

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

REPORT OF EXAMINATION

OF

**GRIGGS NELSON MUTUAL
INSURANCE COMPANY**

MCVILLE, NORTH DAKOTA

**AS OF
DECEMBER 31, 2019**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

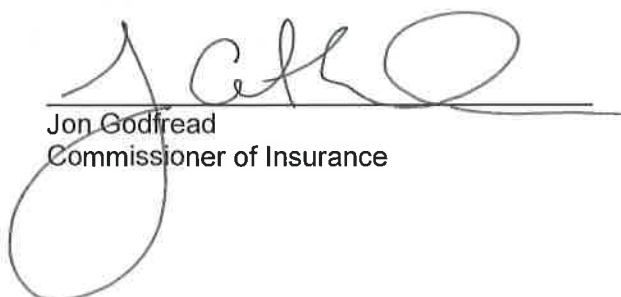
I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Griggs Nelson Mutual Insurance Company

McVille, 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 1st day of
October 2021.



Jon Godfread
Commissioner of Insurance



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McVile, North Dakota
September 15, 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

Griggs Nelson Mutual Insurance Company

Statutory Home Office
112 Main Street
PO Box 424
McVile, North Dakota 58254

Griggs Nelson 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 the 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 7 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, Ted Rohde and Mark Haugen were elected to the Board of Directors.

Also subsequent to the examination, the Department approved Amendments to the Company's Articles of Incorporation in February 2020 and again in June 2020. The February amendments related to the Company's removal of assessment language corresponding to the 2019 legislative changes which added County Mutual insurers to the North Dakota Insurance Guaranty Association. The June 2020 amendment added Burleigh County to the Company's authorized territory, added proxy voting language, and clarified that a husband and wife each are allowed one vote per policy.

HISTORY

The Company was incorporated on June 1, 1998, as a successor to Griggs County Mutual Insurance Company, Cooperstown, North Dakota, and Nelson County Mutual Insurance Company, McVile, North Dakota. Those entities consolidated effective June 1, 1998, with its home office located in McVile, North Dakota. The Company operates a satellite office in Cooperstown, North Dakota.

Griggs County Mutual Insurance Company was incorporated June 10, 1916, and commenced business on May 15, 1917, at Cooperstown, North Dakota, under the name of "Griggs County Farmers Mutual Fire and Lightning Insurance Company." In 1968, its name was changed to "Griggs County Mutual Insurance Company."

Nelson County Mutual Insurance company was incorporated under the laws of the State of North Dakota on March 10, 1900, and commenced business January 1, 1905, as "The Farmers Mutual Fire and Lightning Insurance Company of Nelson County," with its home office and principal place of business at McVile, North Dakota. In 1967, its name was changed to "Nelson County Mutual Insurance Company."

The Company was organized pursuant to the provisions of N.D.C.C. § 26.1-13 to insure against all of the risks and to possess all of the powers and to be subject to all of the liabilities and duties of a county mutual insurance company as now provided in N.D.C.C. § 26.1-13, as the same may be from time to time amended.

The Company's term of existence is perpetual as provided in N.D.C.C § 26.1-13-03.

MANAGEMENT AND CONTROL

The membership of the Company is limited to those persons or organizations having insurance in force. Membership and insurance may be obtained only by written application signed by the applicant and shall commence only when approved by the secretary or authorized representative.

Directors

The Bylaws provide that the corporate powers of the Company shall be vested in a Board of Directors composed of not less than 5 and not more than 14 members elected by a majority vote at the annual meeting of the membership for terms of three years. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

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>
Dwight Haas Tolna, ND	2021	Farmer
Lanny Klefstad Pekin, ND	2022	Farmer
David Saxberg Cooperstown, ND	2020	Farmer
Lowell Skjolden Aneta, ND	2022	Retired Loan Officer
Mitchel Trostad Aneta, ND	2020	Ag Engineer

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, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Lanny Klefstad	President
Dwight Haas	Vice President
Audrey Reinhart	Secretary-Treasurer

Committees

The Company has an Audit Committee, which meets once annually at the McVillage office to audit various operations of the Company. The committee members serving at December 31, 2019, were as follows:

Lanny Klefstad, President
Lowell Skjolden, Director
Sonya Syverson, Policyholder

The Company also has an Investment Committee which is made up of the Directors. The committee members serving at December 31, 2019, were as follows:

Lowell Skjolden
Dwight Haas

That committee met 4 times in 2015, 6 times in 2016, 9 times in 2017, 6 times in 2018 and 4 times in 2019.

During the review of the investment committee minutes, it was noted that approval of transactions was not consistently documented. Per N.D.C.C. § 45-03-12-05(4):

On no less than a quarterly basis, the board of directors or committee of the board of directors shall:

- a. Receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan.
- b. Review and revise, as appropriate, the written plan.

It is recommended that the Company record the attendance, the location of each investment committee meeting and the approval of any transactions within the minutes in order to meet the investment activity disclosure requirements of 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

No amendments were made to the Articles or Bylaws during the period under examination.

Board of Director, Policyholder, 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 between March 1 and June 30 of each year. During the period under examination the annual meetings of the policyholders were held on the following dates: June 10, 2015; June 7, 2016; June 7, 2017; June 7, 2018; June 4, 2019; June 23, 2020.

Directors

During the period under examination, the Board of Directors held six meetings in 2015 and 2016, and seven meeting in 2017, 2018, 2019, and 2020.

Conflict of Interest

The Company has a conflict of interest policy for directors, officers, and key employees and conflict of interest disclosure statements are completed annually. The conflict of interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2019, the Company had a \$100,000 fidelity bond in force, insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company also had in force policies protecting against directors and officers liability and property coverage for the Company's office buildings and property in both Cooperstown and McVillage. These policies and coverage levels were reviewed and considered reasonable.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company had 55 licensed agents and was authorized to transact business in the following counties:

Barnes	Benson	Cass	Cavalier
Dickey	Eddy	Emmons	Foster
Grand Forks	Griggs	Kidder	LaMoure
Logan	McHenry	McIntosh	Nelson
Pembina	Pierce	Ramsey	Ransom
Richland	Rolette	Sargent	Sheridan
Steele	Stutsman	Towner	Trill
Walsh	Wells		

At December 31, 2019 and throughout the examination period, the Company exclusively paid commissions to its agencies, but only appointed individual agents. Per N.D.C.C. § 26.1-26-06:

An insurance producer who sells, solicits, or negotiates an application for insurance of any kind is, in any controversy between the insured or the insured's beneficiary and the insurer, regarded as representing the insurer and not the insured or the insured's beneficiary. An insurance producer may not act as an agent of an insurer unless the insurance producer becomes an appointed insurance producer of that insurer. This section does not affect the apparent authority of an agent.

It is recommended that the Company monitor the agent and agency appointments to ensure business is only produced through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

Subsequent to the examination period, the Company appointed all of its agencies.

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

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

Advertising The Company's advertising consists primarily of newspaper, directory advertising, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Grinnell Adjusting Service

On January 1, 2019, 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 \$24,498.56 or \$2,041.55 per month.

REINSURANCE

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

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 \$125,000 retention. (B) 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 \$600,000.
Premium:	(A) Property Per Risk Excess of Loss - The 2019 annual premium was \$122,076. (B) Aggregate Excess - The 2019 annual premium was \$105,624.
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice in writing.

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 Bell State Bank & Trust. 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 held seven separate securities with market values totaling \$726,269.36. Each of the ETFs individually exceeded the Company's statutory 3 percent concentration limit of \$83,472.35. 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.

Griggs Nelson Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2019

ASSETS

LEDGER ASSETS:

Bonds	\$ 496,041
Stocks	796,373
Real Estate	1,200
Checking Accounts	390,960
Cash on Deposit	808,000
Premiums in Course of Collection	<u>105,351</u>

TOTAL LEDGER ASSETS \$ 2,597,925

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 7,272
Dividends due and accrued on stocks	171
Interest Due and Accrued on certificates of deposit and passbook savings	5,605
Market Value of Stocks over Book Value	<u>201,291</u>

TOTAL NONLEDGER ASSETS \$ 214,339

TOTAL NET ADMITTED ASSETS \$2,812,264

LIABILITIES

Unpaid Losses	\$ 39,387
Incurred But Not Reported Claims (IBNR)	5,000
Advanced Premium	9,498
Unearned Premium Reserve	484,013
Unpaid Taxes	6,155
Unpaid General Expenses	3,897
Reinsurance Premiums Due and Payable	18,975
Premiums Written for Others	4,868
Federal and State Income Tax Payable	6,590
Suspense	<u>57</u>

TOTAL LIABILITIES \$ 578,440

SURPLUS TO POLICYHOLDERS \$2,233,824

TOTAL LIABILITIES AND SURPLUS \$2,812,264

Griggs Nelson Mutual Insurance Company
Statement of Income and Disbursements
as of December 31, 2019

INCOME:

Gross Premium Income	\$896,524	
Less: Return Premiums	13,648	
Premiums for Reinsurance Ceded	226,970	
NET PREMIUM INCOME	\$655,906	
Interest on Bonds	16,883	
Dividends on Stocks	42,094	
Gross Rent from Company's Property	1,500	
Interest on Cash on Deposit	18,618	
Profit on sale or Maturity of Ledger Assets	1,404	
Commissions and Fees Received on Liability Premiums	16,038	
Suspense Account	43	
TOTAL INCOME RECEIPTS	\$752,486	

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2019	\$127,722	
Gross Losses Paid in 2019 But Incurred in Prior Yrs.	100,107	
Deduct: Subrogation	23,649	
Reinsurance Recovered	80,961	
NET LOSSES PAID	\$123,219	
Claim Adjustment and Risk Review Expenses	24,499	
Commissions Paid to Agents	135,637	
Directors Fees and Expenses	4,778	
Salaries to Employees	77,215	
Printing, Stationary, and Office Supplies	2,432	
Rent and Rent Items	4,200	
Real Estate Expenses	2,655	
Taxes on Real Estate	398	
State and Local Insurance Taxes	18,174	
Insurance Department Licenses and Fees	595	
Payroll Taxes	5,859	
Federal Income Taxes	16,891	
Legal Fees and Auditing	909	
Travel and Travel Items	2,303	
Advertising	1,269	
Dues and Donations	5,914	
Equipment Purchased	1,244	
Insurance and Bonds	6,197	
Postage, Telephone, and Bank Charges	5,616	
Employee Relations and Welfare	250	
Data Processing Expenses	13,100	
Investment Custodian Fees	5,946	
Annual Meeting & Convention Expenses	2,895	
Credit Card Processing Fees	2,965	
Risk Reviews and Other Underwriting Expenses	600	
Miscellaneous Expenses	1,685	
TOTAL FUNDS DISBURSED	467,445	
Net Income	\$285,041	

COMMENTS TO THE FINANCIAL STATEMENTS

Assets

Premiums in Course of Collection

Premiums in course of collection as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Assessments or premiums in course of collection	\$ 72,576	\$ 105,351
Total	<u>\$ 72,576</u>	<u>\$ 105,351</u>

Company did not include the current or 1-30 past due premiums on December 31, 2019. Company included the liability premiums in the amount of deferred premiums reported. Company also ledgered the deferred premiums after the last exam but continued reporting them as non-ledger assets on Page 3 Line 18 of Annual Statement. Per the County Mutual Annual Statement Instructions and Statutory Accounting Principles, the Company is required to include the current and 1-89 days past due premiums on December 31, 2019

It is recommended that the Company include the current due and premiums past due less than 90 days in its premium receivable balance on the Annual Statement and report this amount on Page 3 Line 8 of the annual statement in accordance with the County Mutual Annual Statement Instructions.

Liabilities

Unpaid Claims

Unpaid Claims as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Unpaid Claims	\$ 20,000	\$ 39,387
Total	<u>\$ 20,000</u>	<u>\$ 39,387</u>

The Company reported an unpaid claims reserve of \$20,000 as of 12/31/2019. Subsequent reserve development totaled \$39,387.29. This indicates a reserve deficiency of \$19,387.29. Per discussion with Supervising Examiner, the full \$19k adjustment will be made to unpaid claims as the IBNR methodology used by the Company is reasonable and will reflect these future years.

It is recommended that the Company review reserves, up to the date of closing out its books for year-end and make any necessary reserve adjustments based on the information at hand.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$1,859,412 or \$2,808 less than the amount reported by the Company in its 2019 Annual Statement. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase or (Decrease) to Surplus
<u>Assets:</u>			
Premiums in Course of Collection	\$75,499	\$105,351	\$ 29,852
<u>Liabilities:</u>			
Unpaid Claim	20,000	39,387	(19,387)
Net Increase			<u>\$ 10,465</u>
Surplus to Policyholders as reported by Company	\$2,223,359		
Increase (Decrease) to Surplus from above	<u>10,465</u>		
Surplus to Policyholders per Examination	\$2,233,824		

CONCLUSION

The financial condition of Griggs Nelson Mutual Insurance Company, McVille, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$2,812,264</u>
Liabilities	\$ 578,440	
Surplus to Policyholders	<u>2,233,824</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$2,812,264</u>

During the five-year period under examination, admitted assets increased by \$404,450, liabilities increased by \$54,230, and surplus to policyholders increased by \$350,220.

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

In addition to the undersigned, Chief Examiner Matt Fischer, CFE, and Supervising Examiner Colton Schulz, CFE, CFE (Fraud) participated in this exam.

Respectfully submitted,



Shrijana Chapagain
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company record the attendance, the location of each investment committee meeting and the approval of any transactions within the minutes in order to meet the investment activity disclosure requirements of N.D. Admin Code § 45-03-12-05(4).

It is recommended that the Company monitor the agent and agency appointments to ensure business is only produced through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

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 the current due and premiums past due less than 90 days in its premium receivable balance on the Annual Statement and report this amount on Page 3 Line 8 of the annual statement in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company review reserves, up to the date of closing out its books for year-end and make any necessary reserve adjustments based on the information at hand.