

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

IN THE MATTER OF: )  
 )  
Home Mutual Insurance Company )  
532 Main Street )  
Tell City, Indiana 47586 )

Examination of **Home Mutual 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 **Home Mutual Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 8, 2011, 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 **Home Mutual 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.

5/26/2011  
Date

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8219**

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532 Main Street )  
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### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **Home Mutual Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 16, 2011.

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 March 8, 2011 and was received by the Company on March 11, 2011.

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 **Home Mutual Insurance Company** as of December 31, 2009.
2. That the Examiners' Recommendations are reasonable and necessary in order for the **Home Mutual 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 and Sealed this 26<sup>th</sup> day of  
May, 2011.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

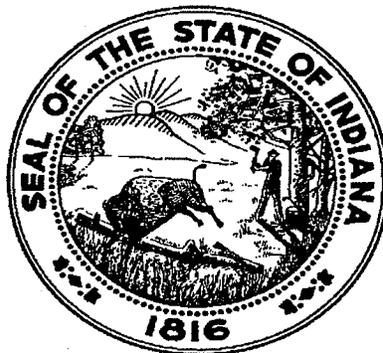
**OF**

**HOME MUTUAL INSURANCE COMPANY**

**NAIC Co. CODE 15822**

As of

**December 31, 2009**



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., 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

January 17, 2011

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3646, an examination has been made of the affairs and financial condition of:

**Home Mutual Insurance Company**  
**532 Main St. P.O. Box 127**  
**Tell City, IN 47586**

hereinafter referred to as the "Company", an Indiana-domiciled, property and casualty insurance company. The examination was conducted at the Company's corporate offices in Tell City, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of December 31, 2004. The present examination, covering the period from January 1, 2005, through December 31, 2009, was conducted by Noble Consulting Services, Inc. and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

We conducted our examination pursuant to and in accordance with the 2010 NAIC Financial Condition Examiners 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.

## HISTORY

The Company was organized April 27, 1876, as the German Mutual Fire Insurance Company of Southern Indiana. On June 27, 1877, the Company was incorporated as the German Mutual Fire Insurance Company of Tell City, Indiana, under an act of the General Assembly of the State of Indiana, dated March 14, 1877. On February 6, 1907, by an act of the General Assembly, the legality of the Company to operate was established.

On November 12, 1919, the Company changed its name to Home Mutual Fire Insurance Company of Tell City, Indiana. On February 13, 1930, it accepted the provisions of an act of the General Assembly entitled, "An act to provide for the organization and management of Mutual Insurance Corporations..." On May 16, 1960, the Company changed its name to Home Mutual Insurance Company.

On August 4, 1967, the Company organized an independent insurance agency known as Home Insurance Agency of Tell City, Inc. The authorized capital stock was set at 1,000 shares without par value. The Company purchased 997 shares; the remaining 3 shares were purchased by the three incorporators. On June 8, 1975, the incorporators surrendered their shares making the Company the sole stockholder.

On February 12, 1990, the Company amended its Articles of Incorporation, whereby it stipulated its purpose, that to make, transact and engage in all kinds of insurance and reinsurance set out in Classes II and III, except Class 2(k), as set forth in Indiana Code (IC) 27-1-5-1.

On April 10, 2002, German Mutual Insurance Company merged with and into Home Mutual Insurance Company, with the latter being the survivor, as evidenced by a letter of authorization received from the Commissioner of Insurance, State of Indiana.

## CAPITAL AND SURPLUS

As of December 31, 2009, the Company had surplus of \$773,128 and had approximately 800 members (policyholders), who are the owners of the Company.

## TERRITORY AND PLAN OF OPERATION

The Company issues policies solely within the state of Indiana. As of December 31, 2009, the Company was transacting business in the Indiana counties of Perry, Spencer, Harrison, and Floyd.

## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Member</u> <u>Surplus</u>	<u>Net Premium</u> <u>Written</u>	<u>Net Losses</u> <u>Paid</u>
2009	\$ 1,433,752	\$ 349,841	\$ 1,083,911	\$ 353,448	\$ 476,783
2008	1,812,434	726,476	1,085,958	587,808	377,052
2007	1,995,457	717,465	1,277,992	627,507	251,788
2006	1,973,402	688,094	1,285,308	562,701	312,453
2005	2,048,639	552,632	1,496,007	582,132	135,841

Significant variances in the last two years of the examination period are primarily driven by a change in the accrual for unpaid claims and reinsurance recoverables. Upon examination, management estimates were found to be based on an inaccurate formula. An examination adjustment has been proposed, see the Comments on the Financial Statements section of this report for further detail.

## MANAGEMENT AND CONTROL

### Members

Members (policyholders) of the Company are considered its owners. An annual meeting of members is held each year for the purpose of electing a Board of Directors and addressing such other business as may come before it. Each member is entitled to one vote for each issue where a vote is taken.

### Directors

The corporate powers of the Company are vested in a Board of Directors consisting of seven or more members. Directors serve a term of two years and are elected on a staggered basis at the annual meeting of members.

The following persons were serving as Directors at December 31, 2009:

<u>Name of Director</u>	<u>Residence</u>	<u>Board Title</u>
R. Byron Alvey	Tell City, IN	Vice-President
Clarke Blackford	Tell City, IN	Member
Mark A. Fenn	Tell City, IN	President
Michael Hammack	Tell City, IN	Treasurer
Anthony Hollinden	Tell City, IN	Member
Annetta Price	Lanesville, IN	Member
David Lett	Depauw, IN	Member
Russell Menges	Corydon, IN	Member

### Officers

The officers of the Company consist of a president, vice president, secretary and treasurer. In addition to the officers listed above, Gary D. Butler serves as secretary of the Company. Officers are elected at the organizational meeting in January of each year and serve for a term of one year.

### CONFLICT OF INTEREST

The Company requires Officers and Directors to review and sign Conflict of Interest Statements on an annual basis. Per review of the signed statements, it was noted that the Officers and Directors listed in the management and control section of this report had reviewed and signed their statements as of January 2010.

### OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take an 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. The Company did not maintain Oath of Office statements for its Directors during the examination period, see the summary of significant findings.

### CORPORATE RECORDS

#### Articles of Incorporation and Bylaws

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

#### Minutes

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

### AFFILIATED COMPANIES

The Company is owned by its members and has one affiliated company. The Home Insurance Agency of Tell City, Inc. was created in 1967 and is 100% owned by the Company.

### 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 Travelers Insurance. The bond has blanket coverage of \$100,000. Based on the admitted assets and gross income of the Company, the bond exceeds the prescribed minimum coverage specified by the NAIC.

### STATUTORY DEPOSITS

The Company reported the statutory deposit for Indiana policyholders, which is comprised of two (2) Certificates of Deposit, totaling \$50,000.

### REINSURANCE

#### Reinsurance Assumed

The Company assumed no reinsurance during the exam period.

#### Reinsurance Ceded

The Company's reinsurance program is written through Farmer's Mutual Hail Insurance Company of Iowa. The 2009 policies are as follows:

In the Company's "Multiple Line Excess of Loss Reinsurance Agreement," the limits are as follows: The maximum policy limits for casualty business on Policies issued by the Company are \$500,000/\$1,000,000 as respects Homeowners, Commercial, and Farmowners business, or so deemed. Property risks over \$550,000 Total Insurance Value shall be reinsured by the Company elsewhere on a pro rata basis, recoveries under which shall inure to the benefit of this Agreement, or so deemed.

The Company agrees that it will issue no Endorsements on any single Policy in excess of \$250,000, unless it has received the prior approval of the Reinsurer.

For property, the Reinsurer shall not be liable for any loss until the Company's Ultimate Net Loss on any one risk or any one loss exceeds \$75,000, and then the Reinsurer shall be liable for 100% of the amount of the Ultimate Net Loss sustained by the Company in excess of \$75,000 on any one risk or any one loss, but the Reinsurer's liability shall not exceed 100% of \$475,000 with respect to any one risk or any one loss. However, the liability of the Reinsurer shall be limited to \$712,500 in total as respects any one "Loss Occurrence."

For casualty, the Reinsurer shall not be liable for any loss until the Company's Ultimate Net Loss in each Loss Occurrence exceeds \$25,000, and then the Reinsurer shall be liable for 100% of the amount of Ultimate Net Loss sustained by the Company in excess of \$25,000 in each such Loss Occurrence, but the Reinsurer's liability shall not exceed 100% of \$475,000 with respect to each Loss Occurrence.

For the Company's "Aggregate Excess of Loss Reinsurance Agreement," the retention and limit is as follows: 100.0% of the lesser of \$1,698,000 or 225.0% of the Company's Gross Net Written Premium Income in excess of the greater of \$348,000 or 90.0% of the Company's Gross Net Written Premium Income in the aggregate.

### 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 maintains detailed records of their unearned premiums and claims paid accounts, and creates trial balances at year-end. Material balances reflected in the December 31, 2009, Annual Statement and trial balance were agreed to supporting documentation.

## Home Mutual Insurance Company

### Financial Statements

### Assets, Liabilities, and Surplus

	As of December 31, 2009			December 31, 2008
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Assets:</b>				
Bonds	\$ 362,483		\$ 362,483	\$ 402,663
Stocks	237,033		237,033	219,594
Bank balances				
Subject to check	80,793		80,793	193,312
On interest	496,957		496,957	617,587
Collateral loans				100,000
Real estate	183,706		183,706	190,724
Cash in office	200		200	200
Unpaid premiums due after 11/1	63,262		63,262	77,553
Accrued interest	8,644		8,644	10,125
Meter deposit	675		675	675
<b>Total Assets</b>	<b>\$ 1,433,752</b>		<b>\$ 1,433,752</b>	<b>\$ 1,812,434</b>
<b>Liabilities and Surplus</b>				
Net unpaid claims	\$ 332,790	\$ (310,783)	\$ 22,007	\$ 346,814
Unpaid salaries and commissions	2,894		2,894	5,167
Amounts withheld for the account of others	34,522		34,522	4,719
Premiums received in advance	9,820		9,820	11,262
Unearned premium reserve	280,598		280,598	358,513
<b>Total liabilities</b>	660,624		349,841	726,476
<b>Surplus</b>	773,128	310,783	1,083,911	1,085,958
<b>Total liabilities and surplus</b>	<b>\$ 1,433,752</b>		<b>\$ 1,433,752</b>	<b>\$ 1,812,434</b>

Home Mutual Insurance Company

Financial Statements

Statement of Income

	For the period ended December 31, 2009			December 31, 2008
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Net Ledger Assets, January 1, 2009</b>	\$ 847,478	\$ 238,480	\$ 1,085,958	\$ 1,277,992
<b>Income:</b>				
Premiums, net of reinsurance	353,448	79,361	432,809	587,808
Net interest received on bonds	22,672		22,672	23,239
Increase in adjustment of bonds	147	17,437	17,584	19
Dividends received	10,678		10,678	11,379
Interest received on bank deposits	23,832	(1,481)	22,351	25,076
Interest received on collateral loans	1,285		1,285	7,807
Rents received	7,200		7,200	7,200
Increase in ledger liabilities	27,530	(27,530)		(1,364)
Miscellaneous income	7,377		7,377	10,507
<b>Total income</b>	<b>454,168</b>	<b>67,787</b>	<b>521,956</b>	<b>671,671</b>
<b>Disbursements:</b>				
Losses, net of reinsurance	476,783	(324,807)	151,976	421,789
Operating expenses	343,572	1	343,573	420,923
Non-operating expenses	32,100	(3,646)	28,454	20,993
<b>Total disbursements</b>	<b>852,454</b>	<b>(328,452)</b>	<b>524,003</b>	<b>863,705</b>
<b>Net income</b>	<b>(398,286)</b>	<b>396,239</b>	<b>(2,047)</b>	<b>(192,034)</b>
<b>Net Ledger Assets, December 31, 2009</b>	<b>\$ 449,192</b>	<b>\$ 634,719</b>	<b>\$ 1,083,909</b>	<b>\$ 1,085,958</b>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

Unpaid losses and reinsurance recoverables were significantly overstated in the financial statements for 2009 and 2008. As noted in item two of the significant findings, an adjustment was proposed.

## **SUMMARY OF SIGNIFICANT FINDINGS**

1. As noted in the Oath of Office section of this report, the Company did not have signed Oath of Office statements on file. In accordance with regulatory requirements, signed Oaths of Office statements should be obtained from Board members on an annual basis.
2. An examination adjustment to the Company's balance sheet and income statement was proposed as a result of this examination. Unpaid claims were overstated and premiums were understated, see financial statement section of this report for detail of the amounts.

## **SUBSEQUENT EVENTS**

The Company is currently in the process of developing strategies to substantially reduce membership. The Company's current intent is to present a strategy to the membership at their January 22, 2011, Annual Meeting.

Per Tim Harding, their plan involves transferring substantially all members to a third party carrier in 2011, as the member's policies come up for renewal. The Company would retain a de-minimis number of members, in order to keep the Company open. At this time, the Company has not developed a timeline for distributing the surplus.

The Company has been made aware of Indiana statutes, regarding the liquidation of a property and casualty insurance company.

## **MANAGEMENT REPRESENTATION**

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

**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 **Home Mutual Insurance Company**, as of **December 31, 2009**.

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 2010 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 **Home Mutual Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.

  
\_\_\_\_\_  
James M. Kattman, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 25 day of January 2011, before me personally appeared, James M. Kattman, 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: 3/1/18 