

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**American Agricultural Insurance Company** )  
**1501 E. Woodfield Road, Suite 300** )  
**Schaumburg, IL 60173-5422** )

Examination of: **American Agricultural Insurance Company**

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of American Agricultural Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of American Agricultural Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

July 1, 2020  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9445**

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**1501 E. Woodfield Road, Suite 300** )  
**Schaumburg, IL 60173-5422** )

Examination of: **American Agricultural Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Agricultural Insurance Company (hereinafter “Company”) for the time period January 1, 2014 through December 31, 2018.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on June 1, 2020.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 9, 2020 and was received by the Company on June 17, 2020.

On June 29, 2020, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2018.

3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 1 day of July, 2020.

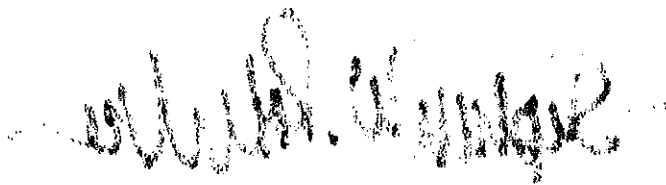
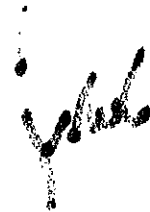
  
Stephen W. Robertson  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

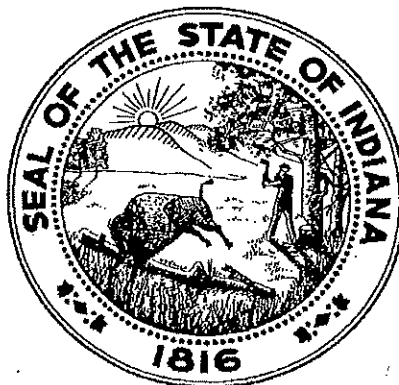
A large, stylized handwritten signature in black ink, appearing to read "William H. ...".A smaller, handwritten signature in black ink, appearing to read "John".

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**AMERICAN AGRICULTURAL INSURANCE COMPANY**  
NAIC COMPANY CODE 10103

As of

December 31, 2018



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# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

## Indiana Department of Insurance

Stephen W. Robertson, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-232-5251  
Website: [in.gov/idoi](http://in.gov/idoi)

June 1, 2020

Honorable Stephen W. Robertson  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4019, an examination has been made of the affairs and financial condition of:

**American Agricultural Insurance Company**  
**225 South East Street**  
**Indianapolis, Indiana 46202**

an Indiana domestic, stock, property and casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 1501 E. Woodfield Road, Suite 300W, Schaumburg, Illinois 60173.

The Report of Examination, showing the status of the Company as of December 31, 2018, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES	COMPANY COMPLIANCE	CONSUMER SERVICES	FINANCIAL SERVICES	MEDICAL MALPRACTICE	COMPANY RECORDS	STATE HEALTH INSURANCE PROGRAM
317-232-2389	317-232-3495	317-232-2395/1-800-622-4461	317-232-2390	317-232-2402	317-232-5692	1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2013. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2014 through December 31, 2018, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Johnson Lambert LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was appointed by the INDOI and conducted a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2018.

In accordance with the 2018 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, Thomas Consulting performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was formed on May 18, 1948 and began business on May 26, 1948 as a capital stock company. It was reincorporated in 1954 and converted to a mutual carrier with the title American Agricultural Mutual Insurance Company. The Company was once again reincorporated on July 25, 1968 as a capital stock company under its present name.

On April 30, 1999, the Company purchased Nationwide-Re, a division of Nationwide Mutual Insurance Company, as part of its strategic plan to diversify its reinsurance business by expanding Non-Farm Bureau premium writings.

## CAPITAL AND SURPLUS

Pursuant to the Company's Articles of Incorporation, the capital stock authorized for the Company is 500,000 shares of common stock with a par value of \$100 per share and 500,000 shares of preferred stock with a par value of \$1,000 per share. As of December 31, 2018, the Company's reported total capital and surplus was \$580,252,585, which included: common capital stock of \$31,881,000, consisting of 318,810 issued and 266,273 outstanding shares; 6.5% non-voting, non-cumulative preferred capital stock of \$31,129,000, consisting of 31,129 shares of issued and outstanding stock; gross paid-in and contributed surplus of \$13,385,086; unassigned funds (surplus) of \$482,154,204; surplus notes of \$77,322,498; and less treasury stock of \$55,619,203, consisting of 52,537 shares.



As of December 31, 2018, the Company had sixteen (16) issued and outstanding surplus notes (Notes) with a total par value of \$77,322,498. The Notes were issued to Farm Bureau insurance companies at various dates in 2005 and 2006. The Notes accrue interest at a rate of 7.5% annually, which is payable on July 1 and January 1 of each year. All Notes mature on January 1, 2036.

During 2018, the Company paid \$5,799,188 of interest on all Notes issued and outstanding. In addition, as of December 31, 2018, the Company reported \$2,899,594 of interest payable on the outstanding Notes.

### DIVIDENDS TO STOCKHOLDERS

The Company paid or declared preferred stock dividends of \$2,023,385 each year annually during the period covered by this examination for a total of \$10,116,925. There were no common stock dividends declared or paid during the period covered by this examination.

The Company notified the INDOI of all declared ordinary dividends during the examination period in accordance with the requirements of IC 27-1-23-1.5. There were no extraordinary dividends declared or paid during the period covered by this examination.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in thirty-four (34) states, the Commonwealth of Puerto Rico, and Canada. In addition, the Company is a qualified or accredited reinsurer in thirteen (13) states and the District of Columbia. The Company is not licensed, qualified, or accredited in Alaska, California, or Nevada.

The Company is a reinsurer primarily assuming business from Farm Bureau insurance companies. The Farm Bureau insurance companies mainly write personal and farm related risks, but there is some commercial exposure that is growing as the Farm Bureau insurance companies expand their business. The Company also assumes crop/hail and Multiple Peril Crop Insurance (MPCI) through the broker market.

The Company has a growing book of direct crop/hail and MPCI contracts that are processed through American Farm Bureau Insurance Services (AFBIS). The Company also runs and participates in Farm Bureau crop/hail and MPCI pools. In addition, starting in the fourth quarter of 2018, the Company began directly writing Dairy Revenue Protection policies.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Income (Loss)</u>
2018	\$1,350,355,454	\$770,102,869	\$580,252,585	\$327,982,288	\$17,273,347
2017	1,338,904,073	754,145,577	584,758,496	354,939,649	(8,564,770)
2016	1,249,233,575	673,317,543	575,916,032	331,332,742	29,252,657
2015	1,152,576,572	611,420,279	541,156,293	301,818,889	38,487,581
2014	1,105,115,297	579,425,576	525,689,721	304,762,256	56,148,399

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The Company's admitted assets and surplus as regards policyholders mostly increased for each year under review. In addition, apart from 2017, the Company produced net income in all the years shown above. The 2017 net loss is primarily attributed to an underwriting loss as discussed in the "Loss Experience" section of this Report of Examination.

### LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination:

<u>Year</u>	<u>Premiums Written</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Losses and Loss Expenses Ratio</u>	<u>Other Underwriting Expenses Ratio</u>	<u>Losses and Total Expenses Ratio</u>
2018	\$320,993,257	\$327,982,288	\$269,710,391	\$67,941,288	82.23%	21.17%	103.40%
2017	363,503,611	354,939,649	311,430,755	76,355,970	87.74%	21.01%	108.75%
2016	340,597,733	331,332,742	244,367,264	64,819,868	73.75%	19.03%	92.78%
2015	304,943,936	301,818,889	215,577,349	57,905,775	71.43%	18.99%	90.42%
2014	295,412,931	304,762,256	200,366,227	57,709,596	65.75%	19.54%	85.28%

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The above amounts were compiled from the Company's filed Annual Statements and from examination results. A Losses and Total Expenses Ratio below 100% indicates an underwriting profit. As noted above, the Company reported an underwriting profit in 2014, 2015, and 2016. The Company reported an underwriting loss in 2017 and 2018 mainly due to unusually high hurricane and wildfire events that impacted its assumed property catastrophe business.

### MANAGEMENT AND CONTROL

#### **Directors**

The Company's Bylaws state that the Board of Directors (Board) shall not be less than three (3) and not more than the number of Designating Shareholders, plus the President of American Farm Bureau Federation (AFBF). Designating Shareholders are affiliated with a state Farm Bureau organization that is a member of AFBF that maintains a minimum investment level in the Company equal to or greater than either one percent (1%) of the Company's surplus at the prior year end or two and one half percent (2.5%) of the total outstanding securities of the Company. The Shareholders elect the Board at the Annual Meeting. The following is a listing of persons serving as directors as of December 31, 2018:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Vincent M. Duvall Greensboro, Georgia	President and Chairman of the Board American Farm Bureau Federation/Farmer

Jeff Aiken Telford, Tennessee	President Tennessee Farm Bureau Federation/Farmer
Ronald R. Anderson Minneapolis, Kansas	President Louisiana Farm Bureau Federation/Farmer
Carl J. Bednarski Caro, Michigan	President Michigan Farm Bureau/Farmer
Russell W. Boening Floresville, Texas	President Texas Farm Bureau/Farmer
Richard Felts Liberty, Kansas	President Kansas Farm Bureau/Farmer
Todd Fornstrom Laramie, Wyoming	President Wyoming Farm Bureau Federation/Farmer
Richard L. Guebert, Jr. Ellis Grove, Illinois	President Illinois Farm Bureau/Farmer
Mark E. Haney Nancy, Kentucky	President Kentucky Farm Bureau/Farmer
John L. Hoblick Sr. Deleon Springs, Florida	President Florida Farm Bureau Federation/Farmer
James A. Holte Elk Mound, Wisconsin	President Wisconsin Farm Bureau Federation/Farmer
Charles B. Hurst Tarkio, Missouri	President Missouri Farm Bureau Federation/Farmer
Randall Kron Evansville, Indiana	President Indiana Farm Bureau/Farmer
Gerald W. Long Bainbridge, Georgia	President Georgia Farm Bureau/Farmer
David M. McCormick Union Church, Mississippi	President Mississippi Farm Bureau Federation/Farmer
Rodd A. Moesel Oklahoma City, Oklahoma	President Oklahoma Farm Bureau/Farmer
Steve Nelson Axtell, Nebraska	President Nebraska Farm Bureau/Farmer

Harry L. Ott Saint Matthews, South Carolina	President South Carolina Bureau Federation/Farmer
James L. Parnell Stanton, Alabama	President Alabama Farmers Federation/Farmer
Wayne F. Pryor Goochland, Virginia	President Virginia Farm Bureau Federation/Farmer
Bryan L. Searle Shelley, Idaho	President Idaho Farm Bureau Federation/Farmer
Donald J. Shawcroft Alamosa, Colorado	President Colorado Farm Bureau/Farmer
Harry R. Veach Manila, Arkansas	President Arkansas Farm Bureau Federation/Farmer
Larry B. Wooten Raleigh, North Carolina	President North Carolina Farm Bureau Federation, Inc./ Farmer

## Officers

The Bylaws specify that the officers of the Company shall be a President, Chief Executive Officer, First Vice President, one (1) or more Vice Presidents, a Secretary, one (1) or more Assistant Secretaries, a Treasurer, one (1) or more Assistant Treasurers, and such other officers as the Board shall deem necessary. The following is a list of key officers and their respective titles as of December 31, 2018:

<u>Name</u>	<u>Title</u>
Vincent M. Duvall	President and Chairman of the Board
Janet S. Katz	Executive Vice President and Chief Executive Officer
Ronald R. Anderson	First Vice President
Ellen Steen	Second Vice President
August J. Tripi, Jr.	Treasurer
Andrew S. Boris	General Counsel and Secretary
Thomas M. Pavelko	Corporate Secretary

## Corporate Governance

The Company's Bylaws require the establishment of Board committees, including an Executive Committee and an Investment Committee, and specify that the Board may also appoint such other committees as it may deem necessary. As of December 31, 2018, the Company had the following Board committees and member directors that were elected to serve as follows:

Executive Committee:

Vincent M. Duvall	Chairman
Ronald R. Anderson	
Russell W. Boening	
James A. Holte	
Charles B. Hurst	
Bryan L. Searle	

Investment Committee:

Ronald R. Anderson	Chairman
Randall Kron	
August J. Tripi, Jr.	

Audit Committee:

Charles B. Hurst	Chairman
Mark E. Haney	
Bryan L. Searle	

In addition to the Board committees, the Bylaws provide that the Company shall also have an Advisory Committee elected by the Board from nominations submitted by the President consisting of seven (7) persons plus the President who shall be an ex officio member of the committee. Six (6) of these persons shall be either Executive Vice Presidents, Chief Executive Officers, or General Managers of property and/or casualty insurance companies owning shares in the Company. The Chief Executive Officer shall serve as Chairman of the committee. As of December 31, 2018, the following members comprised the Company's Advisory Committee:

<u>Name</u>	<u>Affiliation</u>
Vincent M. Duvall, President	American Farm Bureau Federation (ex officio member)
Janet S. Katz, Chairman	American Agricultural Insurance Company
Rema A. Barnett, Jr.	Georgia Farm Bureau Mutual Insurance Company
Jerry J. Keating, Jr.	Mississippi Farm Bureau Casualty Insurance Company
Steyen C. Murray	Florida Farm Bureau Casualty Insurance Company
Jeff Pannell	Tennessee Farmers Mutual Insurance Company
Paul B. Roberts	Farm Bureau Mutual Insurance Company of Idaho
John Sparrow	Kentucky Farm Bureau Mutual Insurance Company

**CONFLICT OF INTEREST**

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. From a review of the directors and officers signed statements, there were no material conflicts of interest reported by any of the directors or officers.

## OATH OF OFFICE

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving as of December 31, 2018, signed an Oath of Office statement when elected.

## CORPORATE RECORDS

### **Articles of Incorporation**

There were no amendments made to the Company's Articles of Incorporation during the period under examination.

### **Bylaws**

There were no amendments made to the Company's Bylaws during the period under examination.

### **Minutes**

The Board and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. For the period under examination, the Annual Meetings of the Shareholders were held in accordance with IC 27-1-7-7(b) and the Company's Bylaws.

## AFFILIATED COMPANIES

### **Organizational Structure**

The Company is owned by the insurance company affiliates of various state Farm Bureau insurance companies and by AFBF, an Illinois not-for-profit agricultural membership organization. As of December 31, 2018, the Farm Bureau insurance companies owned a combined 265,830 shares of outstanding common stock. AFBF owned 443 shares of common stock and the Company held 52,537 shares of common treasury stock.

As of December 31, 2018, there were three (3) Farm Bureau insurance companies that owned ten percent (10%) or more of the Company's outstanding common stock: Country Mutual Insurance Company (IL) (13.660%), Tennessee Farmers Mutual Insurance Company (13.040%), and North Carolina Farm Bureau Mutual Insurance Company (10.454%). All three (3) of these insurers filed disclaimers of control statements with the INDOI.

The Company is a member of a holding company system, whereby it is the ultimate controlling entity. The Company is the parent of one (1) wholly owned subsidiary, American Agricultural Insurance Agency (AAIA). In addition, as of December 31, 2018, the Company owned 9.1% of the voting shares of AFBIS. A brief description of these entities is as follows:

AAIA is a for-profit company incorporated in the state of Illinois. The Company acquired 100% of the outstanding shares of AAIA from AFBF effective October 27, 2008. AAIA is an active insurance agency.

AFBIS was founded in June 1995 for the purpose of providing various crop insurance services to Farm Bureau insurance companies. These services include software to meet reporting requirements, underwriting reviews, claims handling, data entry, policy distribution, and billing functions. AFBIS also administers the Company's crop hail and MPCCI business.

### **Affiliated Agreements**

The following significant affiliated agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with and not disapproved by the INDOI, in accordance with IC 27-1-23-4(b)(4).

#### Inter-Company Cost Sharing Agreement

Effective January 1, 2008, the Company entered into an Inter-Company Cost Sharing Agreement with AFBF and AFBIS. This agreement was amended November 11, 2011 and again on November 5, 2018. Under the terms of this agreement the parties agree to share the use of certain management and office services, property, equipment, and facilities owned or leased by each of them at various locations. During 2018, the Company received a net total of \$887,034 (\$1,013,000 from AFBIS and \$100,417 from AFBF, less \$226,383 paid by the Company to AFBF) under the terms of this agreement.

#### Multiple Peril Crop/Livestock Insurance Full-Service Agreement

Effective January 1, 2018, the Company entered into a Multiple Peril Crop/Livestock Insurance Full-Service Agreement with AFBIS. Under the terms of this agreement AFBIS agrees to process and service the Company's crop/livestock insurance policies that are approved by the Federal Crop Insurance Corporation (FCIC) and reinsured by FCIC. The services performed by AFBIS include underwriting, policy issuance, premium billing, premium collection, claims adjusting, claim payment, policy and claim data/file maintenance, and reinsurance placement to FCIC. During 2018, the Company paid AFBIS \$3,954,891 under the terms of this agreement.

#### Crop Hail Full Service Insurance Agreement

Effective January 1, 2018, the Company entered into a Crop Hail Full Service Insurance Agreement with AFBIS. Under the terms of this agreement AFBIS agrees to process and service the crop hail business that is written on the Company's policy forms. The services performed by AFBIS include underwriting, policy issuance, premium billing, premium collection, claims adjusting, claim payment, policy and claim data/file maintenance, and regulatory filings. During 2018, the Company paid AFBIS \$139,415 under the terms of this agreement.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is protected against loss from any fraudulent or dishonest acts by a fidelity bond. The bond provides aggregate coverage of \$4,000,000 and a single loss limit of \$2,000,000 with a \$50,000 deductible. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company were protected by appropriate policies of insurance.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported special deposits comprised of U.S. Treasury Notes and bonds held by various Departments of Insurance as of December 31, 2018:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Deposits For the Benefit of All Policyholders:</b>		
Indiana	\$ 1,986,024	\$ 2,020,546
<b>All Other Special Deposits:</b>		
Arkansas	64,593	63,063
Georgia	84,467	82,467
Missouri	998,020	993,359
New Mexico	402,512	404,984
North Carolina	301,338	292,594
Puerto Rico	580,598	557,136
Aggregate Alien and Other	<u>29,709,732</u>	<u>28,588,148</u>
Total Deposits	<u>\$34,127,284</u>	<u>\$33,002,297</u>

Note: Amounts are shown in whole dollars and columns may not total due to rounding.

## REINSURANCE

### **Reinsurance Assumed**

As of December 31, 2018, the Company reported assumed written premiums of \$950,276,000 on its Annual Statement Schedule F, Part 1. Approximately 80% of the Company's assumed premiums were produced under both property and casualty treaties with Farm Bureau insurance companies. The remaining 20% of the business was assumed from brokers, of which 76% was comprised of domestic business and 24% was derived from international sources on a non-admitted basis, and from Canada, where the Company is licensed for reinsurance.

The treaty coverage is provided in the form of both proportional and excess covers, and includes the following types of contracts: property quota share, all lines quota share, property surplus share, property per risk excess, property and auto occurrence catastrophe, per occurrence excess casualty and umbrella, umbrella quota share, property catastrophe perils aggregates, property defined event aggregates, and all lines aggregates.

The following table provides a summary of the Company's largest cedants based on assumed premiums as reported in the Company's 2018 Annual Statement Schedule F, Part 1.



<u>Ceding Insurer</u>	Gross Premiums Assumed (\$000)	Percentage
Georgia Farm Bureau Mutual Insurance Company	\$ 111,286	11.71%
North Carolina Farm Bureau Mutual Insurance Company	104,427	10.99%
Texas Farm Bureau Mutual Insurance Company	82,468	8.68%
Kentucky Farm Bureau Mutual Insurance Company	75,249	7.92%
United Farm Family Mutual Insurance Company	73,806	7.77%
Country Mutual Insurance Company	57,420	6.04%
Tennessee Farmers Mutual Insurance Company	40,376	4.25%
Farm Bureau Mutual Insurance Company of Arkansas, Inc.	31,284	3.29%
Nodak Insurance Company	21,935	2.31%
Farm Bureau Mutual Insurance of Michigan	18,464	1.94%
Florida Farm Bureau Casualty Insurance Company	16,773	1.77%
Louisiana Farm Bureau Mutual Insurance Company	15,936	1.68%
Southern Farm Bureau Casualty Insurance Company	14,605	1.54%
Farm Bureau Town & Country Insurance Company	14,288	1.50%
Colorado Farm Bureau Mutual Insurance Company	13,393	1.41%
Mountain West Farm Bureau Mutual Insurance	12,455	1.31%
Farm Bureau Mutual Insurance Company of Idaho	<u>10,766</u>	<u>1.13%</u>
Total assumed premium from significant cedants	\$ 714,931	75.23%
All other ceding insurers combined	\$ 235,345	24.77%
Total 2018 assumed premiums	<u>\$ 950,276</u>	<u>100.00%</u>

Note: Columns may not total due to rounding.

### **Retroceded Reinsurance**

The following significant corporate retrocessional contracts were in place as of December 31, 2018:

#### Property Catastrophe Excess of Loss Reinsurance Contracts

Effective June 1, 2018, the Company entered into four (4) Property Catastrophe Excess of Loss Reinsurance Contracts with various retrocessionaires. The contracts provide \$120,000,000 of coverage in excess of \$35,000,000 per occurrence. Approximately \$39,000,000 is written on a two (2) year basis.

#### Underlying Retrocessional Catastrophe Contract

In 2018, the contract had a limit of \$25,000,000 per occurrence. There was a \$10,000,000 retention for Broker Assumed property and zero retention for Farm Bureau property catastrophe subject business. Thirty-five percent (35%) of the program was subject to an Annual Aggregate Deductible of \$11,000,000. The program also had a total \$70,625,000 aggregate limit, net of the Annual Aggregate Deductible.

#### Property Per Risk Excess of Loss Retrocession Contract

Effective April 1, 2018, the Company entered into a Property Per Risk Excess of Loss Retrocession Contract. This contract covered property reinsurance assumed from the Farm Bureau insurance companies. The first layer provided coverage of \$7,000,000 for each risk in any one (1) loss occurrence in excess of \$3,000,000 for each risk in any one (1) loss occurrence with a \$21,000,000 occurrence limit in any one (1) calendar year. The second layer provided coverage of \$10,000,000 for each risk in any one (1) loss occurrence in excess of \$10,000,000 with a \$20,000,000 occurrence limit in any one (1) calendar year. Semi-Automatic Property Excess layers were also in place. There were two layers within the contract: \$15,000,000 excess \$20,000,000 and \$15,000,000 excess \$35,000,000. These were placed with two Lloyd's syndicates.

#### Liability and Umbrella Excess of Loss Retrocession Agreement

Effective 2018, the Company entered into a Liability and Umbrella Excess of Loss Retrocession Agreement, which reinsures liability and umbrella business assumed from the Farm Bureau insurance companies. This agreement provided \$27,500,000 of coverage on any one (1) loss occurrence in excess of the Company's retention of \$2,500,000 on any one (1) loss occurrence through four (4) layers.

#### Workers' Compensation Excess of Loss Retrocessional Agreement

Effective 2018, the Company entered into a retrocessional agreement, which reinsures Workers' Compensation Liability business assumed from the Farm Bureau insurance companies. This agreement provided \$27,500,000 in limit excess \$2,500,000 through three (3) layers.

#### Other Retrocessional Contracts

During 2018, the Company was covered under various Industry Loss Warranty Reinsurance Contracts, whereby the Company would be indemnified for losses up to \$10,000,000 on two contracts for events related to natural perils and for losses up to \$20,000,000 for events related to terrorism. In addition, the Company purchased New Madrid specific coverage for industry loss warranty and specific earthquake coverage for the first \$15,000,000 of losses.

The Company also retroceded pooled business produced by its Columbus office effective January 1, 2018 as follows:

- 32.9296% cession on International Broker Assumed Pool
- 54.1196% cession on Domestic Broker Assumed Catastrophe Pool
- 27.0598% cession on Domestic Broker Assumed Per Risk Pool

In addition to the treaty coverage discussed above, the Company also purchased facultative reinsurance for both property and casualty business in amounts in excess of treaty limits or for other special coverage arrangements.

### **RESERVES**

Yevgeniy Shevchuk, FCAS, MAAA, of American Agricultural Insurance Company, is the Appointed Actuary for the Company. Mr. Shevchuk was appointed by the Board to render an actuarial opinion on the statutory-basis reserves of the Company. He rendered an opinion on such reserves for 2017 and 2018.

Malgorzata Timberg, FCAS, MAAA, of American Agricultural Insurance Company, rendered an opinion on such reserves for the years 2014 to 2016 covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2018. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2018 opinion stated that the amounts carried in the balance sheet on account for reserves and related actuarial items: 1) meet the requirements of the insurance laws of the State of Indiana, 2) are computed in accordance with accepted actuarial standards and principles, and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company as of December 31, 2018 under the terms of its contracts and agreements.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2018, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2018, with no exceptions noted. All of the independent audit work papers were made available to Thomas Consulting during the examination.

Overall, Thomas Consulting determined the Company's accounting procedures, practices, and account records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2018

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Bonds	\$ 839,124,471	\$ -	\$ 839,124,471	\$ 753,296,836
Common stocks	140,328,241	-	140,328,241	169,777,663
Cash, cash equivalents and short-term investments	107,113,845	-	107,113,845	173,188,990
Derivatives	3,854,303	-	3,854,303	1,278,868
Other invested assets	9,590,172	-	9,590,172	10,733,029
Receivables for securities	-	-	-	229,681
Investment income due and accrued	5,761,804	-	5,761,804	5,580,427
Uncollected premiums and agents' balances in the course of collection	90,302,205	-	90,302,205	82,284,775
Deferred premiums agents' balances and installments booked but not deferred and not yet due	14,089,909	-	14,089,909	27,759,151
Amounts recoverable from reinsurers	120,329,832	-	120,329,832	81,399,336
Fund held by or deposited with reinsured companies	14,112,595	-	14,112,595	22,963,297
Current federal and foreign income tax recoverable and interest	5,495,914	-	5,495,914	10,210,958
Aggregate write-ins for other- than-invested assets	252,163	-	252,163	201,062
<b>Totals</b>	<b>\$ 1,350,355,454</b>	<b>\$ -</b>	<b>\$ 1,350,355,454</b>	<b>\$ 1,338,904,073</b>

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

**As of December 31, 2018**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Losses	\$ 583,187,408	\$ -	\$ 583,187,408	\$ 570,528,079
Reinsurance payable on paid losses and loss adjustment expenses	39,981,912	-	39,981,912	33,595,679
Loss adjustment expenses	10,953,240	-	10,953,240	10,601,259
Other expenses	1,538,719	-	1,538,719	2,768,204
Net deferred tax liability	461,868	-	461,868	4,846,943
Borrowed money	2,899,594	-	2,899,594	2,899,594
Unearned premiums	72,718,163	-	72,718,163	79,707,194
Dividends declared and unpaid:				
Stockholders	1,011,693	-	1,011,693	1,011,693
Ceded reinsurance premiums payable	47,766,577	-	47,766,577	38,987,563
Funds held by company under reinsurance treaties	1,645,643	-	1,645,643	645,643
Provision for reinsurance	28,000	-	28,000	123,000
Derivatives	-	-	-	1,110
Payable for securities lending	-	-	-	420,247
Aggregate write-ins for liabilities	7,910,052	-	7,910,052	8,009,369
<b>Total liabilities</b>	<b>\$ 770,102,869</b>	<b>\$ -</b>	<b>\$ 770,102,869</b>	<b>\$ 754,145,577</b>
Common capital stock	\$ 31,881,000	\$ -	\$ 31,881,000	\$ 31,881,000
Preferred capital stock	31,129,000	-	31,129,000	31,129,000
Surplus notes	77,322,498	-	77,322,498	77,322,498
Gross paid in and contributed surplus	13,385,086	-	13,385,086	13,385,086
Unassigned funds (surplus)	482,154,204	-	482,154,204	486,660,115
Less treasury stock at cost	55,619,203	-	55,619,203	55,619,203
Surplus as regards policyholders	\$ 580,252,585	\$ -	\$ 580,252,585	\$ 584,758,496
<b>Totals</b>	<b>\$ 1,350,355,454</b>	<b>\$ -</b>	<b>\$ 1,350,355,454</b>	<b>\$ 1,338,904,073</b>

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

**As of December 31, 2018**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Underwriting income</b>				
Premiums earned	\$ 327,982,288	\$ -	\$ 327,982,288	\$ 354,939,649
<b>DEDUCTIONS</b>				
Losses incurred	\$ 253,679,754	\$ -	\$ 253,679,754	\$ 294,151,240
Loss adjustment expenses incurred	16,030,637	-	16,030,637	17,279,515
Other underwriting expenses incurred	67,941,288	-	67,941,288	76,355,970
Total underwriting deductions	\$ 337,651,679	\$ -	\$ 337,651,679	\$ 387,786,725
<b>Net underwriting gain (loss)</b>	\$ (9,669,391)	\$ -	\$ (9,669,391)	\$ (32,847,076)
<b>Investment income</b>				
Net investment income earned	\$ 20,291,152	\$ -	\$ 20,291,152	\$ 14,673,623
Net realized capital gains (losses) less capital gains tax	7,694,540	-	7,694,540	3,484,473
Net investment gain	\$ 27,985,692	\$ -	\$ 27,985,692	\$ 18,158,096
<b>Other income</b>				
Aggregate write-ins for miscellaneous income	\$ (448,305)	\$ -	\$ (448,305)	\$ 124,009
Total other income	\$ (448,305)	\$ -	\$ (448,305)	\$ 124,009
Net income before dividends to policyholders, after federal income taxes	\$ 17,867,996	\$ -	\$ 17,867,996	\$ (14,564,971)
Federal and foreign income taxes incurred	\$ 594,649	\$ -	\$ 594,649	\$ (6,000,201)
<b>Net income</b>	\$ <u>17,273,347</u>	\$ -	\$ <u>17,273,347</u>	\$ <u>(8,564,770)</u>

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

**Capital and Surplus Account**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus, December 31, prior year	<u>\$584,758,496</u>	<u>\$575,916,032</u>	<u>\$541,156,293</u>	<u>\$525,689,721</u>	<u>\$489,257,593</u>
<b>Net income</b>	<b>\$ 17,273,347</b>	<b>\$ (8,564,770)</b>	<b>\$ 29,252,657</b>	<b>\$ 38,487,581</b>	<b>\$ 56,148,399</b>
Change in net unrealized capital gains	(16,790,895)	24,379,335	9,296,511	(4,676,016)	5,629,264
Change in net unrealized foreign exchange capital gain (loss)	(1,428,160)	1,360,823	1,503,166	(4,186,344)	(3,192,352)
Change in net deferred income tax	(459,038)	(4,917,719)	(2,300,561)	(7,774,582)	(15,120,576)
Change in nonadmitted assets	219,098	209,513	(284,583)	(427,905)	56,487
Change in provisions for reinsurance	95,000	(123,000)	16,000	(7,000)	417,000
Dividends to stockholders	(2,023,385)	(2,023,385)	(2,023,385)	(2,023,385)	(2,023,385)
Aggregate write-ins for gains and losses in surplus	<u>(1,391,877)</u>	<u>(1,478,333)</u>	<u>(700,066)</u>	<u>(3,925,777)</u>	<u>(5,482,709)</u>
<b>Change in capital and surplus for the year</b>	<b><u>\$ (4,505,910)</u></b>	<b><u>\$ 8,842,464</u></b>	<b><u>\$ 34,759,739</u></b>	<b><u>\$ 15,466,572</u></b>	<b><u>\$ 36,432,128</u></b>
<b>Capital and surplus, December 31, current year</b>	<b><u>\$580,252,585</u></b>	<b><u>\$584,758,496</u></b>	<b><u>\$575,916,032</u></b>	<b><u>\$541,156,293</u></b>	<b><u>\$525,689,721</u></b>



### COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2018, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

There were no significant findings noted as a result of this examination.

### SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this Report of Examination.

### MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, Thomas Consulting obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to Thomas Consulting.



**AFFIDAVIT**

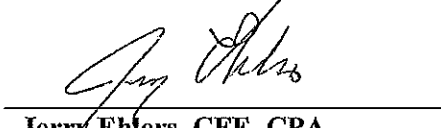
This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **American Agricultural Insurance Company** as of **December 31, 2018**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2018 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of the **American Agricultural Insurance Company** as of **December 31, 2018**, as determined by the undersigned.

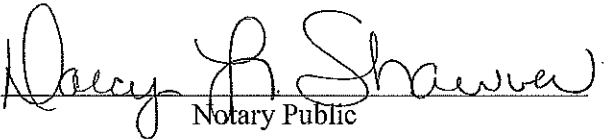
  
\_\_\_\_\_  
**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

  
\_\_\_\_\_  
**Jerry Ehlers, CFE, CPA**  
**Indiana Department of Insurance**

State of:  
County of:

On this 10<sup>th</sup> day of June, 2020, before me personally appeared, D. Patrick Huth and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires Oct 4, 2025   
Notary Public

DARCY L. SHAWVER  
NOTARY PUBLIC  
**SEAL**  
MARION COUNTY, STATE OF INDIANA  
MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO 706053

