

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

**REPORT OF EXAMINATION
OF
FAMILY MUTUAL INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2019**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

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

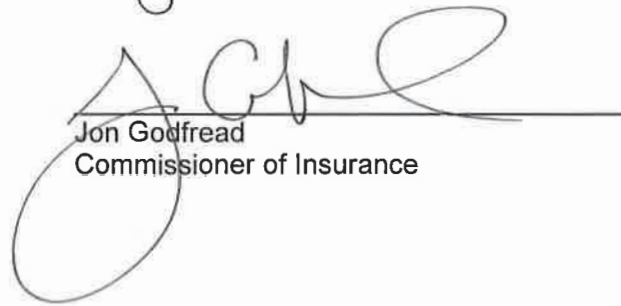
Family Mutual Insurance Company

Bismarck, North Dakota

as of December 31, 2019, 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 24th day of
August, 2021.





Jon Godfread
Commissioner of Insurance

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Bismarck, North Dakota
June 25, 2021

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

Family Mutual Insurance Company

Statutory Home Office
1710 Burnt Boat Drive, Ste. 1
Bismarck, North Dakota, 58503

Family 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, 2019, 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 10 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

SUBSEQUENT EVENTS

Subsequent to the examination period, Michelle Horan, Michael Krumwiede, David Kronebusch, Jonathan Spilde, and Ken Bischoff resigned from the Board. Kristen Hermanson was appointed to succeed Mr. Spilde in April 2021 and Mr. Krumwiede remains as a non-voting Board liaison.

HISTORY

The Company was formed on April 8, 1999, through the consolidation of Cavalier County Farmers Mutual Insurance Company of Osnabrock, North Dakota and Farmers Mutual Fire, Lightning and Cyclone Insurance Company of Towner County, of Cando, North Dakota. The new insurance company was named Northeast Mutual Insurance Company.

The Company was organized to insure, make contracts of insurance, reinsure or accept reinsurance on any portion thereof, in all forms which are now authorized, or which may hereafter be authorized, under the laws of the State of North Dakota relating to county mutual companies as provided for in N.D.C.C. § 26.1-13. The Company has perpetual existence as provided under N.D.C.C. § 26.1-13-03.

Effective May 12, 1999, Pembina County Mutual Insurance Company, Cavalier, North Dakota merged into the Company.

Effective June 27, 2001, LaMoure-Greenfield Mutual Insurance Company, LaMoure, North Dakota merged into the Company.

Effective September 28, 2009, the Company changed its name to Family Mutual Insurance Company.

Effective July 30, 2019, the Company moved its home office from Cando to Bismarck.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its 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 appertaining thereto by insuring therein. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The management of the Company's affairs, business, and property is vested in a Board of Directors. The number of directors shall be determined each year at the annual meeting of members and shall not be less than 5 nor more than 15, a majority of whom shall constitute a quorum to do business. The directors shall be elected at the annual meeting for a period of three years and until their successors are elected and qualified; one-third of the directors shall be elected at each annual meeting.

At the 2012 annual meeting of members, the number of directors was expanded to 7 from 6.

Directors duly elected and serving the Company at December 31, 2019, were as follows:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Occupation</u>
David Monson Osnabrock, ND	2020	Retired
Jonathan Spilde Bismarck, ND	2020	Retired
Dale Overton Cando, ND	2022	Farmer
David Kronebusch Marion, ND	2019	Retired
Barry Townsend LaMoure, ND	2022	Retired
Laura Braunberger Minot, ND	2022	Risk Manager

Officers

Officers are elected annually by the Board of Directors at the meeting of the Board of Directors held after the annual meeting of the policyholders. Officers serving at December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
David Monson	President
David Kronebusch	Vice President
Jonathan Spilde	Secretary and Treasurer

Executive Committee

The Company's Bylaws create a standing Executive Committee, composed of the President, Vice President and Secretary-Treasurer, which has the authority to act for the Company in emergency matters arising between meetings of the Board of Directors.

The Executive Committee did not meet during the examination period.

Investment Committee

Since the June 29, 2016 reorganizational meeting, the full Board of Directors has also served as the investment committee.

On a quarterly basis, the Investment Committee reviewed and approved investment transactions in compliance with N.D. Admin Code § 45-03-12-05(4).

CORPORATE RECORDS

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.

Articles of Incorporation and Bylaws

Effective July 30, 2019, the Board approved amended articles of incorporation and bylaws. The bylaws amendments removed assessment language to conform with legislative changes and the articles amendment changed the Company's home office to Bismarck.

Members

During the period under examination the annual meetings of the policyholders were held on the following dates:

June 24, 2015
June 29, 2016
June 28, 2017
June 27, 2018
June 26, 2019

Directors

During the examination, the Board of Directors met four times in 2015 and 2016, five times in 2017 and 2019, and six times in 2018.

Conflict of Interest

Conflict of interest statements are completed each year by directors, officers, and key employees disclosing any material interest or affiliation likely to cause any conflict. Conflict of interest statements executed during the period under examination were reviewed and no material conflicts were noted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2019, the Company had a \$75,000 fidelity bond in force, covering loss of money or property due to actions taken by any of the Company's Employees. The coverage did not meet the \$125,000 minimum amount of fidelity insurance suggested by the NAIC's *Financial Examiners Handbook*.

It is recommended that the Company increase its Fidelity bond amount to \$125,000.

The Company also had in force coverage for directors and officers liability, cyber breach liability, commercial auto, business owners, and commercial general liability. These policies and coverage levels were reviewed and considered reasonable.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company was authorized to transact business within the following counties:

Barnes	Benson	Burleigh	Cass	Cavalier
Dickey	Emmons	Grand Forks	LaMoure	Logan
McHenry	McIntosh	McKenzie	McLean	Mercer
Morton	Mountrail	Pembina	Pierce	Ramsey
Ransom	Richland	Rolette	Sargent	Stark
Stutsman	Towner	Walsh	Ward	Williams

The Company reported commissions paid to 77 agents or agencies in 2019.

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims Based on a limited view of claim files, the Company pays claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage.

OPERATING AGREEMENTS

Grinnell Adjusting Service

On February 4, 2011, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and underwriting services.

For services provided in 2019, Grinnell Advisory Company was paid \$22,325 or \$1,860 per month.

Office Rental Agreement

The Company leases its Bismarck office space from Esther Beazley. The Company's initial seven-year lease term expires October 30, 2025, at a rate of \$26,325 per year or \$2,193.75 per month for the first five years. In years six and seven, the annual rate increases to \$27,651.25.

The Company has the option to renew this agreement for up to three additional three-year terms, with an annual rental rate at the end of the third option totaling \$29,322.

REINSURANCE

The following is a summary of the Company's significant reinsurance contracts in force at December 31, 2019:

Nonaffiliated Ceding Contracts:

Type:	Excess of Loss
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company: <ul style="list-style-type: none">(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 \$700,000 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 2019 was \$1,900,000.(D) Liability – The reinsurer assumes 100% of the liability for Farmers Comprehensive Personal Liability, Home-Guard Comprehensive Personal Liability, Comprehensive Personal Liability and rented Dwelling Liability coverages.
Premium:	<ul style="list-style-type: none">(A) Property Per Risk Excess of Loss – The 2019 annual premium was \$116,472.(B) Property Catastrophe Excess of Loss – The 2019 annual premium was \$105,432.(C) Aggregate Excess - The 2019 annual premium was \$44,100.(D) Personal Liability – The reinsured shall cede 100% of the premium to the reinsurer.
Commissions:	20% commission on liability premiums ceded.
Termination Date:	The agreement may be terminated by either party with a written 90-day notice.

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and 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, 2019, was obtained and traced to the appropriate schedules of the Company's 2019 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

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.

At December 31, 2019, the Company's investments included The Covered Bridge Fund with a market value totaling \$407,142.96. The Company's statutory 3 percent concentration limit was \$262,566.94. Per N.D.C.C. § 26.1-05-19(20)(a):

Investments in preferred guaranteed, and common stocks issued or guaranteed by a single person may not exceed three percent of the insurance company's admitted assets.

It is recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2019, and a Statement of Income for 2019.

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, 2019. 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.

Family Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2019

ASSETS:

LEDGER ASSETS:

Bonds	\$5,782,716	
Stocks	1,774,438	
Real Estate	90,936	
Cash on Hand and Checking Account	69,077	
Cash on Deposit	202,040	
Uncollected Premiums Under 90 days old	265,300	
Uncollected Premiums Over 90 days old	693	
Furniture, Fixtures, Automobiles	75,687	
Miscellaneous Receivables	828	
TOTAL LEDGER ASSETS	\$8,261,715	

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	43,157	
Dividends Due and Accrued on Stocks	1,807	
Market Value of Stocks over Book Value	760,581	
Contingent Commission Receivable	10,767	
TOTAL NONLEDGER ASSETS	816,312	

DEDUCT: ASSETS NOT ADMITTED

Premiums Over 90 Days Due	693	
Furniture, Fixtures, Automobiles	75,687	
TOTAL NONADMITTED ASSETS	76,380	

TOTAL NET ADMITTED ASSETS	\$9,001,647
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LIABILITIES:

Unpaid Losses	\$61,949
Incurred But Not Reported Claims (IBNR)	6195
Unpaid Loss Adjustment Expenses	3,100
Advance Premiums	22,580
Unearned Premium Reserve	1,387,594
Commissions Due and Payable to Agents	0
Unpaid Taxes	25,743
Unpaid General Expenses	847
Reinsurance Premiums Due and Payable	34,861
Amounts Withheld for the Accounts of Others	758

TOTAL LIABILITIES	1,543,627
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SURPLUS TO POLICYHOLDERS	7,458,020
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TOTAL LIABILITIES AND SURPLUS	\$9,001,647
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**Family Mutual Insurance Company
Statement of Income
For the Year 2019**

INCOME:		
Gross Premium Income	\$2,844,217	
Less: Return Premiums	80,875	
Premiums for Reinsurance Ceded	383,940	
	<hr/>	
NET PREMIUM INCOME		\$2,238,832
Interest on Bonds		58,868
Dividends on Stocks		29,145
Gross Rent from Company's Occupancy		4,200
Interest on Cash on Deposit		2,168
Profit on Sale or Maturity of Ledger Assets		46,351
Commissions and Service Fees Received		14,025
Miscellaneous Income		1,803
		<hr/>
TOTAL INCOME RECEIPTS		2,395,392
DISBURSEMENTS:		
Gross Losses Paid and Incurred in 2019	\$443,851	
Gross Losses Pd. in 2019 But Incurred in Prior Yrs.	18,597	
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NET LOSSES PAID		462,448
Claim Adjustment Expenses		105,092
Commissions Paid to Agents		428,131
Directors Fees and Expenses		26,413
Salaries to Employees		316,317
Printing, Stationary, and Office Supplies		5,764
Rent and Rent Items		32,498
Real Estate Expenses (other than taxes)		17,029
Taxes on Real Estate		624
State and Local Insurance Taxes		47,866
Insurance Dept. Licenses and Fees		7,180
Payroll Taxes		33,608
Federal Income Taxes		129,222
Legal Fees and Auditing		18,169
Travel and Travel Items		3,009
Advertising		12,909
Dues and Donations		1,730
Equipment Purchased		57,038
Insurance and Bonds		22,336
Postage, Telephone and Bank Charges		31,909
Employee Relations and Welfare		22,287
Risk Reviews and Other Underwriting Expense		54,706
Investment Expenses		30,294
Miscellaneous Expenses		16,789
		<hr/>
TOTAL FUNDS DISBURSED		2,265,063
NET INCOME		<hr/> <hr/> \$ 692,999

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2019, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Premiums in Course of Collection

At December 31, 2019, the Company excluded its deferred (installment) premiums from its premiums in course of collection figure. This error resulted in a \$249,415.07 understatement in premium receivables and surplus.

It is recommended that the Company include Deferred Premiums in its calculation of premiums in course of collection in accordance with the County Mutual Annual Statement Instructions.

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Assessments or premiums in course of collection	\$ 15,884	\$ 265,300
Total	\$ 15,884	\$ 265,300

Liabilities

Unearned Premium Reserve (UPR)

At December 31, 2019, the Company incorrectly excluded \$110,944.13 in unearned premium reserves (UPR) relating to Equipment Breakdown (EB) and liability premiums. As the Company is a direct writer for EB and Liability business, it is necessary to include UPR for these premiums.

It is recommended that the Company include Liability and Equipment Breakdown premiums in its UPR figure.

At December 31, 2019 the Company booked an unearned premium reserve (UPR) based on billed premium rather than annualized premium as required by SSAP 53.

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired.

This error resulted in a deficiency in the UPR figure totaling \$232,332.19.

It is recommended that the Company book unearned premium reserves (UPR) based on annualized premiums per SSAP 53.

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Unearned Premium Reserve (UPR)	\$ 1,044,318	\$ 1,387,594
Total	\$ 1,044,318	\$ 1,387,594

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$7,458,020 or \$93,861 less than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Ledger Assets			
Premiums in Course of Collection	\$ 15,884	\$ 265,300	\$ 249,415
Liabilities			
Unearned Premium Reserve	1,044,318	1,387,594	<u>(343,276)</u>
Net Change			<u>\$ (93,861)</u>

Surplus to Policyholders per Company	\$7,551,881
Exam Adjustments	<u>(93,861)</u>
Surplus to Policyholders per Examination	\$7,458,020

CONCLUSION

The financial condition of Family Mutual Insurance Company, Bismarck, North Dakota, as determined by this examination as of December 31, 2019, is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$9,001,647</u>
Total Liabilities	\$1,543,627	
Surplus to Policyholders	<u>7,458,020</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$9,001,647</u>

Since the last examination conducted as of December 31, 2014, the Company's admitted assets have increased \$3,183,513, its total liabilities have increased \$67,779 and its surplus as regards policyholders has increased by \$2,915,734.

The Examiners express their appreciation for the courteous cooperation extended them during the course of the examination.

Respectfully submitted,



Colton Schulz, CFE, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company increase its Fidelity bond amount to \$125,000.

It is recommended that the Company implement procedures for monitoring asset concentrations to maintain compliance with N.D.C.C. § 26.1-05-19(20)(a).

It is recommended that the Company include Deferred Premiums in its calculation of premiums in course of collection in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company include Liability and Equipment Breakdown premiums in its UPR figure.

It is recommended that the Company book unearned premium reserves (UPR) based on annualized premiums per SSAP 53.