

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**CENTER MUTUAL INSURANCE COMPANY
RUGBY, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2017**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Center Mutual Insurance Company

Rugby, North Dakota

as of December 31, 2017, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 17th day of
January, 2019.





Jon Godfread
Insurance Commissioner

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	4
STATUS OF PRIOR EXAMINATION FINDINGS	5
SUMMARY OF SIGNIFICANT FINDINGS	5
SUBSEQUENT EVENTS.....	5
HISTORY.....	5
MANAGEMENT AND CONTROL	5
Board of Directors.....	5
Officers.....	6
Committees	7
CORPORATE RECORDS	7
Articles of Incorporation and Bylaws	7
Board of Directors, Policyholders, and Committee Minutes.....	7
Conflict of Interest.....	8
FIDELITY BOND AND OTHER INSURANCE	8
PENSION AND INSURANCE PLANS.....	8
Employee Benefit Plan	8
Employee Retirement Plan	8
STATUTORY DEPOSITS	8
TERRITORY AND PLAN OF OPERATION.....	9
GROWTH OF COMPANY.....	9
LOSS EXPERIENCE	10
REINSURANCE.....	10
ACCOUNTS AND RECORDS	11
Claim Complaints	11
FINANCIAL STATEMENTS	12
CONCLUSION.....	17

Honorable Jon Godfred
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

Center Mutual Insurance Company

Rugby, North Dakota

Center Mutual Insurance Company, hereinafter referred to as "the Company", was last examined as of December 31, 2012, by the North Dakota Insurance Department (Department).

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with North Dakota Century Code (N.D.C.C.) § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. The last examination covered the period of January 1, 2008 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the five exceptions commented upon in our previous Report on Examination which covered the period from January 1, 2008, to December 31, 2012. We determined that the Company had satisfactorily addressed all of these items.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

There were no significant subsequent events noted through the date of this report.

HISTORY

General

The Company was incorporated on August 29, 1917, as Publishers Mutual Fire Insurance Company of North Dakota. On December 9, 1968, Farmers Mutual Insurance Company of Rugby merged into the Company. At the same time, the name of the Company was changed to Center Mutual Insurance Company. On April 23, 1970, the Company entered into a reinsurance agreement with Farmers Mutual Insurance Company, Harvey, North Dakota, and assumed all of the business, assets, and liabilities of the Harvey Company which was then dissolved.

The Company was formed to insure and make contracts of insurance in all forms now authorized or which may be authorized under the laws of the State of North Dakota relating to incorporated mutual insurance companies.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws provide that the number of directors shall be nine, a majority of whom shall constitute a quorum to do business. Nominations for director must be submitted to the Secretary-Treasurer of the Company by September 1 to be considered at the annual meeting. Directors are elected for three years with one-third of the directors elected at each annual meeting.

The Bylaws provide that the Board of Directors shall meet annually on the first Thursday in November each year immediately following the annual meeting of members. The minutes show that the annual meetings of the Board were held as required by the Bylaws. In addition to the annual meetings, the Board held one additional meeting for each year under examination, except 2017, which had two additional meetings. The Board also signed written consents in lieu of physical meetings to approve quarterly investment transaction reports as needed. Directors serving at December 31, 2017, were as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
James Blessum Rugby, North Dakota	Farmer
Jeffrey Campbell Bottineau, North Dakota	Regulatory Senior Manager Eide Bailly
Robert Hovland Rugby, North Dakota	President Center Mutual Insurance Company
Robert Jaeger Rugby, North Dakota	Claims Supervisor Center Mutual Insurance Company
Chris Lamoureux Minot, North Dakota	Bank Trust Officer
Robert St. Michel Rugby, North Dakota	Furniture Store Owner
Rose Schneibel Rugby, North Dakota	Chief Financial Officer Center Mutual Insurance Company
Steven Steinborn Jamestown, North Dakota	Bank Officer
Rodger Zurcher Glenburn, North Dakota	Farmer

Officers

The Bylaws provide that the directors shall elect from their number a Chairman of the Board, Vice Chairman, President, Vice President and Secretary and Treasurer, all of whom shall hold their office for one year and until their successors are elected and qualified.

The officers duly elected by the Board of Directors and holding office at December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Robert St. Michel	Chairman of the Board
Chris Lamoureux	Vice Chairman
Robert Hovland	President
Rose Schneibel	Vice-President
Robert Jaeger	Secretary/Treasurer

Committees

Audit Committee

The Audit Committee annually reviews the external auditor's report and the actuarial opinion. The Audit Committee met ten times during the exam period, averaging twice annually. Members serving on this Committee as of December 31, 2017 were as follows:

Robert Hovland
Rose Schneibel
Steven Steinborn

Investment Committee

The Investment Committee directs Company investments in accordance with guidelines approved by the Board. The Investment Committee met four times during the exam period, about once annually. Members serving on this Committee as of December 31, 2017 were as follows:

Robert Hovland
Robert St. Michel
Rose Schneibel
Jeffrey Campobell
Chris Lamoureux

Executive Committee

The Executive Committee meets on an as needed basis. The Executive Committee met once during the exam period. Members serving on this Committee as of December 31, 2017 were as follows:

Robert Hovland
Robert St. Michel
Robert Jaeger
Rodger Zurcher
Chris Lamoureux

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation during the period covered by this examination.

The Bylaws were amended in 2014 to change the Annual Meeting of the membership from the fourth Thursday in October to the first Thursday in November.

Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were read.

The minutes of the various meetings indicate that board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation and statutory requirements. The deliberations of the board were adequately documented and supported the Company's transactions and events. The board meets semi-annually. Investment transactions are ratified by the full board by mail on non-meeting quarters in compliance with N.D. Admin. Code § 45-03-12-05(4)(a).

Conflict of Interest

The Company has an established procedure for the disclosure of potential conflicts of interest or any material interest or affiliation on the part of its officers, directors or key employees to its Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2017, the Company was protected against fraudulent or dishonest acts of its employees by a fidelity bond. The bond insures the Company up to \$500,000, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company maintains other types of coverage including Professional Liability, Directors and Officers Liability with limits which were considered adequate.

PENSION AND INSURANCE PLANS

Employee Benefit Plan

All qualified full-time employees are provided with group life insurance, accidental death and dismemberment, and comprehensive medical insurance.

Employee Retirement Plan

The Company offers a 401(k) matching plan where the Company matches 50 percent of employee contributions on up to three percent of the employee's annual wages. The Company also has a profit sharing plan, where it contributes ten percent of each qualified employees' salary to the plan, at its discretion based on Company profits.

The Company's contributions to the Profit Sharing Plan and its 401(k) Matching Plan during the period under examination were as follows:

Year	Profit Sharing	401(k) Match
2013	\$159,148	\$43,648
2014	160,421	40,540
2015	179,666	50,653
2016	186,497	57,746
2017	169,244	46,278

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2017:

Location	Type of Asset	Statement Value	Fair Value
North Dakota	Municipal Bond	\$258,138	\$281,150

The deposit is held for the protection of policyholders from the State of South Dakota.

TERRITORY AND PLAN OF OPERATION

At December 31, 2017, the Company was licensed and qualified to write property and casualty insurance in the states of North Dakota and South Dakota. The Certificates of Authority issued by these states were reviewed and found to be in proper order and effect.

The Company writes primarily personal automobile, homeowners, and farmowners policies in North Dakota and South Dakota. The auto business comprised just over half of direct business written in 2017.

GROWTH OF COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2017	2016	2015	2014	2013
Direct	\$30,343,585	\$29,239,298	\$29,355,708	\$33,282,551	\$26,230,958
Assumed	252,248	250,512	248,066	246,254	225,432
Ceded	2,603,210	3,048,567	2,405,892	2,034,782	2,347,031
Net Written Premiums	\$27,992,623	\$26,441,243	\$27,197,882	\$31,494,023	\$24,109,359
Surplus	29,116,478	27,306,294	28,881,189	26,307,263	23,543,996
Premium-to-Surplus Ratio	96%	97%	94%	120%	102%

The Company's net premiums written increased by 30 percent in 2014 due to the conversion from semi-annual term to annual term policies for 90 percent of the Company's policies in force. During the exam period, surplus grew by 24 percent while net premiums written grew by 16 percent.

LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2017	2016	2015	2014	2013
Loss reserves	\$7,261,742	\$7,454,230	\$6,430,512	\$5,961,037	\$7,102,642
LAE reserves	569,165	592,933	544,725	530,438	646,991
Total Reserves	\$7,830,907	\$8,047,163	\$6,975,237	\$6,491,475	\$7,749,633
Losses and LAE Incurred	\$19,154,105	\$21,693,185	\$16,974,666	\$15,529,240	\$16,640,875

The Company's one and two year loss reserve developments have been redundant over the exam period.

REINSURANCE

The following is a summary of the significant ceded reinsurance treaties in force at December 31, 2017:

A summary of the material ceding agreements in effect at December 31, 2017, are as follows:

1. Type: **Multiple Line Excess**

Reinsurers:	Renaissance Reinsurance US	50.0%
	Scor Reinsurance Company	50.0%
Scope:	Homeowners, Farmowners, Inland Marine, Auto, Owners, Landlords, and Tenants Liability, Farmowners and Personal Comprehensive Liability.	
Coverage:	\$840,000 excess of \$160,000 each risk; not to exceed \$1,680,000.	

2. Type: **Property Excess Per Risk**

Reinsurers:	R+V Versicherung A.G.	35.0%
	Renaissance Reinsurance US	25.0%
	Employers Mutual Casualty Company	20.0%
	Allied World Insurance Company	15.0%
	Shelter Reinsurance Company	5.0%
Scope:	Property - Homeowners, Farmowners, Residential and Farm Fire & Allied Lines, Auto Physical Damage (except Collision) and Inland Marine.	
Coverage:	\$3,000,000 excess of \$1,000,000 each risk; not to exceed \$6,000,000.	

3. Type: **Excess Casualty Clash**

Reinsurers: Renaissance Reinsurance US 50.0%
 Scor Reinsurance Company 50.0%

Scope: Casualty - Homeowners and Farmowners Multi-Peril, Auto Liability, Owners, Landlords & Tenants Liability, Personal and Farmowner Comprehensive Liability.

Coverage: \$1,000,000 excess of \$1,000,000 each occurrence.

4. Type: **Property Catastrophe Excess of Loss**

		<u>First Layer</u>	<u>Second Layer</u>
Reinsurers:	Allied World Assurance Co Us Inc.	20.0%	20.0%
	Employers Mutual Casualty Company	5.0%	5.0%
	Hannover Ruck SE	10.0%	10.0%
	R+V Versicherung A.G.	35.0%	32.5%
	Shelter Reinsurance Company	15.0%	17.5%
	XL Catlin Syndicate 2003	15.0%	15.0%
	Total	100.00%	100.00%
	Mutual Reinsurance Bureau (Third Excess)		100.0%
Scope:	Policies classified as property including Homeowners, Farmowners, Residential and Farm Fire & Allied Lines, Auto Physical Damage (except collision) and Inland Marine.		
Coverage:	First Excess:	\$2,200,000 xs of \$800,000 with a \$300,000 Annual Aggregate Deductible	
	Second Excess:	\$9,000,000 xs of \$3,000,000	
	Third Excess:	\$12,000,000 xs of \$12,000,000	

The reinsurance agreements contain the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2017, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2017 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

Claim Complaints

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants. The Company's complaints logs were reviewed and deemed compliant.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2017. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, December 31, 2017

Statement of Liabilities, Surplus, and Other Funds, December 31, 2017

Statement of Income, Year 2017

Reconciliation of Capital and Surplus, January 1, 2013 through December 31, 2017

These financial statements are based on the statutory statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2017.

Center Mutual Insurance Company
Statement of Assets
December 31, 2017

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$33,531,793		\$33,531,793
Stocks:			
Preferred stocks	450,600		450,600
Common stocks	7,904,546		7,904,546
Real estate:			
Properties occupied by the company	480,388		480,388
Properties held for sale	161,500		161,500
Cash	1,005,306		1,005,306
Short-term investments	3,028,710		3,028,710
Investment income due and accrued	349,706		349,706
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,275,959		1,275,959
Deferred premiums, agent's balances and installments booked but deferred and not yet due	8,808,648		8,808,648
Amounts recoverable from reinsurers	31,244		31,244
Federal Income Tax Recoverable	356,026		356,026
Net deferred tax asset	295,190		295,190
Electronic data processing equipment and software	994,818	989,206	5,612
Furniture and equipment	3,965	3,965	0
Company owned vehicles	73,491	73,491	0
Total Assets	<u>\$58,751,890</u>	<u>\$1,066,662</u>	<u>\$57,685,228</u>

Center Mutual Insurance Company
Statement of Liabilities, Surplus, and Other Funds
December 31, 2017

Losses	\$ 7,261,742
Loss adjustment expenses	569,165
Commissions payable, contingent commissions and other similar charges	607,552
Other expenses	359,112
Taxes, licenses and fees	250,618
Unearned premiums	16,722,820
Advance premium	2,787,593
Ceded reinsurance premiums payable	4,814
Funds held by Company under reinsurance treaties	250
Amounts withheld or retained by Company for account of others	<u>5,084</u>
Total Liabilities	\$28,568,750
Surplus as regards policyholders	<u>\$29,116,478</u>
Total Liabilities, Surplus, and Other Funds	<u>\$57,685,228</u>

Center Mutual Insurance Company
Statement of Income
December 31, 2017

Underwriting Income

Premiums earned		\$27,278,410
Deductions:		
Losses incurred	\$17,868,139	
Loss expenses incurred	1,285,966	
Other underwriting expenses incurred	<u>7,651,660</u>	
Total underwriting deductions		<u>26,805,765</u>
Net underwriting gain or (loss)		\$ 472,645

Investment Income

Net investment income earned	\$ 629,053	
Net realized capital gains (losses) less capital gains tax of \$0	<u>82,225</u>	
Net investment gain or (loss)		711,278

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (41,092)	
Finance and service charges not included in premiums	97,328	
Aggregate write-ins for miscellaneous income	<u>50,711</u>	
Total other income		<u>106,947</u>
Net income, before federal and foreign income taxes		\$ 1,290,870
Federal income taxes incurred		<u>(340,434)</u>
Net Income		<u>\$ 1,631,304</u>

Center Mutual Insurance Company
Reconciliation of Capital and Surplus
January 1, 2013, Through December 31, 2017

	2017	2016	2015	2014	2013
Capital and surplus, December 31, previous year	\$27,306,294	\$28,881,189	\$26,307,263	\$23,543,996	\$21,995,270
Net income or (loss)	\$1,631,304	\$(936,128)	\$ 3,340,548	\$ 2,069,684	\$ 504,965
Change in net unrealized capital gains or (losses)	719,568	(165,779)	(716,330)	466,399	2,107,155
Change in net deferred income taxes	(320,134)	293,337	(93,749)	228,637	(1,068,885)
Change in nonadmitted assets	(220,554)	(766,325)	43,457	(14,750)	5,927
Change in provision for reinsurance				13,297	(436)
Net change in capital and surplus	\$1,810,184	\$(1,574,895)	\$ 2,573,926	\$ 2,763,267	\$ 1,548,726
Capital and surplus end of December 31, current year	\$29,116,478	\$27,306,294	\$28,881,189	\$26,307,263	\$23,543,996

CONCLUSION

The financial condition of the Company, as of December 31, 2017, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$57,685,228</u>
Total Liabilities	\$28,568,750	
Surplus as Regards Policyholders	<u>29,116,478</u>	
Liabilities, Surplus, and Other Funds		<u>\$57,685,228</u>

Since the last examination conducted as of December 31, 2012, the Company's admitted assets have increased \$18,296,446, its total liabilities have increased \$11,175,238, and its surplus as regards policyholders has increased \$7,121,208.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Andrea Rebsom, staff examiner for the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,



Colton Schulz, CFE
Supervising Examiner
North Dakota Insurance Department