

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

IN THE MATTER OF:)
)
Farmers Mutual Insurance Company of Noble County)
119 North Main Street)
Avilla, Indiana 46710)

Examination of Farmers Mutual Insurance Company of Noble County

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 Farmers Mutual Insurance Company of Noble County, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on August 30, 2013, 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 Farmers Mutual Insurance Company of Noble County 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.

October 25, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0022 6263 76

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

IN THE MATTER OF:)
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119 North Main Street)
Avilla, Indiana)

Examination of Farmers Mutual Insurance Company of Noble County

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Insurance Company of Noble County (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on July 17, 2013

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 August 30, 2013 and was received by the Company on September 4, 2013.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Farmers Mutual Insurance Company of Noble County as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Mutual Insurance Company of Noble County to comply with the 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, 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. 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 and Sealed this 25 day of October, 2013.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

**FARMERS MUTUAL INSURANCE COMPANY OF NOBLE
COUNTY**

NAIC Co. CODE 92297

As of

December 31, 2012

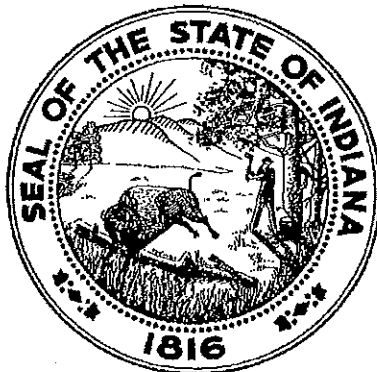


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
HISTORY	2
CAPITAL AND SURPLUS.....	2
TERRITORY AND PLAN OF OPERATION.....	2
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	3
Policyholders	3
Directors	3
Officers.....	4
CONFLICT OF INTEREST	4
OATH OF OFFICE.....	4
CORPORATE RECORDS.....	4
Articles of Incorporation	4
Bylaws	4
Minutes.....	4
FIDELITY BOND AND OTHER INSURANCE.....	5
REINSURANCE.....	5
ACCOUNTS AND RECORDS	5
FINANCIAL STATEMENTS	6
Assets, Liabilities, and Surplus	6
Statement of Income and Changes in Surplus.....	7
COMMENTS ON THE FINANCIAL STATEMENTS	8
SUMMARY OF SIGNIFICANT FINDINGS	8
SUBSEQUENT EVENTS.....	8
AFFIDAVIT.....	9



STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

July 17, 2013

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3750, an examination has been made of the affairs and financial condition of:

Farmers Mutual Insurance Company of Noble County
119 North Main Street
Avilla, Indiana 46710

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Avilla, Indiana and at the offices of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2007. The present examination, covered the period from January 1, 2008 through December 31, 2012, was conducted by Noble Consulting Services, Inc. (Noble) on behalf of the State of Indiana.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was organized in February, 1882 as Farmers Mutual Fire Insurance Company of Noble County, and elected to come under Chapter 145, Acts 1919 in May 1925. In 2003, the word "Fire" was removed from the Company's name.

CAPITAL AND SURPLUS

The Company is owned by its 2,062 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$462,246.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in Allen, DeKalb, Elkhart, Fulton, Hamilton, Huntington, Kosciusko, Miami, Noble, Shelby, Steuben, Wabash, and Whitley counties.

The Company's market focus is insuring homes valued between \$40,000 and \$150,000 and farm risks, from small "hobby farms" to large, multi-location farm operations. In addition, the Company will insure lower-valued rental dwellings and mobile home risks.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, as reported during the examination period and corrected during the process of the examination:

	<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>
*	2012	\$ 673,516	\$ 211,270	\$ 462,246
**	2011	627,702	205,011	422,691
	2010	1,329,221	752,929	576,292
	2009	697,556	61,045	636,511
	2008	471,162	(115,784)	586,946

* As adjusted through the examination process, the 2012 Policyholder Surplus decreased by \$196,000. The 2012 financial statements on pages 6 and 7 of this report were also adjusted to reflect the examination findings.

** As adjusted through the examination process, the 2011 Policyholder Surplus decreased by \$43,000. The 2011 financial statements on pages 6 and 7 of this report were also adjusted to reflect the examination findings.

MANAGEMENT AND CONTROL

Policyholders

An annual meeting of policyholders is held for the purpose of electing a Board of Directors and addressing such other business as may arise. Each policyholder is entitled to one (1) vote.

Directors

The corporate powers of the Company are vested in a Board of Directors consisting of seven (7) policyholders. The Directors' terms are staggered such that no more than three (3) Directors are elected during any given year. The following persons were serving as Directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Chad Beesley	Larwill, IN
Ivan Dressler	Kendallville, IN
Martin Huelsenbeck	Kendallville, IN
Jim Kiester	Kimmell, IN
William Ley	Avilla, IN
Don Norden	Avilla, IN
Harold Troyer	LaOtto, IN

Officers

The officers of the Company consist of a President, a Vice President, Secretary, and Treasurer. Officers are elected at the annual meeting of the Board of Directors to serve a term of one (1) year. The following persons were serving as officers at December 31, 2012:

<u>Name</u>	<u>Office</u>
Harold Troyer	President
Martin Huelsenbeck	Vice President
Ivan Dressler	Secretary
William Ley	Treasurer

CONFLICT OF INTEREST

Officers and Directors are required to review and sign Conflict of Interest statements annually. Per review of the signed statements, it was noted that the Directors and officers listed in the Management and Control section of this report fulfilled that requirement.

OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) stipulates 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 Company. Per review of the signed statements, it was noted that all Directors and officers listed in the Management and Control section of this report had completed Oath of Office statements.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments to the Bylaws during the examination period.

Minutes

Minutes from the Board of Directors meetings and the annual meeting were reviewed for the period under examination through the fieldwork date. Minutes documented the Board's oversight of operations.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by its employees through a fidelity bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$250,000. Based on the admitted assets and gross income of the Company, the Company is in compliance with the prescribed minimum coverage specified by the NAIC.

REINSURANCE

The Company's reinsurance program is placed through Guy Carpenter, a reinsurance intermediary, with offices in Philadelphia, Pennsylvania. The reinsurance program includes four (4) treaties, all effective January 1, 2012, which are described below. All reinsurance providers have an A.M. Best rating greater than or equal to "A-".

Property First Surplus

Under this treaty, the amount of coverage is four times the Company's net retained liability, per risk, subject to a maximum cession of \$160,000 and a minimum retention of \$5,000 per risk. The ceded liability with respect to any one loss occurrence will not exceed an amount equal to 250% of the annual ceded premium earned for the Contract year during which the loss occurred. The treaty has a 10% loss corridor attaching at 65% loss ratio and a profit contingency of 30% after 15% for expenses. The loss corridor and profit contingency are rate making mechanisms used by reinsurers to increase the Company's retention, in certain circumstances, in proportional or excess of loss agreements. Also, the Company is entitled to a 20% Ceding Commission.

Aggregate Excess of Loss

Coverage under this treaty is 95% of 490% of Gross Net Earned Premium Income (GNEPI) or 95% of \$2,793,000, whichever is the lesser in excess of 62.5% of GNEPI or \$237,500, whichever is greater.

Supplemental Aggregate Excess of Loss

Coverage under this treaty is 100% of 280% of GNEPI pertaining to all net losses and net loss adjustment expenses in excess of an amount equal to the Company's net retention and coverage provided by the underlying Aggregate Excess of Loss Reinsurance.

Property Facultative Pro Rata Reinsurance

Under this reinsurance treaty, the Company may cede and the Reinsurer shall be liable in respect of each loss, each risk, for the Ultimate Net Loss over and above an Ultimate Net Loss of \$200,000 per loss, per risk, subject to a limit of liability to the Reinsurer of \$250,000 per loss, per risk.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Company utilizes a computerized accounting system for their general ledger, which generates the trial balance at year-end. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation. Adjustments in the financial statements which follow are for the purpose of reconciling the change in surplus and presenting the financial statements on a full accrual basis.

FARMERS MUTUAL INSURANCE COMPANY OF NOBLE COUNTY

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, 2011</u>
Assets:				
Bonds	\$ 88,688	\$ -	\$ 88,688	\$ 118,255
Stocks - common	454,991	-	454,991	396,524
Bank balances	62,734	-	62,734	39,211
Real estate	24,867	-	24,867	26,824
Unpaid premiums	259,833	(250,000)	9,833	9,853 *
Reinsurance receivable	24,695	-	24,695	29,160
Accrued interest	1,692	-	1,692	1,473
State income tax recoverable	3,026	-	3,026	3,088
Fed income tax recoverable	2,990	-	2,990	3,314
Total Assets	\$ 923,516	\$ (250,000)	\$ 673,516	\$ 627,702
Liabilities and Surplus:				
Unpaid claims	\$ 33,830	\$ -	\$ 33,830	\$ 40,500
Unpaid salaries and commissions	13,911	-	13,911	15,747
Amounts withheld	6,329	-	6,329	4,015
Taxes payable	21	-	21	84
Premiums received in advance	24,575	-	24,575	9,840
Unearned premium reserve	181,931	(54,000)	127,931	134,520 *
Unrealized gain	4,673	-	4,673	305
Total liabilities	265,270	(54,000)	211,270	205,011
Policyholder Surplus	658,246	(196,000)	462,246	422,691 *
Total liabilities and surplus	\$ 923,516	\$ (250,000)	\$ 673,516	\$ 627,702

* As adjusted through the examination process, the 2011 Policyholder Surplus decreased by \$43,000. Unpaid Premiums was overstated by \$543,000 and Unearned Premiums was overstated by \$500,000.

FARMERS MUTUAL INSURANCE COMPANY OF NOBLE COUNTY

FINANCIAL STATEMENTS

Statement of Income and Changes in Surplus

	As of December 31, 2012			December 31, 2011
	Per Annual Statement	Examination Adjustments	Per Examination	
Income:				
Premiums, net of reinsurance	\$ 615,130	\$ -	\$ 615,130	\$ 524,147
Income from investments	24,563	-	24,563	16,301
Other income	29,728	-	29,728	39,428
Total income	669,421	-	669,421	579,876
Disbursements:				
Losses, net of reinsurance	161,707	-	161,707	154,065
Operating expenses	497,542	-	497,542	438,653
Non-operating expenses	5,583	-	5,583	8,804
Change in ledger assets and liabilities	(169,084)	153,000	(16,084)	121,204 *
Total disbursements	495,748	153,000	648,748	722,726
Net income	173,673	(153,000)	20,673	(142,850) *
Net unrealized gains (losses)	18,882	-	18,882	(10,751)
Policyholder Surplus, beginning of period	422,691	-	422,691	576,292
Policyholder Surplus, end of period	\$ 615,246	\$ (153,000)	\$ 462,246	\$ 422,691 *

* As adjusted through the examination process, unpaid premiums were overstated in 2012 and 2011, by \$153,000 and \$43,000, respectively. The effect of this overstatement was a reduction in net income for both years.

COMMENTS ON THE FINANCIAL STATEMENTS

During the examination it was determined that unpaid premiums were overstated by \$250,000 and \$543,000 as of December 31, 2012 and 2011 respectively. The overstatement significantly misstated the financial position of the Company. In the future, the Company should take appropriate measures to ensure the proper reporting of unpaid premiums.

During the examination it was determined that the unearned premium reserve was overstated by \$54,000 and \$500,000 as of December 31, 2012 and 2011 respectively. The overstatement significantly misstated the financial position of the Company. In the future, the Company should take appropriate measures to ensure the proper reporting of the unearned premium reserve.

The adjustments to correct overstated unpaid premiums and unearned premiums reduced net income in 2012 and 2011 by \$153,000 and \$43,000 respectively.

SUMMARY OF SIGNIFICANT FINDINGS

Other than the comments detailed in the Comments on the Financial Statements section of this Report of Examination, the examination resulted in no other significant findings.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work, which were considered material events requiring disclosure in this Report of Examination.

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 Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Farmers Mutual Insurance Company of Noble County**, as of **December 31, 2012**.

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

This examination was performed in accordance with those procedures required by the 2013 NAIC Financial Condition Examiner's 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 standards 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 **Farmers Mutual Insurance Company of Noble County**, as of **December 31, 2012**, as determined by the undersigned.



Rick Mendez, CPA
Noble Consulting Services, Inc.

RECEIVED

AUG 12 2013

STATE OF INDIANA
DEPT. OF INSURANCE

State of:
County of:

On this 1 day of August 2013, before me personally appeared, Rick Mendez, 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



