STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

DUNDEE MUTUAL INSURANCE COMPANY

PARK RIVER, NORTH DAKOTA

AS OF
DECEMBER 31, 2018

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

Dundee Mutual Insurance Company

Park River, North Dakota

as of December 31, 2018, 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 31st day of July, 2020.

Jon Godfread
Commissioner of Insurance

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Park River, North Dakota
June 15, 2020

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination was made of the books, records and financial condition of

Dundee Mutual Insurance Company

Park River, North Dakota

Dundee Mutual Insurance Company, hereinafter referred to as the ("Company"), was last examined as of December 31, 2014, by representatives of the North Dakota Insurance Department, hereinafter referred to as the ("Department").

SCOPE OF STATUTORY EXAMINATION

This examination was a 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. This statutory examination covers the period from January 1, 2015, to December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

This examination included a review to determine the current status of the 13 exception conditions commented upon in the preceding Report on Examination which covered the period from January 1, 2010, to December 31, 2014. The Department determined that the Company had satisfactorily addressed all of these items, except the following:

<u>Recommendation</u>	<u>Response</u>
It is recommended that the Company's Board of Directors annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of Directors develop a	The Company's Board of Directors and employees all signed conflict of interest disclosures, but employees did not disclose the fact that they actively produce insurance business and regularly adjust claims. To be

process to address identified conflicts.	acceptable, these material conflicts need detailed, Board approved mitigation strategies. **It is again recommended that the Company's key employees disclose all conflicts on the conflict of interest statements.**
It is recommended that the Company report aged premiums in course of collection net of liability and equipment breakdown premiums and deferred premiums net of liability and equipment breakdown premiums as an asset on page 3, line 8, of the Annual Statement in accordance with the *County Mutual Annual Statement Instructions*.	The Company partially complied. Although Management correctly excluded liability and equipment breakdown premiums from its premium receivables balance, management excluded $15,507.16 in deferred premiums. **It is again recommended that the Company report all direct deferred, current, and past due premiums on Page 3 Line 8 of the Annual Statement.**

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUBSEQUENT EVENTS

No material subsequent events were noted.

HISTORY

The Company was incorporated March 14, 1889, and commenced business on March 15, 1889, under the name of "Dundee Walsh County Farmers Mutual Fire Insurance Company" with its home office and principal place of business at Dundee, North Dakota. Later, the home office was moved from Dundee to the farm residence of the Secretary-Treasurer whose post office address was Hoople, North Dakota. In 1976, the home office was moved to Park River, North Dakota.

The Company was organized for the purpose of insuring the property of its members against loss or damage by fire, lightning and other hazards as permitted under N.D.C.C. § 26-13.

In 1957, the coverage was extended to include windstorm and hail (except on growing crops) and in 1966 was further extended to include vandalism and malicious mischief, theft, water damage, freezing of plumbing, heating, and air conditioning systems, livestock, collapse, glass breakage, and collision or overturn of implements.

At the annual meeting of the membership dated November 19, 1957, the name of the Company was changed from "Dundee Walsh County Farmers Mutual Fire Insurance Company" to "Dundee Walsh County Farmers Mutual Insurance Company."

At the annual meeting of the membership held June 21, 1972, the Articles of Incorporation were amended changing the name of the Company to read "Dundee Mutual Insurance Company."

On September 26, 1984, the policyholders voted to reorganize the Company to comply with N.D.C.C. § 26.1-12 whereby the Company changed its status from a county mutual insurance company to an incorporated mutual insurance company. At the February 13, 1986, Board of Directors meeting, the Board agreed to voluntarily surrender its current Certificate of Authority to do business as an incorporated mutual and agreed to revert to county mutual status to comply with N.D.C.C. § 26.1-13. This Certificate of Authority was issued on May 7, 1986.

The Company has perpetual existence as provided under N.D.C.C. § 26.1-13-03.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by the membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. A person must reside within the Company's territorial limits to be a director of the Company.

Board of Directors

The Bylaws provide that the number of directors shall be determined each year at the annual meeting of the membership and shall not be less than 5 nor more than 15, a majority of whom shall constitute a quorum to do business. They shall be elected by the members of the Company at the annual meeting for a period of three years and until their successors are elected and qualified. One-third of said directorate shall be elected at each annual meeting. At the election of members to the Board of Directors, each member shall be entitled to one vote, either in person or by proxy, for each director to be elected.

Directors serving as of December 31, 2018, were as follows:

Name and Residence	Term Expires	Occupation
Doug Davis Grafton, ND	2021	Farmer
Larry Gellner Langdon, ND	2020	Retired
Luther Meberg Park River, ND	2021	Retired
Allen Ruzicka Fordville, ND	2019	Retired
Dennis Skorheim Jr. Adams, ND	2020	Retired

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2018, were as follows:

Officer	Title
Larry Gellner	President
Luther Meberg	Vice President
Ryan Dreger	Secretary-Treasurer

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation on January 11, 2018 to reflect the change in registered agent from Eugene Bossert to Ryan Dreger.

No changes were made to the Bylaws during the examination period.

Board of Directors, Members and Committee Minutes

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

The Bylaws provide that the annual meeting of the Company shall be held on the last Tuesday in March in Park River, North Dakota. During the period under examination the annual meetings of the membership were held on the following dates: March 31, 2015; March 29, 2016; March 28, 2017; and March 27, 2018.

Directors

Excluding the reorganizational meetings held immediately following the Annual Meeting of the members, the Board of Directors held four meetings in 2015, seven meetings in 2016, five meetings in 2017, and six meetings in 2018.

CONFLICT OF INTEREST

The Company has a conflict of interest policy for directors, officers, and key employees. Conflict of interest disclosure statements are completed annually, but during the examination period, employees did not disclose the fact that they were actively licensed to produce insurance business, both for the Company and for Grinnell Mutual Reinsurance Company. The Manager also did not disclose that he regularly adjust certain categories of claims. For these practices to be acceptable, these material conflicts need detailed, Board approved mitigation strategies.

It is again recommended that the Company's key employees disclose all conflicts on the conflict of interest statements.

EMPLOYEES WELFARE AND PENSION PLANS

The Company provides fully paid family health insurance policies to its employees and their families. The Company also provides life, accidental death and dismemberment (AD&D), and long term disability.

The Company established a simplified employee pension plan for its employees in 1989. The Board votes on a yearly bonus for all employees and the employees have the option of taking their bonus in cash or contributing to their simple plan.

In 2018, the Company spent $38,904 on employee relations and welfare related expenses.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2018, the Company was a named insured on a fidelity bond insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The bond provides for a $75,000 single loss limit of liability for loss caused by each employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of $1,000,000 each policy year. Each claim is subject to a $10,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

A commercial lines policy provides liability coverage of $500,000 per occurrence and a $1,000,000 aggregate limit.

At December 31, 2018, the Company's employed insurance producers did not have an agent's Errors and Omissions (E&O) policy in place.

It is recommended that the employees of the Company, who are all licensed and active insurance producers, procure Errors and Omissions insurance to protect the Company's assets from the operations of their agency.

Subsequent to the examination, the Company did obtain an Errors and Omissions policy for its employed agents.

TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Company produced business through 21 independent agencies and two employed agents. The Company was authorized to transact business in the following 28 counties:

Barnes	Benson	Burleigh	Cass	Cavalier	Eddy
Foster	Grand Forks	Griggs	Kidder	McHenry	McLean
Mercer	Morton	Nelson	Oliver	Pembina	Pierce
Ramsey	Richland	Sheridan	Steele	Stutsman	Towner
Traill	Walsh	Ward	Wells		

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over the 9-year period ending December 31, 2018. Data from 2010 through 2014 was compiled from the prior examination. Data with from 2015 through 2017 was compiled from Annual Statements filed with the Department. Data for 2018 reflects the exam adjustments as noted in the Comments on the Financial Statements section of this report. Operations are presented on a modified cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment And Other Income	Net Income (Loss)
2010	2,657,649	619,593	2,038,056	862,350	827,737	116,732	151,346
2011	2,638,578	599,299	2,039,279	909,173	918,845	(13,040)	(22,711)
2012	3,120,965	611,836	2,509,129	968,279	565,534	69,414	472,159
2013	3,506,499	738,093	2,768,406	1,095,151	813,131	101,459	383,480
2014	3,823,303	818,562	3,004,741	1,108,177	955,270	99,921	252,828
2015	3,715,595	759,792	2,955,803	1,107,659	1,276,059	57,031	(111,369)
2016	3,511,808	865,478	2,646,329	1,151,673	1,482,873	78,376	(252,824)
2017	3,508,869	753,035	2,755,833	1,139,416	1,327,472	100,564	(87,493)
2018	3,632,585	763,878	2,868,707	1,157,456	1,144,487	112,281	125,250

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2018:

	2018	2017	2016	2015	2014
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	52.9	70.7	81.2	63.0	42.6
Underwriting Expenses	46.0	45.8	47.5	52.2	43.6
Total Deductions	98.9	116.5	128.8	115.2	86.2
	1.1	(16.5)	(28.8)	(15.2)	13.8

	2018	2017	2016	2015	2014
Net Underwriting Gain (Loss)					

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims — Based on a review of claim files, the Company appeared to pay claims fairly within policy provisions.

Advertising — The Company's advertising includes Grinnell Mutual Co-Branded logo items and various gifts to the Company's agents and agencies.

OPERATING AGREEMENTS

Grinnell Adjusting Service

On April 1, 2011, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and risk review services.

For services provided in 2018, Grinnell Advisory Company was paid $26,843.26. The fee charged is a flat rate for up to 100 claims adjustments and 35 risk reviews. If needed, additional adjustments are billed at $450 per claim.

Custodial Agreements

The Company's securities are held under an agreement executed with Fidelity Brokerage Services, LLC and National Financial Services, LLC (Fidelity). This agreement was reviewed and found to be in compliance with N.D. Admin Code § 45-03-23-02.

REINSURANCE

The following is a summary of the Company's most significant reinsurance contracts in force at December 31, 2018:

Nonaffiliated Ceding Contract:

Type: Excess of Loss

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: All policy forms and endorsements issued by the Company:

(A) Individual Occurrence of Loss Excess – Covers up to $20 million in losses from fire and windstorm risks written by the Company in excess of a $200,000 retention.

	(B)	Property Catastrophe Excess of Loss – Covers 100 percent of the Company's net losses incurred from windstorm, hail, or tornado loss occurrences within a period of 96 consecutive hours, in excess of a $500,000 retention.
	(C)	Aggregate Excess - provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2018 was $950,000.
Premium:	(A)	Property Per Risk Excess of Loss – The 2018 annual premium was $30,636.
	(B)	Property Catastrophe Excess of Loss – The 2018 annual premium was $115,968.
	(C)	Aggregate Excess - The 2018 annual premium was $81,516.
Termination Date:	The agreement may be terminated by either party with a written 90 day notice.	

The contract contained all of the clauses required by 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, 2018, was obtained and traced to the appropriate schedules of the Company's 2018 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

The Company's employees are licensed producers for the Company and for Grinnell Mutual Reinsurance Company. During the examination period, the employees charged agency related expenses to the Company, including continuing education, agency association membership dues, and other expenses typically associated with the operation of an insurance agency, while collecting a reduced commission for the business they produced.

It is recommended that the employees of the Company discontinue paying for agency related expenses incurred by the Company's employed agents. It is also recommended that Management discontinue the comingling of books and records for agency business and insurance Company business.

The employees of the Company conduct agency or insurance producer related business as "Dundee Mutual". N.D.C.C. § 26.1-26-09(1) states "[n]othing in this chapter may be construed to require an insurer to obtain an insurance producer license." As such, Dundee Mutual does not fall under the definition of "insurance producer" at N.D.C.C § 26.1-26-02(5) as Dundee Mutual is not a person required to be licensed under N.D.C.C. § 26.1-26. Since Dundee Mutual is not an insurance producer under the law, the Company's name cannot be used to conduct agency related business.

It is recommended that Management discontinue using the Company's name when conducting agency or insurance producer related business as the Company is not a licensed insurance producer.

At the time of testing in January 2020, the Company had former employees still authorized to transact business on two of its bank accounts.

It is recommended that the Company update signatory records immediately after an employee's departure to ensure the security of policyholder assets.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2018, and a Statement of Income for 2018.

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Dundee Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2018

ASSETS

LEDGER ASSETS:			
Bonds	$1,200,805		
Stocks	387,559		
Real estate	61,805		
Cash on hand and checking account	5,424		
Cash on deposit	1,760,264		
Assessments or premiums in course of collection	98,039		
Furniture, fixtures, and equipment	6,175		
TOTAL LEDGER ASSETS		$3,520,071	
NONLEDGER ASSETS:			
Interest due and accrued on bonds	$ 9,297		
Interest due and accrued on cash on deposit	8,606		
Market value of stocks over book value	100,786		
TOTAL NONLEDGER ASSETS		118,689	
DEDUCT: ASSETS NOT ADMITTED			
Furniture, Fixtures, and Equipment	$ 6,175		
TOTAL NET ADMITTED ASSETS			$3,632,585

LIABILITIES

Unpaid losses	32,252		
Incurred but not reported (IBNR) estimate	10,952		
Unpaid Loss Adjustment Expense	2,244		
Advance Premiums	12,498		
Unearned Premium Reserve	657,369		
Commissions Due and Payable to Agents	12,979		
Unpaid Taxes	7,844		
Unpaid Salaries	2,233		
Unpaid General Expenses	679		
Reinsurance Premiums Due and Payable	19,169		
Premiums written for others	5,659		
TOTAL LIABILITIES		$ 763,878	
SURPLUS TO POLICYHOLDERS		$2,868,707	
TOTAL LIABILITIES AND SURPLUS			$3,632,585

Dundee Mutual Insurance Company
Statement of Income
For the Year 2018

INCOME:			
Gross Premium Income	$1,415,846		
Less: Returned Premiums	29,149		
Premiums for Reinsurance Ceded	229,241		
NET PREMIUM INCOME		$1,157,456	
Interest on Bonds		23,564	
Dividends on Stocks		14,324	
Gross Rent From Company's Property		6,000	
Interest on Cash on Deposit		24,145	
Profit on sale or Maturity of Ledger Assets		15,739	
Commissions and service fees received		28,509	
TOTAL INCOME RECEIPTS			$1,269,737
DISBURSEMENTS:			
Gross Losses Paid and Incurred in 2018	$ 563,951		
Gross Losses Paid in 2018 but Incurred in Prior Years	27,080		
Deduct: Salvage & Subrogation	2,852		
Reinsurance Recovered	1,758		
NET LOSSES PAID		$ 586,421	
Claim adjustment expenses		25,478	
Commissions paid to agents		202,034	
Directors' fees and expenses		10,501	
Salaries to employees		134,051	
Printing, stationery, and office supplies		4,952	
Rent and rent items		10,605	
Real estate expenses		10,498	
Taxes on real estate		1,421	
State and local insurance taxes		23,330	
Insurance department licenses and fees		1,220	
Payroll taxes		11,683	
Federal income tax		2,161	
Legal fees and auditing		2,414	
Travel and travel items		7,341	
Advertising		3,142	
Dues and donations		10,788	
Equipment		2,085	
Insurance and bonds		8,134	
Postage, telephone, and bank charges		23,030	
Employee relations and welfare		38,904	
Data processing expenses		16,628	
Risk reviews and other underwriting expenses		2,003	
Miscellaneous expenses		2,275	
Seminars and agent seminars		3,346	
Adjustment to balance		42	
TOTAL FUNDS DISBURSED			1,144,487
NET GAIN (LOSS)			$ 125,250

COMMENTS ON THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2018, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Premiums in Course of Collection

Premiums in course of collection was determined by this examination to be $15,507 greater than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Assessments or premiums in course of collection	$ 82,532	$ 98,039
Total	$ 82,532	$ 98,039

The Company did not report its net deferred premiums correctly at December 31, 2018, per the Deferred Premiums Report, as required by the County Mutual Annual Statement Instructions.

It is again recommended that the Company report all direct deferred, current, and past due premiums on Page 3 Line 8 of the Annual Statement.

Real Estate

Real Estate was determined by this examination to be $12,748 greater than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Real Estate	$ 49,057	$ 61,805
Total	$ 49,057	$ 61,805

The Company aggregated all of its building improvements and the value of its land into one item and took depreciation on the lump sum rather than individually as Statutory Accounting Principles (SSAP) require. As land is not a depreciable asset, the Company reduced the values of its depreciable Real Estate at a higher rate than it intended.

It is recommended that the Company list its land and real estate improvements separately on its annual statement.

Liabilities

Commissions Payable

The Commissions Due and Payable to Agents balance was determined by this examination to be $1,297 greater than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Commissions Due and Payable to Agents	$ 11,682	$ 12,979
Total	$ 11,682	$ 12,979

It is recommended that the Company include commissions payable on advanced premiums and exclude commissions payable from Grinnell Mutual Insurance Company premiums when calculating the Commissions Due and Payable to Agents liability.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of $2,868,706 or $26,959 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Assets:			
Premiums in Course of Collection	$ 82,532	$ 98,039	$ 15,507
Real Estate	49,057	61,805	12,748
Liabilities:			
Commissions Due and Payable to Agents	11,682	12,979	(1,297)
Net Increase			$ 26,958

Surplus to Policyholders as reported by Company	$2,841,749
Increase(Decrease) to Surplus from above	26,958
Surplus to Policyholders per Examination	$2,868,707

CONCLUSION

The financial condition of Dundee Mutual Insurance Company, Park River, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		$3,632,585
Liabilities	$ 763,878	
Surplus to Policyholders	2,868,707	
TOTAL LIABILITIES AND SURPLUS		$3,632,585

During the four-year period under examination, admitted assets decreased by $190,718, liabilities decreased by $54,684, and surplus to policyholders decreased by $136,034.

In addition to the undersigned, Chief Examiner Matt Fischer, CFE, participated in this exam.

Respectfully submitted,

Colton Schulz, CFE, CFE
Supervising Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company's key employees disclose all conflicts on the conflict of interest statements.

It is recommended that the employees of the Company, who are all licensed and active insurance producers, procure Errors and Omissions insurance to protect the Company's assets from the operations of their agency.

It is recommended that the employees of the Company discontinue paying for agency related expenses incurred by the Company's employed agents. It is also recommended that Management discontinue the comingling of books and records for agency business and insurance Company business.

It is recommended that Management discontinue using the Company's name when conducting agency or insurance producer related business as the Company is not a licensed insurance producer.

It is recommended that the Company update signatory records immediately after an employee's departure to ensure the security of policyholder assets.

It is again recommended that the Company report all direct deferred, current, and past due premiums on Page 3 Line 8 of the Annual Statement.

It is recommended that the Company list its land and real estate improvements separately on its annual statement.

It is recommended that the Company include commissions payable on advanced premiums and exclude commissions payable from Grinnell Mutual Insurance Company premiums when calculating the Commissions Due and Payable to Agents liability.