

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

IN THE MATTER OF:)
)
German Mutual Insurance Company of Indiana)
1733 Morningstar Boulevard)
Decatur, Indiana 46733)

Examination of German Mutual Insurance Company of
Indiana

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of German Mutual Insurance Company of Indiana, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 3, 2010, 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 German Mutual Insurance Company of Indiana 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.

Date

June 11, 2010



Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2248

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1733 Morningstar Boulevard)
Decatur, Indiana 46733)

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Indiana

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the German Mutual Insurance Company of Indiana (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 29, 2010.

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 May 3, 2010 and was received by the Company on May 5, 2010.

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 German Mutual Insurance Company of Indiana as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the German Mutual Insurance Company of Indiana 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 11th day of June, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

GERMAN MUTUAL INSURANCE COMPANY OF INDIANA

NAIC Co. CODE 92308

As of

December 31, 2008

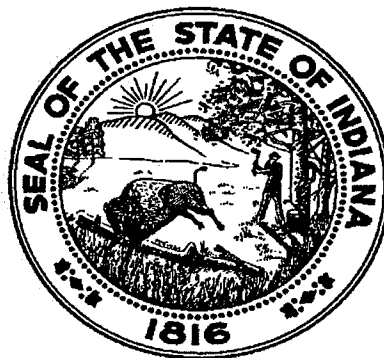


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

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

CAROL CUTTER, Commissioner

April 30, 2010

Honorable Doug Webber
Acting Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3612, an examination has been made of the affairs and financial condition of:

German Mutual Insurance Company of Indiana
1733 Morningstar Boulevard
Decatur, Indiana 46733

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Decatur, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
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CONSUMER SERVICES
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of December 31, 2004. The present examination, covering the period from January 1, 2005 through December 31, 2008, was conducted by Noble Consulting Services, Inc. (Noble) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

David Shepherd, FCAS, MAAA, of Merlino & Associates, Inc. (Merlino), a consulting actuary appointed by the IDOI, conducted the review of the Company's reserves and related accounts as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from this review.

We conducted the examination pursuant to and in accordance with the 2009 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.

HISTORY

The Company was organized in 1868, as the German Fire Insurance Company of Preble Township. The Company was founded for the purpose of "safeguarding its members against loss by fire, wind, lightning, or other casualty and to distribute on the mutual insurance plan, such losses as may occur in spite of reasonable precautions."

On January 18, 2003, the Board of Directors approved an amendment to the Company's constitution and bylaws, changing the name to German Mutual Insurance Company of Indiana.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had surplus of \$5,715,309 and had 1,605 members (policyholders), who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct business throughout the State of Indiana and currently services members in Adams, Allen, Jay, Wells, Huntington, and Whitley counties.

The Company writes named peril property coverage against losses from fire, lightning, wind, hail, theft, vandalism, and other perils. The Company primarily insures rural and suburban homes, farms, and small businesses. The Company has just one office, located in Decatur, and works through captive and independent agents, to promote its insurance products.

The Company would like to expand its list of participating agents but is not actively marketing in new counties.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Member</u> <u>Surplus</u>	<u>Premium</u> <u>Written</u>	<u>Losses Paid</u>	<u>Net Income</u> <u>(Loss)</u>
2008	\$ 6,307,520	\$ 592,211	\$ 5,715,309	\$ 912,938	\$ 741,683	\$ (517,414)
2007	6,824,934	558,004	6,267,030	908,493	271,961	489,070
2006	6,335,864	532,238	5,803,626	900,118	236,258	517,069
2005	5,818,794	512,732	5,306,062	861,412	158,802	548,385

The Company demonstrated growth in admitted assets, surplus and premiums for the years 2005, 2006 and 2007. In 2008, claims increased to \$741,683, compared to \$271,961 in 2007. The significant increase was mainly due to weather related events impacting northeastern Indiana. Subsequently, in 2009, claims dropped to \$405,190, which was still a 49% increase compared to 2007, but \$336,493 less than 2008. The significant increase in claims in 2008, due to weather related events, serves to demonstrate the Company's potential exposure, by concentrating their membership within a relatively small geographic area. In 2008, the Company also recognized a loss in the value of their mutual funds of \$387,879, due to the financial turmoil encountered market-wide in 2008.

MANAGEMENT AND CONTROL

Members

Members (policyholders) of the Company are considered its owners. An annual meeting of the members is held on the first Saturday in February of each year for the purpose of electing Directors and addressing such other business as may come before it. Each member is entitled to one vote for each issue, where a vote is taken.

Directors

Article V of the Company's Constitution and Bylaws states that the management of the Company shall be vested in a Board of Directors, not to exceed ten (10) members and who shall serve for a term of five (5) years. Directors are elected at the annual meeting of the members with staggered terms of service. The elected Board meets monthly, overseeing operations and addressing the Company's issues, as needed, throughout the year. The following is a list of Board members as of December 31, 2008:

<u>Name of Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
Edwin Krueckeberg	Decatur, IN	Captive Agent
Gerald Selking, President	Decatur, IN	President, Selking International Truck
James Heckman, Secretary/Treasurer	Decatur, IN	CFO, G3 Technology Partners
John Schueler	Decatur, IN	Purchasing Agent, Smith Brothers Furniture
Jeffery Kiess	Decatur, IN	Appraiser
Monica Stoppenhagen	Decatur, IN	School Teacher

Officers

Article VI of the Company's Constitution and Bylaws states that the officers of the Company shall consist of a President, Vice President, Treasurer, Secretary, and Appraiser. Due to a mid-year resignation in 2008, of one of the Board members, the Board did not have a Vice President as of December 31, 2008. The position was filled in 2010. The individuals holding the various positions as of December 31, 2008 are listed above.

CONFLICT OF INTEREST

The Company requires Officers and Directors to review and sign Conflict of Interest Statements on an annual basis. Per review of the signed statements, it was noted that the Officers and Directors listed in the management and control section of this report had reviewed and signed their statements as of December 31, 2008.

OATH OF OFFICE

IC 27-1-1-10(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. The Company did not implement this required procedure until 2009, subsequent to the examination period. Each Director did sign an Oath of Office in 2009 and 2010.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Company's Constitution or Bylaws during the examination period.

Minutes

Minutes from the Board of Directors meetings and the annual meeting of the members were reviewed for the period under examination through the fieldwork date. Minutes documented the Board's oversight of operations and strategic planning. Board meetings were held in accordance with the Company's Bylaws.

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 St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$100,000 with a \$2,500 deductible. Coverage includes employees and Directors. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

STATUTORY AND SPECIAL DEPOSITS

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

REINSURANCE

Reinsurance Assumed

The Company assumed no reinsurance during the exam period.

Reinsurance Ceded

The Company's reinsurance program is written through Grinnell Mutual Reinsurance Company (Grinnell) of Grinnell, Iowa, with stipulated terms listed below:

- *Individual occurrence of loss* – Grinnell assumes liability over the Company's retention of \$250,000 per occurrence.
- *Aggregate Excess Reinsurance* – Grinnell assumes liability when losses exceed the adjusted attachment point for aggregate net losses of \$834,972.

RESERVES

Merlinos was engaged by the IDOI to review the carried reserves as presented in the Company's 2008 Annual Statement. They relied on the relevant disclosures found in the Annual Statement as well as information provided by the Examiners. Merlinos stated that, "We have no material concerns with the Company's carried reserves as of December 31, 2008. Considerations incorporated in arriving at this conclusion include:

- The strong written premium to surplus ratio
- The stability of the business along with the apparent strength of established case reserves
- The favorable emergence reflected in the loss experience through 12/31/09, provided by the examination team"

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records and supporting data were reviewed and tested to the extent deemed necessary. Trial balances prepared by the Company reflected a hybrid of cash and accrual accounting is used by the Company.

The Company does not maintain a general ledger that includes significant liability accounts, including unpaid claims and unearned premiums. In order to fulfill their reporting requirements, liabilities are periodically calculated, as needed and incorporated into documents like the Annual Statements. Material balances reflected in the December 31, 2008 and 2007 Annual Statements were agreed to supporting documentation and the trial balance when applicable and no significant misstatements were noted.

GERMAN MUTUAL INSURANCE COMPANY OF INDIANA

FINANCIAL STATEMENTS

Assets, Liabilities and Surplus

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2007
Assets:				
Bonds	\$ 4,488,731	\$ -	\$ 4,488,731	\$ 5,285,564
Stocks - common	755,178	-	755,178	836,935
Bank balances	615,055	-	615,055	337,408
Real Estate	448,555	-	448,555	365,028
Total Assets	\$ 6,307,520	\$ -	\$ 6,307,520	\$ 6,824,934
Liabilities and Surplus				
Unpaid claims	\$ 221,332	\$ -	\$ 221,332	\$ 61,300
Less, reinsurance recoverable	(124,000)	-	(124,000)	-
Net unpaid claims	\$ 97,332	\$ -	\$ 97,332	\$ 61,300
Ceded reinsurance balances payable	7,758	-	7,758	7,604
Taxes payable	10,809	-	10,809	8,115
Premiums collected for other companies	4,464	-	4,464	3,598
Premiums received in advance	7,442	-	7,442	9,356
Unearned premium reserve	464,407	-	464,407	468,032
Total liabilities	\$ 592,211	\$ -	\$ 592,211	\$ 558,004
Surplus	5,715,309	-	5,715,309	6,266,930
Total liabilities and surplus	\$ 6,307,520	\$ -	\$ 6,307,520	\$ 6,824,934

GERMAN MUTUAL INSURANCE COMPANY OF INDIANA

FINANCIAL STATEMENTS

Statement of Income

	For the period ended December 31, 2008			December 31, 2007
	Per Annual Statement	Examination Adjustments	Per Examination	
Ledger assets, December 31, previous year	\$ 6,824,934	\$ -	\$ 6,824,934	\$ 6,335,864
Income:				
Premiums, net of reinsurance	\$ 821,648	\$ -	\$ 821,648	\$ 818,464
Interest on investments	256,116	-	256,116	339,895
Other interest	8,384	-	8,384	10,688
Profit on sale of investments	4,635	-	4,635	-
Rent	9,422	-	9,422	13,655
Premiums collected for other companies	10,912	-	10,912	12,672
Miscellaneous income	9,629	-	9,629	7,170
Recover in value of mutual funds	(387,879)	-	(387,879)	(39,676)
Total income	\$ 732,866	\$ -	\$ 732,866	\$ 1,162,868
Disbursements:				
Losses, net of reinsurance	\$ 741,683	\$ -	\$ 741,683	\$ 271,961
Operating expenses	414,850	-	414,850	358,774
Non-operating expenses	93,747	-	93,747	43,063
Total disbursements	\$ 1,250,280	\$ -	\$ 1,250,280	\$ 673,798
Net income	\$ (517,414)	\$ -	\$ (517,414)	\$ 489,070
Ledger assets, December 31, current year	\$ 6,307,520	\$ -	\$ 6,307,520	\$ 6,824,934

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008, based on the results of this examination.

SUBSEQUENT EVENTS

The Company experienced increased losses in 2008. Subsequently, in 2009, claims dropped to levels more consistent with prior years.

The Company had not required Board members to sign an Oath of Office for any year in the examination period. Effective in 2009, Oaths of Office were required and signed by all Board members. Oaths of Office were also signed by all of the Board members in 2010.

Due to a retiring Board member, the Board had no Vice President at December 31, 2008. The position was filled in 2010.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of German Mutual Insurance Company of Indiana as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of German Mutual Insurance Company of Indiana.


Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance