

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

REPORT OF EXAMINATION

OF

**HARTLAND MUTUAL INSURANCE COMPANY
MINOT, 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

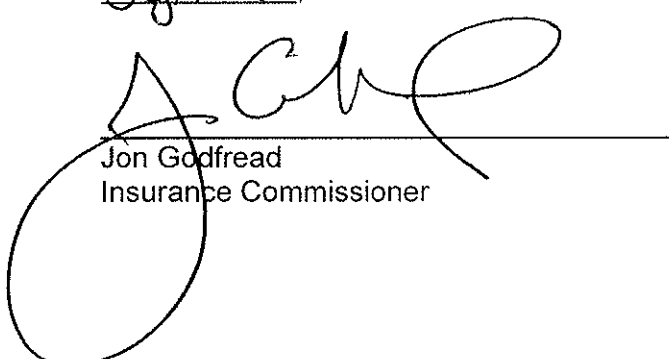
Hartland Mutual Insurance Company

Minot, 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 10th day of
September, 2018.





Jon Godfread
Insurance Commissioner

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Minot, North Dakota
July 3, 2017

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

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

Hartland Mutual Insurance Company

Minot, North Dakota

Hartland Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2012, by the North Dakota Insurance 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 EXAM FINDINGS

Our examination included a review to determine the current status of the seven exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2008, to December 31, 2012. We determined that the Company had satisfactorily addressed all prior exam findings.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

No significant subsequent events were noted during the examination.

HISTORY

General

The Company was originally incorporated on July 1, 1905, as a county mutual insurance company titled The Grant Farmers Mutual Fire and Lightning Insurance Company of Ward County. In 1987, the Company and Kenmare Farmers Mutual Insurance Company merged and the name of Company was changed to Grant-Kenmare Mutual Insurance Company.

At the annual meeting of the membership held on June 15, 1993, the name of the Company was changed to Grant Mutual Insurance Company.

Effective January 30, 1998, the Company and Scandinavian Farmers Mutual Insurance Company of Bottineau, North Dakota, combined to form a new company named Hartland Mutual Insurance Company.

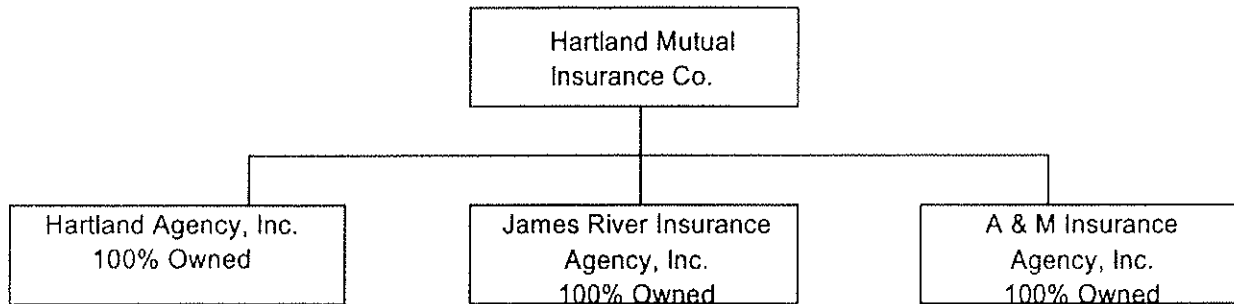
Effective March 29, 1999, James River Mutual Insurance Company, Jamestown, North Dakota, merged into the Company.

Effective March 29, 2001, the Company reorganized under N.D.C.C. Chapter 26.1-12 as an incorporated mutual insurance company. The Company's term of existence is perpetual and shall be for up to a period of 30 years.

MANAGEMENT AND CONTROL

Subsidiaries and Affiliated Companies

The Company is the ultimate parent of three insurance agencies in North Dakota: Hartland Agency Inc., James River Insurance Agency, Inc., and A & M Insurance Agency, Inc. All three agencies are 100% owned by the Company. The corporate structure chart as of December 31, 2017 is shown below:



Board of Directors

The Bylaws provide that the number of directors shall consist of a minimum of seven directors and no more than nine directors. The Board of Directors are elected at the annual meeting of the Company which is held on the third Tuesday of June of each year. The Board of Directors shall meet immediately following each annual meeting to reorganize the Board and to elect officers for the ensuing year. The Board of Directors shall also meet at least quarterly for regular meetings.

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 between five to six additional meetings in each year during the examination period.

Directors serving the Company at December 31, 2017, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Richard Ruud Parshall, North Dakota	Farmer
William Riebe Pingree, North Dakota	Retired Farmer
Dennis Burud Bottineau, North Dakota	Retired Bank Investment Officer
Wesley Hagen Berthold, North Dakota	Retired Farmer
William Fielhaber Minot, North Dakota	Real Estate Developer
Tom Philion Minot, North Dakota	Accountant – Building Supplier

Ryan Barth
Bismarck, North Dakota

Auto Dealership Owner

Officers

According to the Bylaws, the Directors shall elect a Chairman of the Board, Vice-Chairman, President (who is also the Chief Executive Officer of the Company), Secretary, and Treasurer. Officers are elected annually at the organizational meeting of the Board of Directors by a majority vote for a one year term or until their successor is elected and qualified. Officers serving at December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Richard Ruud	Chairman
Tom Phillion	Vice Chairman
Lynn Frey	CEO, President and Secretary-Treasurer

Committees

Audit Committee

During its June 17, 2014 meeting, the Board established an Audit Committee to meet with the independent auditor after the completion of each annual audit. On April 26, 2017, the Committee met with Brady Martz and Associates, P.C., and approved the 2016 Audit Report. Members serving on this Committee as of December 31, 2017 were as follows:

Richard Ruud, Chairman
Wesley Hagen
Ryan Barth

Investment Committee

The Investment Committee directs Company investments in accordance with guidelines approved by the Board. Communication among Committee members is exclusively electronic or concurrent with full Board meetings and separate meetings are not held. Investment transactions are approved by motions from Committee Directors during quarterly Board meetings. Those members serving on this Committee as of December 31, 2017 were as follows:

Richard Ruud, Chairman
Tom Phillion
Dennis Burud
Lynn Frey*
Miles Clauson*
Ryan Wetzal*

*Non-member ex officio.

Other Committees

The Chairman also annually appoints a Nominating Committee. The Nominating Committee is composed of three Board members who submit the names of Directors up for re-election and

seek out policyholders to fill vacancies if necessary. The Nominating Committee held no formal meetings outside of the full Board meetings during the exam period.

The Bylaws provide that the Chairman, President and Vice Chairman shall constitute an Executive Committee with such powers as the Board may delegate. The Executive Committee did not meet during the examination period.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company made no changes to its Articles of Incorporation or Bylaws during the period under examination.

Board of Directors, Policyholders, and Committee Minutes

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

The minutes of the various meetings indicate that full 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.

Conflict of Interest

The Company has an established procedure for the disclosure of potential conflicts of interest to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in or likely to conflict with the official duties of such person.

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 \$150,000 which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including Directors and Officers Liability and Property which were considered adequate.

AFFILIATED COMPANIES

Hartland Agency, Inc.

Hartland Agency, Inc. (HAI) is an independent insurance agency which also represents the Company as an agent. The Company formed HAI in 2001 to purchase the assets of Grant Agency. The Company is the direct parent of HAI through its ownership of 1,000 shares of no par value capital stock issued by HAI. At December 31, 2017, the Company's investment in HAI was valued at \$6,334.

James River Insurance Agency, Inc.

On January 13, 2007, the Company purchased all of the outstanding common stock of the James River Insurance Agency, Inc. (James River) for \$160,000. At December 31, 2017, the Company's investment in James River was valued at \$20,222.

A&M Insurance Agency, Inc.

On December 30, 2008, A&M Insurance Agency, Inc. (A&M), a subsidiary of the Company, purchased the assets of A&M Insurance, Inc. for \$528,000. At December 31, 2017, the Company's investment in A&M was valued at \$70,774.

INTERCOMPANY AGREEMENTS

Hartland Agency Administrative Services Agreement

On February 5, 2002, the Company and Hartland Agency, Inc. (HAI), a wholly owned subsidiary, entered into an Administrative Services Agreement. The Company provides use of facilities along with and management and sales related services for HAI which are billed quarterly to HAI based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2017:

▪ Rent paid by HAI to the Company	\$6,000
▪ Management fees paid by HAI to the Company	\$11,032
▪ Dividends paid by HAI to the Company	\$55,000

James River Administrative Services Agreement

Effective February 13, 2007, the Company and James River Agency, Inc. (James River), a wholly owned subsidiary, entered into an Administrative Services Agreement. The Company provides use of facilities along with management and sales related services for James River, which are billed quarterly to James River based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2017:

▪ Rent paid by James River to the Company	\$9,600
▪ Management fees paid by James River to the Company	\$114,305
▪ Dividends paid by James River to the Company	\$10,000

A&M Insurance Agency Administrative Agreement

On June 15, 2010, the Company and A&M Insurance Agency, Inc. (A&M), a wholly owned subsidiary, entered into an Administrative Service Agreement. The Company provides management and sales related services for A&M which are billed quarterly to A&M based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2017:

- | | |
|--|-----------|
| ▪ Rent paid by A&M to the Company | \$34,800 |
| ▪ Management fees paid by A&M to the Company | \$168,995 |

PENSION AND INSURANCE PLANS

Employee Benefit Plan

All qualified, full-time employees are provided with medical insurance, dental insurance, vision insurance, 401K plan, life insurance and long term disability income protection insurance.

401(k) Plan

In 2002, the Company established a 401(k) plan for qualifying employees. To participate, employees must be 21 years old and have worked for the Company for at least 90 days. Employee contributions are matched 100 percent up to six percent of annual salary.

The Company's contributions to the plan in 2017 totaled \$51,543.

TERRITORY AND PLAN OF OPERATION

At December 31, 2017, the Company was licensed to write property and casualty insurance in North Dakota. The primary lines of business written are dwelling and farm property coverage. The three wholly-owned insurance agencies discussed previously produced approximately 20 percent of the Company's business in 2017.

GROWTH OF THE 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	\$6,058,958	\$6,338,834	\$6,547,235	\$6,501,335	\$5,970,390
Ceded	854,300	820,137	805,763	789,314	562,830
Net Premiums	\$5,204,658	\$5,518,697	\$5,741,472	\$5,712,021	\$5,407,560
Surplus	\$8,451,927	\$7,750,783	\$7,882,925	\$7,556,290	\$6,353,653
 Premium-to-Surplus Ratio	 62%	 71%	 73%	 76%	 85%

In 2017, the Company's direct written premiums decreased 4.4 percent partly due to a 1.9 percent drop in the number of policies in force. Despite the decline in direct writings, ceded reinsurance premiums increased by 4.2 percent, which caused the net premiums total to decline by 5.7 percent, year over year. Paid losses were down significantly in 2017, which allowed the Company to increase its surplus by 9 percent, despite the drop in net premiums.

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	\$626,364	\$923,787	\$575,926	\$498,109	\$511,622
LAE reserves	59,504	73,903	46,074	39,849	40,930
Total Reserves	\$685,868	\$997,690	\$622,000	\$537,958	\$552,552
 Total Losses and LAE Incurred	 \$2,235,919	 \$4,381,085	 \$3,420,141	 \$1,913,598	 \$2,506,860

There have been no changes in reserving methodology or philosophy during the exam period. In 2016, the Company experienced high losses from three separate catastrophic storms. For 2017, losses decreased by nearly 50 percent as storm activity was minimal.

REINSURANCE

The following is a summary of the Company's most significant reinsurance contract in force at December 31, 2017:

Grinnell Mutual Reinsurance Company

Type:	Excess of Loss
Scope:	Fire, Lightning, Windstorm, Hail and Extended Coverages
Coverage:	<p>(A) Property Per Risk Excess of Loss - Covers up to \$20 million in losses from fire and windstorm risks written by the Company in excess of a \$300,000 retention.</p> <p>(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 \$300,000 retention.</p>
Premium:	<p>(A) Property Per Risk Excess of Loss - The 2017 annual premium was \$223,407 or \$18,617 monthly.</p> <p>(B) Property Catastrophe Excess of Loss Coverage - The 2017 annual premium was \$520,974 or \$43,415 monthly.</p>
Termination Date:	The agreement may be terminated by either party within a written 90 day notice.

The reinsurance agreement contained all of the clauses required by the N.D.C.C. and 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, 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.

Custodial Agreements

The Company has agreements with broker-dealers, Wells Fargo Advisors, LLC, Vision Brokerage Services, LLC and First International Bank & Trust under which safekeeping of the Company’s invested assets is provided. Each agreement was reviewed and deemed compliant with N.D. Admin. Code § 45-03-23-02.

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

Summary 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.

Hartland Mutual Insurance Company
Statement of Assets
December 31, 2017

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$4,947,000		\$4,947,000
Stocks:			
Common Stocks	1,697,603		1,697,603
Real Estate:			
Properties Occupied by the Company	130,032		130,032
Properties Held for the Production of Income	542,133		542,133
Cash	4,901,832		4,901,832
Investment income due and accrued	41,200		41,200
Agents' Balances or Uncollected Premiums:			
Premiums and Agents' Balances in Course of Collection	4,619		4,619
Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	490,766		490,766
Amounts Recoverable from Reinsurers	48,287		48,287
Net Deferred Tax Asset	243,760	88,447	155,313
Furniture and Equipment	132,988	132,988	
Receivables from Subsidiaries	17,500		17,500
Totals	<u>\$13,197,720</u>	<u>\$221,435</u>	<u>\$12,976,285</u>

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

Losses		\$626,364
Loss Adjustment Expenses		59,504
Commissions Payable, Contingent Commissions and Other Similar Charges		215,013
Other Expenses		98,365
Taxes, Licenses, and Fees		19,183
Current Federal and Foreign Income Taxes		125,000
Unearned Premiums		3,111,373
Advance Premium		139,285
Ceded Reinsurance Premiums Payable		69,841
Amounts Withheld or Retained by Company for Account of Others		12,584
Payable to Grinnell Mutual Reinsurance Company		<u>47,847</u>
Total Liabilities		\$4,524,359
Unassigned Funds (Surplus)	\$8,451,927	
Surplus as Regards Policyholders		<u>8,451,927</u>
Total		<u>\$12,976,286</u>

Hartland Mutual Insurance Company
Statement of Income
December 31, 2017

Underwriting Income

Premiums Earned		\$5,304,631
Deductions:		
Losses Incurred	\$2,035,813	
Loss Adjustment Expenses Incurred	200,106	
Other Underwriting Expenses Incurred	<u>1,987,096</u>	
Total Underwriting Deductions		<u>4,223,015</u>
Net Underwriting Gain (Loss)		<u>\$1,081,616</u>

Investment Income

Net Investment Income Earned	\$245,882	
Net Realized Capital Gains (Losses)	<u>1,790</u>	
Net Investment Gain (Loss)		<u>\$247,672</u>

Other Income

Finance and Service Charges Not Included In Premiums	\$6,773	
Miscellaneous Income	<u>48,240</u>	
Total Other Income		<u>\$55,013</u>
Net Income Before Federal Income Taxes		\$1,384,301
Federal and Foreign Income Taxes Incurred		<u>271,985</u>
Net Income		<u>\$1,112,316</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as Regards Policyholders, December 31, Prior Year	\$7,750,783	\$7,882,925	\$7,556,290	\$6,353,653	\$5,525,397
Net income	1,112,316	(261,751)	543,399	1,233,330	859,582
Change in Net Unrealized Capital Gains or (Losses)	(49,964)	(11,405)	(113,339)	(107,977)	(35,559)
Change in Net Deferred Income Tax	(274,078)	1,374	4,440	9,123	2,399
Change in Nonadmitted Assets	13,331	139,640	(107,865)	(46,492)	1,834
Aggregate Write-Ins for Gains and Losses in Surplus	(100,458)			114,653	
 Net Change in Capital and Surplus	 <u>\$701,147</u>	 <u>\$(132,142)</u>	 <u>\$326,635</u>	 <u>\$1,202,637</u>	 <u>\$828,256</u>
 Surplus as Regards Policyholders, December 31, Current Year	 <u>\$8,451,927</u>	 <u>\$7,750,783</u>	 <u>\$7,882,925</u>	 <u>\$7,556,290</u>	 <u>\$6,353,653</u>

CONCLUSION

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


Admitted Assets		<u>\$12,976,286</u>
Total Liabilities	\$4,524,359	
Surplus as Regards Policyholders	<u>8,451,927</u>	
Liabilities, Surplus, and Other Funds		<u>\$12,976,286</u>

Since the last examination conducted as of December 31, 2012, the Company's admitted assets have increased \$3,488,505, its total liabilities have increased \$561,975, and its surplus as regards policyholders have increased \$2,926,530.

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, Ed Moody, CFE, CPA, Andrea Rebsom, Examiner, and Mike Andring, FCAS, MAAA participated in this examination.

Respectfully submitted,



Colton Schulz, CFE
Supervising Examiner
North Dakota Insurance Department