

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

IN THE MATTER OF: )  
 )  
**Ferdinand Farmers Mutual Insurance Company,** )  
**Inc.** )  
**1405 Main Street, P.O. Box 263** )  
**Ferdinand, Indiana 47532** )

Examination of: **Ferdinand Farmers Mutual Insurance Company, Inc.**


**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 Ferdinand Farmers Mutual Insurance Company, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 10, 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 Ferdinand Farmers Mutual Insurance Company, Inc. 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 9056**



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.

*[Handwritten signature]*

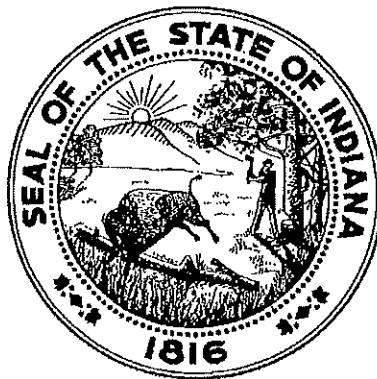
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**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**FERDINAND FARMERS MUTUAL INSURANCE COMPANY, INC.**  
NAIC Co. CODE 92305

As of

December 31, 2017



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April 24, 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 3994, an examination has been made of the affairs and financial condition of:

**Ferdinand Farmers Mutual Insurance Company, Inc.**  
**1405 Main Street, P.O. Box 263**  
**Ferdinand, Indiana 47532**

hereinafter referred to as the "Company", an Indiana domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Ferdinand, 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 (INDOI) 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 July, 1864. On March 14, 1919, it elected to come under Chapter 145, Acts 1919, and Indiana Code (IC) 27-5.1 of the Indiana Insurance Laws, as pertains to farm mutual companies.

On July 17, 1970, the Company merged with Farmers Mutual Insurance Company of Huntingburg, Indiana with the Company being the surviving company. The merger was not disapproved by the INDOI on July 24, 1970.

Effective January 1, 1991, the Company purchased Kemper Insurance Agency from James Kemper. The agreement was approved on January 7, 1991, by the Board of Directors (Board). In order to identify its association with the Company, Kemper Insurance Agency was renamed Ferdinand Farmers Insurance Agency.

In June 1995, the Company and German Mutual Fire Insurance Company (name changed to German Mutual Insurance Company (GMIC) effective March 1, 1998) entered into a management agreement whereby the Company would assume complete responsibility for the management of GMIC. On March 3, 2014, the Board and policyholders approved the merger of GMIC with the Company as the surviving company.

On July 23, 2003, Farmers Mutual Home Insurance Company of Bainbridge Township was merged into the Company with the Company being the surviving company. The merger was subsequently approved by the Board and policyholders on September 13, 2003.

## CAPITAL AND SURPLUS

As of December 31, 2017, the Company had adjusted surplus of \$8,631,984. The Company has 3,277 members, who are the owners of the Company.



## TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in Crawford, Daviess, Dubois, Gibson, Harrison, Martin, Orange, Perry, Pike, Posey, Spencer, Vanderburgh, Warrick, and Washington counties.

The Company insures against property losses to churches, farms, farm equipment and machinery, homes, livestock, mobile homes, personal property, and small rural farm businesses. Policies are written on a one (1) year basis.

## 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	\$ 11,019,055 *	\$ 2,387,071 *	\$ 8,631,984 *
2016	10,099,690	2,119,445	7,980,245
2015	9,816,755	1,952,563	7,864,192
2014	9,782,590	2,332,807	7,449,783
2013	8,993,239	1,660,736	7,332,503

\*2017 Admitted assets, liabilities, and surplus were adjusted to correct overstated common stock balances, overstated bank balances, overstated agency investments, overstated net unpaid claims, and understated restricted severance reserve.

## MANAGEMENT AND CONTROL

### Directors

The corporate powers of the Company are vested in a Board consisting of six (6) directors. The Board has the authority to appoint up to two (2) additional directors. Directors are elected to serve a term of three (3) years. The following is a listing of persons serving as directors as of December 31, 2017:

Name	Address
John Becher, Jr.	Ferdinand, Indiana
Nicholas Dilger	Ferdinand, Indiana
Kurt Fleck	Ferdinand, Indiana
Debra Johnson	Ferdinand, Indiana
Gary Kemper	St. Anthony, Indiana
Patrick Lueken	Ferdinand, Indiana
Alan Weyer	Ferdinand, 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.

<u>Name</u>	<u>Office</u>
Alan Weyer	President
Kurt Fleck	Vice President
Debra Johnson	Secretary
Patrick Lueken	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 reviewed and signed their statements as of December 31, 2017.

## 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 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 subscribed to an oath as of December 31, 2017.

## 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 an affiliated investment in Ferdinand Farmers Insurance Agency.

### 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 Western Surety Company. The bond has a blanket coverage of \$100,000. Based on the admitted assets and gross income of the Company, the Company is not in compliance with the prescribed minimum coverage specified by the Handbook. **See the Other Significant Issues section.**

The Company had additional types of coverage in-force as of December 31, 2017, including but not limited to: agent and broker professional liability, commercial general liability, cyber liability, director and officer professional liability, property insurance, and workers' compensation.

### 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 three (3) treaties, all effective January 1, 2017, which are described below.

- *Property Per Risk Excess of Loss Reinsurance* – This coverage limits the Company's liability on an individual occurrence of loss with a retention limit of \$150,000.
- *Property Catastrophe Excess of Loss Reinsurance* – This coverage limits the Company's liability on the first \$750,000 ultimate net loss incurred, per loss occurrence, net of all other reinsurance recoveries.
- *Property Aggregate Excess of Loss Reinsurance* – The Reinsurer agrees to indemnify the Company for 100% of the Company's ultimate net losses incurred in excess of \$1,800,000, net of all other reinsurance recoveries.

### 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**

FERDINAND FARMERS MUTUAL INSURANCE COMPANY, INC.  
Assets, Liabilities and Surplus  
As of December 31, 2017

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
<b>Assets:</b>			
Bonds	\$ 5,317,631	\$ -	\$ 5,317,631
Stocks	3,630,980	(140,590)	3,490,390 *
Bank balances	1,074,736	(1,416)	1,073,320 *
Real estate	242,530	-	242,530
Cash in office	200	-	200
Accrued interest	31,786	-	31,786
Agency investments	976,815	(113,617)	863,198 *
Total assets	\$ 11,274,678	\$ (255,623)	\$ 11,019,055
 <b>Liabilities and Surplus:</b>			
Unpaid claims	\$ 52,500	\$ (7,974)	\$ 44,526
Less, reinsurance recoverable	-	(5,282)	(5,282)
Net unpaid claims	52,500	(13,256)	39,244 *
Premiums collected for other companies - not remitted	20,267	-	20,267
Premiums received in advance	75,841	-	75,841
Unearned premium reserve	1,725,537	-	1,725,537
Restricted severance reserve	-	525,238	525,238 *
Members held in suspense	944	-	944
Total liabilities	1,875,089	511,982	2,387,071
Surplus	9,399,589	(767,605)	8,631,984 *
Total liabilities and surplus	\$ 11,274,678	\$ (255,623)	\$ 11,019,055

\*\*As adjusted through the examination process, 2017 surplus decreased \$767,605 (common stocks were overstated \$140,590, bank balances were overstated \$1,416, agency investments were overstated \$113,617, net unpaid claims were overstated \$13,256, and restricted severance reserve was understated \$525,238).

FERDINAND FARMERS MUTUAL INSURANCE COMPANY, INC.  
Income Statement and Change in Surplus  
For the Year Ended December 31, 2017

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination*</u>
<b>Income:</b>			
Premiums, net of reinsurance	\$ 2,561,102	\$ -	\$ 2,561,102
Interest and profit on investments	517,235	-	517,235
Other income	220,011	-	220,011
Total income	<u>3,298,348</u>	<u>-</u>	<u>3,298,348</u>
<b>Disbursements:</b>			
Losses, net of reinsurance	1,052,510	(13,256)	1,039,254 **
Operating expenses	991,491	-	991,491
Non-operating expenses	524,775	-	524,775
Change in ledger assets and liabilities	(689,772)	780,861	91,089
Total disbursements	<u>1,879,004</u>	<u>767,605</u>	<u>2,646,609</u>
Net income	1,419,344	(767,605)	651,739
Surplus, beginning of period	7,980,245	-	7,980,245
Surplus, end of period as reported	<u>\$ 9,399,589</u>	<u>\$ (767,605)</u>	<u>\$ 8,631,984</u>

\*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 \$767,605 (common stocks were overstated \$140,590, bank balances were overstated \$1,416, agency investments were overstated \$113,617, losses, net of reinsurance were overstated \$13,256, and restricted severance reserve was understated \$525,238).

### **COMMENTS ON THE FINANCIAL STATEMENTS**

The Company overstated its common stock balances by \$140,590 as of December 31, 2017. It is recommended that the Company properly report common stock balances in future Annual Statement filings.

The Company overstated its bank balances by \$1,416 as of December 31, 2017. It is recommended that the Company properly report bank balances in future Annual Statement filings.

The Company overstated its net unpaid claims and losses, net of reinsurance by \$13,256 as of December 31, 2017. It is recommended that the Company properly report net unpaid claims and losses, net of reinsurance in future Annual Statement filings.

### **OTHER SIGNIFICANT ISSUES**

The Company's fidelity bond coverage is not in compliance with the prescribed minimum coverage specified by the Handbook. The Company's current coverage is \$100,000 and the prescribed minimum coverage based on admitted assets and gross income of the Company is \$125,000.

The Company overstated its investment in the Ferdinand Farmers Insurance Agency. Per IC 27-1-13-3.5, any investment in a subsidiary shall be admitted as assets except: (1) to the extent that the aggregate amount thereof exceeds ten percent (10%) of the capital and surplus. The Company overstated its agency investments by \$113,617 as of December 31, 2017. It is recommended that the Company properly report agency investments in future Annual Statement filings in accordance with IC 27-1-13-3.5.

The Company has included the account valuations for the employee severance accounts in the Company's assets. However, given the Company personnel are immediately 100% vested in those accounts, the accounts are owned by the Company personnel, not the Company. An adjustment has been made to recognize the appropriate liability for those accounts of \$525,238 at December 31, 2017. It is recommended that the Company report the appropriate restricted severance reserve in future Annual Statement filings.

### **SUBSEQUENT EVENTS**

There were no 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 Ferdinand Farmers Mutual Insurance Company as of December 31, 2017.

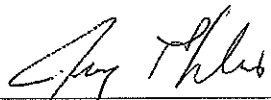
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

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 Ferdinand Farmers Mutual Insurance Company as of December 31, 2017, as determined by the undersigned.

  
\_\_\_\_\_  
Jim Kattman, CFE  
Noble Consulting Services, Inc.

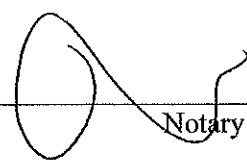
Under the supervision of,

  
\_\_\_\_\_  
Jerry Ehlers, CFE  
Indiana Department of Insurance

State of: Indiana  
County of: Marion

On this 6 day of May, 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, 2021   
\_\_\_\_\_  
Notary Public

