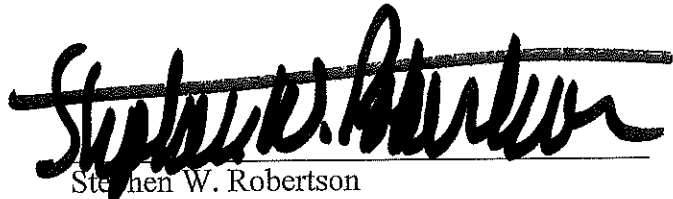
1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Farmers Mutual Insurance Company of St. Joseph and Marshall Counties as of January 1, 2013 through December 31, 2017.

2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Mutual Insurance Company of St. Joseph and Marshall Counties 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 this 30 day of March, 2020.


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.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
FARMERS MUTUAL INSURANCE COMPANY OF ST. JOSEPH AND
MARSHALL COUNTIES
NAIC Co. CODE 92301

As of

December 31, 2017

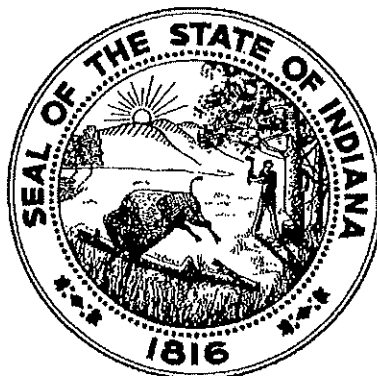


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March 27, 2019

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3998, an examination has been made of the affairs and financial condition of:

Farmers Mutual Insurance Company of St. Joseph and Marshall Counties
440 East Jefferson Street
Plymouth, Indiana 46563

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

The Report of Examination, reflecting the status of the Company as of December 31, 2017, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2012. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2013 through December 31, 2017, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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, including corporate governance, identifying and assessing inherent risks within the Company, and 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 in 1872 for the purpose of providing coverage to its policyholders.

The Company, operating under farm mutual laws, insures its members for loss or damage to property by fire and lightning.

CAPITAL AND SURPLUS

As of December 31, 2017, the Company had adjusted surplus of \$3,192,612. The Company has 1,161 members, who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in Elkhart, Kosciusko, LaPorte, Marshall, St. Joseph, and Starke counties.

The Company insures buildings, dwellings, equipment, farm implements, livestock, mobile homes, and other personal property. Policies are written on a three (3) year basis, renewed annually.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Surplus
2017	\$ 3,660,535 *	\$ 467,923 *	\$ 3,192,612 *
2016	3,726,788	64,216 **	3,662,572
2015	3,446,472	64,173 **	3,382,299
2014	3,287,188	63,628 **	3,223,560
2013	3,218,486	41,608 **	3,176,878

*2017 Admitted Assets, liabilities, and surplus were adjusted to correct understated unrealized gains, overstated stock balances, understated unpaid claims, and understated unearned premium reserve.

**The Company did not report unpaid claims or unearned premium reserve for the years 2013-2016.

MANAGEMENT AND CONTROL

Directors

The corporate powers of the Company are vested in a Board of Directors (Board) consisting of not fewer than seven (7) directors, elected to one (1) year terms. The following is a listing of persons serving as directors as of December 31, 2017:

Name	Address
Brandt Ayoub	Bremen, Indiana
Steven Davenport	Plymouth, Indiana
Jon Langfeldt	Plymouth, Indiana
Alan Laudeman	Bremen, Indiana
Philip Overmyer	Argos, Indiana
David Ruff	Plymouth, Indiana
Roger Schori	Bourbon, Indiana

Officers

The officers of the Company consist of a President, Vice President, Secretary, and Treasurer. Officers are elected at the annual meeting of the Board and serve for a term of one (1) year. The following is a list of key officers and their respective titles as of December 31, 2017.

Name	Office
Philip Overmyer	President
Alan Laudeman	Vice President
David Ruff	Secretary and Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have not reviewed and signed their statements as of December 31, 2017.

See the Other Significant Issues section.

OATH OF OFFICE

Indiana Code (IC) 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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all of the directors listed in the Management and Control section of this Report of Examination have not subscribed to an oath as of December 31, 2017.

See the Other Significant Issues section.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

The Board minutes and the minutes from the annual meeting of the members were reviewed for the period under examination through the fieldwork date. No significant issues or events were noted from the review of the Board and annual meeting minutes.

AFFILIATED COMPANIES

The Company is owned by its members and has no affiliated companies.

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 Indiana Insurance Company. The bond has a blanket coverage of \$190,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2017, including but not limited to, agents and brokers professional liability and data breach coverage.

STATUTORY DEPOSITS

As a farm mutual insurer, the Company is not required to maintain a statutory deposit with the state of Indiana.

REINSURANCE

The Company's reinsurance program is placed through Grinnell Mutual Reinsurance Company. The reinsurance program includes two (2) treaties, both effective January 1, 2017, which are described below.

- *Property Per Risk Excess of Loss Reinsurance Contract* – This coverage limits the Company's liability on an individual occurrence of loss with a retention limit of \$140,000. This agreement provides coverage up to \$20,000,000.
- *Property Aggregate Excess of Loss Reinsurance* – The Reinsurer agrees to indemnify the Company for 100% of their aggregate net losses, in excess of the retention limit of \$435,000.
- Facultative coverage is available, through a separate application, for any risk that exceeds an insured value of \$20,000,000.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2016 and December 31, 2017, were agreed to the respective Annual Statements.

FINANCIAL STATEMENTS

FARMERS MUTUAL INSURANCE COMPANY OF ST. JOSEPH AND MARSHALL COUNTIES Assets, Liabilities and Surplus As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Assets:			
Bonds	\$ 4,570	\$ -	\$ 4,570
Stocks	1,810,447	(169,659)	1,640,788 *
Bank balances	1,600,652	-	1,600,652
Real estate	112,745	-	112,745
Cash in office	198	-	198
Unpaid premiums	12,536	-	12,536
Accrued interest	132	-	132
Equipment and furniture	7,241	-	7,241
Cash surrender value of life insurance	213,922	-	213,922
Prepayments	2,513	-	2,513
Fixed annuity	65,238	-	65,238
Total assets	<u>\$ 3,830,194</u>	<u>\$ (169,659)</u>	<u>\$ 3,660,535</u>
 Liabilities and Surplus:			
Unpaid claims	\$ -	\$ 32,500	\$ 32,500 *
Less, reinsurance recoverable	-	-	-
Net unpaid claims	-	32,500	32,500
Unpaid salaries and commissions	32,728	-	32,728
Taxes payable	501	-	501
Other unpaid expenses	30,815	-	30,815
Unearned premium reserve	-	371,379	371,379 *
Total liabilities	64,044	403,879	467,923
Surplus	3,668,429	(475,817)	3,192,612 *
Total liabilities and surplus	<u>\$ 3,732,473</u>	<u>\$ (71,938)</u>	<u>\$ 3,660,535</u>

* As adjusted through the examination process, 2017 surplus decreased \$475,817 (unrealized gains were understated \$97,721, stock balances were overstated \$169,659, unpaid claims were understated \$32,500, and unearned premium reserve was understated \$371,379).

FARMERS MUTUAL INSURANCE COMPANY OF ST. JOSEPH AND MARSHALL COUNTIES
Income Statement and Change in Surplus
For the Year Ended December 31, 2017

	Per Annual Statement	Examination Adjustments	Per Examination*
Income:			
Premiums, net of reinsurance	\$ 539,497	\$ -	\$ 539,497
Interest and profit on investments	135,900	-	135,900
Other income	63,273	-	63,273
Total income	738,670	-	738,670
 Disbursements:			
Losses, net of reinsurance	224,249	32,500	256,749 **
Operating expenses	267,572	-	267,572
Non-operating expenses	61,261	-	61,261
Change in ledger assets and liabilities	179,731	443,317	623,048 **
Total disbursements	732,813	475,817	1,208,630
Net income	5,857	(475,817)	(469,960)
Surplus, beginning of period	3,662,572	-	3,662,572
Surplus, end of period as reported	\$ 3,668,429	\$ (475,817)	\$ 3,192,612 **

*The Company reports some income statement items on a cash basis. In order to properly reconcile the change in surplus, the change in accrued asset and liability amounts reflect the reconciliation from cash to accrual basis.

**As adjusted through the examination process, 2017 surplus decreased by \$475,817 (understated unrealized gains \$97,721, overstated stock balances \$169,659, understated losses, net of reinsurance \$32,500, and understated unearned premium reserve \$371,379.)

COMMENTS ON THE FINANCIAL STATEMENTS

As originally reported in its 2017 Annual Statement the Company understated its surplus due to not reporting unrealized gains of \$97,721. This understatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of surplus.

The Company overstated its stock balance by \$169,659 as of December 31, 2017. This overstatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of stocks.

The Company understated its unpaid claims and losses, net of reinsurance, by \$32,500 as of December 31, 2017. This understatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of unpaid claims and losses, net of reinsurance.

The Company understated its unearned premium reserve by \$371,379 as of December 31, 2017. This understatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of unearned premium reserve.

OTHER SIGNIFICANT ISSUES

It was determined that the directors and officers listed in the Management and Control section of this Report of Examination did not review and sign Conflict of Interest statements as of December 31, 2017. In the future, the Company should have Conflict of Interest statements signed annually by all directors and officers of the Company.

The Company was not able to provide Oath of Office statements for all directors listed on their Annual Statement as of December 31, 2017. In the future, the Company should take appropriate measures to come into compliance with IC 27-1-7-10(i).

SUBSEQUENT EVENTS

There were no other events subsequent to the examination date and prior to the completion of fieldwork which 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., performed an examination of Farmer's Mutual Insurance Company of St. Joseph and Marshall Counties as of December 31, 2017.

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

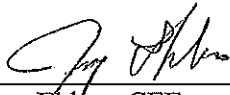
This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing 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 Farmer's Mutual Insurance Company of St. Joseph and Marshall Counties as of December 31, 2017, as determined by the undersigned.



Jim Kattman, CFE
Noble Consulting Services, Inc.

Under the supervision of,

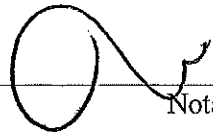


Jerry Ehlers, CFE
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 27 day of March, 2019, before me personally appeared, Jim Kattman and Jerry Ehlers, 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: July 4, 2019  _____
Notary Public

