

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

IN THE MATTER OF:)
)
Local Farmers Mutual Fire and Lightning Insurance)
Company)
10259 N. County Road 600 E.)
Sunman, Indiana 47071)

Examination of: **Local Farmers Mutual Fire and Lightning 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 Local Farmers Mutual Fire and Lightning Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 23, 2020, 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 Local Farmers Mutual Fire and Lightning 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.

2/11/2021

Date



Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9797

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FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Local Farmers Mutual Fire and Lightning 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 September 18, 2019.

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 December 23, 2020 and was received by the Company on January 2, 2021.

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 Local Farmers Mutual Fire and Lightning Insurance Company as of December 31, 2018.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Local Farmers Mutual Fire and Lightning Insurance Company 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 this 11th day of February, 2021.



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.

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STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING INSURANCE
COMPANY
NAIC Co. CODE 92315

As of

December 31, 2018

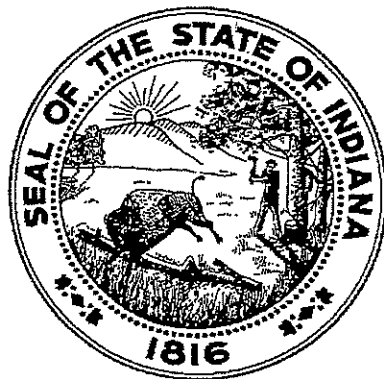


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STATE OF INDIANA

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

September 18, 2019

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 4028, an examination has been made of the affairs and financial condition of:

Local Farmers Mutual Fire and Lightning Insurance Company
10259 N. County Road 600 E
Sunman, Indiana 47041

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

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

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
317-232-2413

COMPANY COMPLIANCE
317-232-3495

CONSUMER SERVICES
317-232-2395/1-800-622-4461

FINANCIAL SERVICES
317-232-2390

MEDICAL MALPRACTICE
317-232-2402

COMPANY RECORDS
317-232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2013. The present risk-focused examination was conducted by Noble Consulting Services, Inc., 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.

The examination was conducted 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, including corporate governance, identifying and assessing inherent risks within the Company, and 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 1870, in the state of Indiana, and elected be governed as a Farm Mutual Insurance Company under Chapter 145, Acts 1919. The Company insures losses to rural risks including farm and farm related structures, grain and hay, livestock, and machinery caused by collision, fire, lightning, theft or wind.

CAPITAL AND SURPLUS

As of December 31, 2018, the Company had adjusted surplus of \$509,489. The Company has 116 members, who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in Dearborn, Decatur, Franklin, and Ripley counties.

The Company primarily insures farm equipment and property, livestock, and poultry. Policies are written on a one (1) year basis.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Surplus
2018	\$ 523,572	\$ 14,083	\$ 509,489 *
2017	534,230	11,286	522,944 **
2016	538,746	41,068	497,678
2015	529,168	42,802	486,366
2014	560,859	44,830	516,029

*2018 Liabilities and surplus were adjusted to correct overstated premiums received in advance and understated unearned premium reserve.

**2017 Admitted assets, liabilities and surplus were adjusted to correct financial statement reporting errors.

MANAGEMENT AND CONTROL

Directors

The corporate powers of the Company are vested in a Board of Directors (Board) consisting of eight (8) directors. Directors are elected to serve one (1) year terms. The following is a listing of persons serving as directors as of December 31, 2018:

Name	Address
Bonnie Billman	Osgood, Indiana
Brandon Brandt	Sunman, Indiana
Roger Crum	Sunman, Indiana
Jean Field	Versailles, Indiana
Tami Gray	Batesville, Indiana
Julia Kirkland	Versailles, Indiana
Steve Meyer	Osgood, Indiana
Jerry Volz	Sunman, Indiana

Officers

The officers of the Company consist of a President, Vice President, Secretary, and Treasurer. Officers are elected at the annual meeting of the Board and serve one-year terms. The following is a list of key officers and their respective titles as of December 31, 2018.

Name	Office
Rita Newhart	President
Julia Kirkland	Vice President
Kim Ertel	Secretary
Viola Billman	Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2018.

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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all of the directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2018.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

The Board minutes and the minutes from the annual meeting of the members were reviewed for the period under examination through the fieldwork date. No significant issues or events were noted.

AFFILIATED COMPANIES

The Company is owned by its members and has no affiliated companies.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company. The bond has a blanket coverage of \$200,000. The fidelity bond meets the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2018, including but not limited to, director and officer professional liability insurance.

STATUTORY DEPOSITS

As a farm mutual insurer, the Company is not required to maintain a statutory deposit with the state of Indiana.

REINSURANCE

The Company's reinsurance program is placed through Guy Carpenter, a reinsurance broker. The reinsurance program includes three (3) treaties, effective January 1, 2018, which are described below.

- *Property Facultative Pro Rata Reinsurance Contract* – This coverage limits the Company's liability on an individual occurrence of loss to a maximum of \$250,000 and minimum net retention limit of \$2,500.
- *Property First Surplus Reinsurance Contract* – This coverage limits the Company's liability on an individual occurrence to a maximum of \$60,000 and minimum net retention of \$2,500.
- *Aggregate Excess of Loss Reinsurance Contract* – The reinsurers will be liable for 97.50% of an amount equal to \$269 per \$1,000 of Average Net Fire Insurance in Force (ANFIF), or 97.5% of \$400,300 whichever is the lesser, in excess of \$12.50 per \$1,000 of ANFIF, or \$12,400, whichever is greater, subject to a minimum net retention limit of \$10,000.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2017 and December 31, 2018, were agreed to the respective Annual Statements.

FINANCIAL STATEMENTS

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING INSURANCE COMPANY
Assets, Liabilities and Surplus
As of December 31, 2018

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Assets:			
Bonds	\$ 175,070	\$ -	\$ 175,070
Stocks	303,028	-	303,028
Bank balances	45,474	-	45,474
Total assets	<u>\$ 523,572</u>	<u>\$ -</u>	<u>\$ 523,572</u>
Liabilities and Surplus:			
Unpaid claims	\$ -	\$ -	\$ -
Less, reinsurance recoverable	<u>-</u>	<u>-</u>	<u>-</u>
Net unpaid claims	-	-	-
Premiums received in advance	47,173	(47,173)	- *
Unearned premium reserve	<u>-</u>	<u>14,083</u>	<u>14,083</u> *
Total liabilities	47,173	(33,090)	14,083
Surplus	<u>476,399</u>	<u>33,090</u>	<u>509,489</u> *
Total liabilities and surplus	<u>\$ 523,572</u>	<u>\$ -</u>	<u>\$ 523,572</u>

*Surplus increased by \$33,090 as a result of overstated premiums received in advance of \$47,173 and an understated unearned premium reserve of \$14,083.

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING INSURANCE COMPANY
Income Statement and Change in Surplus
For the Year Ended December 31, 2018

	Per Annual Statement	Examination Adjustments	Per Examination*
Income:			
Premiums, net of reinsurance	\$ 57,948	\$ (35,887)	\$ 22,061 **
Interest and profit on investments	14,685	(8,479)	6,206 **
Total income	72,633	(44,366)	28,267
Disbursements:			
Losses, net of reinsurance	8,611	-	8,611
Operating expenses	41,291	-	41,291
Non-operating expenses	69	-	69
Change in ledger assets and liability amounts	24,841	(33,090)	(8,249) *
Total disbursements	74,812	(33,090)	41,722
Net income	(2,179)	(11,276)	(13,455)
Surplus, beginning of period	478,578	44,366	522,944 **
Surplus, end of period as reported	\$ 476,399	\$ 33,090	\$ 509,489

*The Company reports some income statement items on a cash basis. In order to properly reconcile the change in surplus, the change in accrued asset and liability amounts reflect the reconciliation from cash to accrual basis.

**Premiums net of reinsurance were reduced by \$35,887, interest and profit on investments were reduced by \$8,479 and beginning surplus was increased by \$44,366.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company overstated premiums received in advance by \$47,173 as of December 31, 2018. It is recommended that the Company properly report premiums received in advance in future Annual Statement filings.

The Company understated unearned premium reserve by \$14,083 as of December 31, 2018. It is recommended that the Company properly report unearned premium reserve in future Annual Statement filings.

The Company overstated premiums, net of reinsurance by \$35,887 as of December 31, 2018. It is recommended that the Company properly report premiums, net of reinsurance in future Annual Statement filings.

The Company overstated interest and profits on investments by \$8,479 as of December 31, 2018. It is recommended that the Company properly report interest and profits on investments in future Annual Statement filings.

The Company understated beginning surplus by \$44,366 as of December 31, 2018. It is recommended that the Company properly report beginning surplus in future Annual Statement filings.

OTHER SIGNIFICANT ISSUES

The mutual fund investment of \$53,043 in the Lord Abbett Short Duration Income Fund exceeds the limit of 10% of Net Admitted Assets of \$52,357 and is not in compliance with IC 27-1-13-3(c)(1) and (8). It is recommended that the Company reallocate investments to a level below the 10% limit noted above to address this issue.

SUBSEQUENT EVENTS

There were no other events subsequent to the examination date and prior to the completion of fieldwork 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., performed an examination of Local Farmers Mutual Fire and Lightning 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.

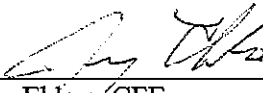
This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing 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 Local Farmers Mutual Fire and Lightning Insurance Company as of December 31, 2018, as determined by the undersigned.



Jim Kattman, CFE
Noble Consulting Services, Inc.

Under the supervision of,




Jerry Ehlers, CFE
Indiana Department of Insurance

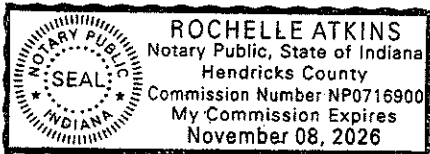
State of: Indiana
County of: Marion

On this 12th day of November, 2019, before me personally appeared, Jim Kattman 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: Nov 8, 2026 

Notary Public



Notary Public

