

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

IN THE MATTER OF: )  
 )  
Saint Joseph Mutual Home Insurance Company )  
12954 East 1550 North )  
St. Meinrad, Indiana 47577 )

**Examination of Saint Joseph Mutual Home 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 **Saint Joseph Mutual Home Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 8, 2011, 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 **Saint Joseph Mutual Home 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.

4/28/2011  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8189**

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Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **Saint Joseph Mutual Home Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 10, 2011.

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 March 8, 2011 and was received by the Company on March 12, 2011.

The Company did not file any objections.

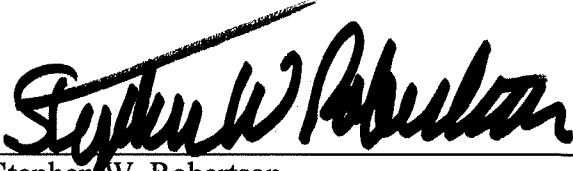
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Saint Joseph Mutual Home Insurance Company** as of December 31, 2009.
2. That the Examiners' Recommendations are reasonable and necessary in order for the **Saint Joseph Mutual Home 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 28<sup>th</sup> day of  
April, 2011.

  
\_\_\_\_\_  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

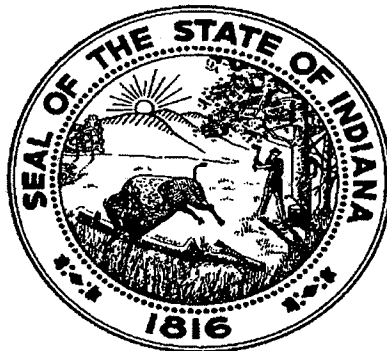
**OF**

**SAINT JOSEPH MUTUAL HOME INSURANCE COMPANY**

**NAIC Co. CODE 92327**

**As of**

**December 31, 2009**



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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

Stephen W. Robertson, Commissioner

January 11, 2011

Honorable Stephen W. Robertson  
Insurance 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 3659, an examination has been made of the affairs and financial condition of:

**Saint Joseph Mutual Home Insurance Company**  
**12954 E 1550 N**  
**Saint Meinrad, IN 47577**

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

The Report of Examination, reflecting the status of the Company as of December 31, 2009, 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 as of December 31, 2004. The present examination, covering the period from January 1, 2005 through December 31, 2009, 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.

We conducted our examination pursuant to and in accordance with the 2010 NAIC Financial Condition Examiners 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 1870, incorporated as a Voluntary Association under the 1895 Act, later electing to operate under Chapter 145, Acts 1919, in 1914, which was repealed by Acts 1972, P.L. 129-2003 and restated as Indiana Code (IC) IC 27-5.1, as pertains to farm mutual insurance companies.

The purpose of the Company is to insure its members against loss from hazards permitted to be insured against under the farm mutual laws and to distribute, on the mutual plan, such losses as may occur.

## **CAPITAL AND SURPLUS**

As of December 31, 2009, the Company reported surplus of \$1,338,726 and had approximately 400 members (policyholders), who are the owners of the Company.

## **TERRITORY AND PLAN OF OPERATION**

In accordance with the farm mutual laws, the Company may issue policies solely within the state of Indiana. As of December 31, 2009, the Company was transacting business in the Indiana counties of Spencer, Perry, Dubois, Crawford, Vanderburgh, Warrick, Orange, Gibson, Pike, and Martin.

## 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 Assets</u>	<u>Liabilities</u>	<u>Member Surplus</u>
2009	\$1,373,795	\$179,985	\$1,193,810
2008	1,331,619	126,087	1,205,532
2007	1,474,537	45,349	1,429,188
2006	1,470,844	34,226	1,436,618
2005	1,408,022	101,567	1,306,455

Significant variances in 2009 are primarily driven by examination adjustments to record unpaid claims and unearned premiums, both of which were understated by the Company at year-end 2009. See the Summary of Significant Findings section of this report for further comment.

## MANAGEMENT AND CONTROL

### Members

Members of the Company are considered its owners. An annual meeting of members is held for the purpose of electing a Board of Directors and addressing such other business as may come before the members. Each member is entitled to one vote for each issue where a vote is taken.

### Directors

The corporate powers of the Company are vested in a Board of Directors consisting of seven members. Directors serve a term of three years and are elected at the annual meeting of members. The following persons were serving as Directors at December 31, 2009:



<u>Name of Director</u>	<u>Residence</u>	<u>Board Title</u>
Leon Dilger	Dale, IN	President
Richard Paulin	Bristow, IN	Member
Maryetta Boehm	St. Meinrad, IN	Secretary
Thomas Vaal	St. Meinrad, IN	Treasurer
Cletus Schaefer	Evanston, IN	Member
Othmar Mullis	Fulda, IN	Vice-President
Gary Waninger	St. Meinrad, IN	Member

### Officers

The officers of the Company consist of a president, vice-president, secretary and treasurer. Officers are elected at the annual meeting of the members and serve for a term of one year.

### 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 in 2009.

### OATH OF OFFICE

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 corporation and will not knowingly violate any of the laws applicable to such corporation. The Company had signed Oath of Office statements for the year of 2010.

### CORPORATE RECORDS

#### Articles of Incorporation and Bylaws

There were no amendments to the Articles of Incorporation 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.

### 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 its employees through a fidelity bond issued by Western Surety Company. The bond has blanket coverage of \$20,000. Based on the admitted assets and gross income of the Company, the prescribed minimum coverage specified by the NAIC should be \$25,000. The Company was notified of the minimum requirement and committed to immediately increasing the coverage. See the Summary of Significant Findings section of this report.

The Company also has life insurance on 5 of its 7 (two on Leon Dilger) Directors. Examiners verified that the Company was the beneficiary of each policy.

## STATUTORY 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 Guy Carpenter, a reinsurance intermediary, representing several companies. The 2009 policies were described as follows:

#### *Aggregate Excess of Loss Reinsurance Contract:*

The Reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this Contract for 90% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the greater of \$117,700 or \$7.00 per \$1,000 of Average Net Fire Insurance in Force, subject to a limit of liability to the Reinsurer of 90% of the lesser of \$556,200 (being 90% of \$618,000) or \$24.50 per \$1,000 of Average Net Fire Insurance in Force.

Should the Company's Ultimate Net Loss on losses occurring during the term of this Contract exceed, at any time, an amount equal to \$7.00 per \$1,000 of Average Net Fire Insurance in Force, at the option of the Company, 90% of such excess and 90% of all additional Ultimate Net Loss on losses occurring thereafter shall be paid by the Reinsurer, subject to the limits of liability as defined above. Any such payment shall be subject to adjustment after the Reinsurer's ultimate liability hereunder has been determined.

#### *Supplemental Aggregate Excess of Loss Reinsurance Contract:*

The Reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the sum of its retention under its Aggregate Excess of Loss Reinsurance Contract (the "Aggregate") plus the

reinsurers' limit of liability thereunder, subject to a limit of liability to the Reinsurer of 100% of the lesser of \$35.00 per \$1,000 of Average Net Fire Insurance in Force.

Should the Company's Ultimate Net Loss on losses occurring during the term of this Contract exceed, at any time, the Company's retention and limit under its Aggregate, at the option of the Company, 100% of such excess and 100% of all additional Ultimate Net Loss on losses occurring thereafter shall be paid by the Reinsurer, subject to the limits of liability as defined above. Any such payment shall be subject to adjustment after the Reinsurer's ultimate liability hereunder has been determined.

*Property Facultative Pro-Rata Reinsurance Contract:*

The Company may cede, and the Reinsurer shall assume, the Company's Surplus Liability on risks covered hereunder, subject to the limits set forth herein. The liability of the Reinsurer shall commence obligatorily and simultaneously with that of the Company.

Cessions to this Contract shall be limited to an amount equal to eight times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$5,000 and to a maximum cession hereunder of \$150,000 on any one risk covered hereunder. However, if the cession is greater than \$250,000, the maximum cession as respects any one animal shall not exceed \$250,000.

With respect to cessions covering perils other than fire, wherever the Company carries fire liability upon the same risk, it shall cede at least an equal proportion of such fire liability to this Contract.

The Reinsurer shall pay to the Company the Reinsurer's proportional share of loss and Extra Contractual Obligations, the sum of which shall be subject to the limit set forth in the paragraph above. In addition, the Reinsurer shall pay to the Company the Reinsurer's proportional share of Loss Adjustment Expense.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Company does not use an accounting system, however, it does maintain logs of disbursements (including claims) and premium invoicing and Board documents in Excel, Word, and Access. Material balances reflected in the December 31, 2009, Annual Statement and trial balance were agreed to supporting documentation.

**Saint Joseph Mutual Home Insurance Company**

**Financial Statements**

**Assets, Liabilities, and Surplus**

	As of December 31, 2009			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2008
<b>Assets:</b>				
Stocks	\$ 165,468	\$ -	\$ 165,468	\$ 128,234
Bank balances				
Subject to check	68,193	-	68,193	91,943
On interest	382,914	-	382,914	394,388
Unpaid premiums due after 11/1	16,116	-	16,116	15,403
Reinsurance Receivable on paid losses	34,146	-	34,146	19,520
Cash surrender value of life insurance	701,326	-	701,326	675,540
NAMIC Stock	5,632	-	5,632	6,591
<b>Total Assets</b>	<b>\$ 1,373,795</b>	<b>\$ -</b>	<b>\$ 1,373,795</b>	<b>\$ 1,331,619</b>
<b>Liabilities and Surplus</b>				
Net unpaid claims	-	35,697	35,697	67
Unearned premium reserve	-	109,219	109,219	103,315
Premiums collected for other companies	1,269	-	1,269	1,127
Unrealized Gain on NAMIC	430	-	430	430
Claims Payable	273	-	273	554
Reinsurance Payable	33,097	-	33,097	20,594
<b>Total liabilities</b>	<b>35,069</b>	<b>144,916</b>	<b>179,985</b>	<b>126,087</b>
Surplus	1,338,726	(144,916)	1,193,810	1,205,532
<b>Total liabilities and surplus</b>	<b>\$ 1,373,795</b>	<b>\$ -</b>	<b>\$ 1,373,795</b>	<b>\$ 1,331,619</b>

**Saint Joseph Mutual Home Insurance Company**

**Financial Statements**

**Statement of Income**

	<b>For the period ended December 31, 2009</b>			<b>December 31, 2008</b>
	<b>* Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	
<b>Net Ledger assets, January 1,</b>	\$ 1,308,382	\$ (102,850)	\$ 1,205,532	\$ 1,325,873
<b>Income:</b>				
Premiums, net of reinsurance	263,584	(5,904)	257,680	301,425
Dividends received	1,625	-	1,625	7,302
Interest received on bank deposits	14,551	-	14,551	22,454
Increase in ledger liabilities	12,645	(12,645)	-	-
Profit on sale of investment	-	-	-	4,756
State income tax refund	1,000	-	1,000	3,196
Miscellaneous Income	-	-	-	1,300
Increase in CSV	25,785	-	25,785	6,069
Appreciation in securities	34,165	-	34,165	(68,725)
<b>Total income</b>	<u>353,355</u>	<u>(18,549)</u>	<u>334,806</u>	<u>277,777</u>
<b>Disbursements:</b>				
Losses, net of reinsurance	215,885	36,095	251,980	294,899
Operating expenses	94,548	-	94,548	103,219
Non-operating expenses	746	(746)	-	-
<b>Total disbursements</b>	<u>311,179</u>	<u>35,349</u>	<u>346,528</u>	<u>398,118</u>
<b>Net income</b>	<u>30,344</u>	<u>(53,898)</u>	<u>(11,722)</u>	<u>(120,341)</u>
<b>Net Ledger assets, December 31,</b>	<u>\$ 1,338,726</u>	<u>\$ (156,748)</u>	<u>\$ 1,193,810</u>	<u>\$ 1,205,532</u>

\* Statement amounts in this column may differ as a result of adjustment to more accurately reflect the appropriate amount(s).

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no material adjustments to surplus for the current examination.

### SUMMARY OF SIGNIFICANT FINDINGS

1. As noted in the Fidelity Bond and Other Insurance section of this report, the Company did not meet the NAIC minimum requirements for their fidelity bond. In accordance with NAIC regulations, the Company should increase their fidelity bond coverage in order to meet the minimum specified amount.
2. The examiners proposed an examination adjustment to the Company's balance sheet. Unpaid claims (reported) and unearned premium reserve were both understated, see financial statement section of this report.

### SUBSEQUENT EVENTS

No significant subsequent events were noted.

### 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.

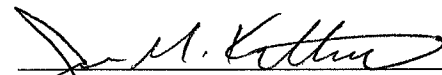
**AFFIDAVIT**

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 **Saint Joseph Mutual Home Insurance Company**, as of **December 31, 2009**.

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 2010 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.

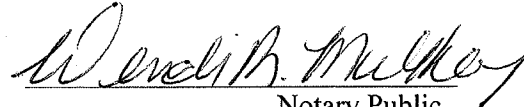
The attached report of examination is a true and complete report of condition of **Saint Joseph Mutual Home Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.

  
\_\_\_\_\_  
James M. Kattman, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 4 day of January 2011, before me personally appeared, James M. Kattman, 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: 3/1/18   
Notary Public

