

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

IN THE MATTER OF: )  
 )  
UFB Casualty Insurance Company )  
225 South East Street )  
Indianapolis, Indiana 46202 )

Examination of **UFB Casualty 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 **UFB Casualty Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on October 7, 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 **UFB Casualty 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.

Date

11/2/2011

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8783**

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

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UFB Casualty Insurance Company )  
225 South East Street )  
Indianapolis, Indiana 46202 )

Examination of **UFB Casualty Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **UFB Casualty Insurance Company** (hereinafter "Company") for the time period January 1, 2006 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 7, 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 October 7, 2011 and was received by the Company on October 12, 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 **UFB Casualty Insurance Company** as of December 31, 2010.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **UFB Casualty 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 2<sup>nd</sup> day of  
November, 2011.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

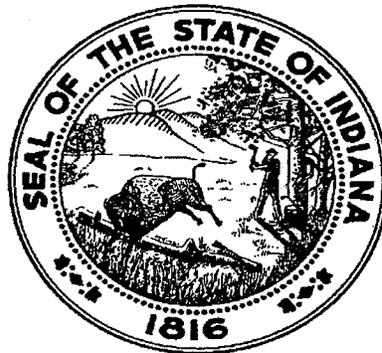
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

**UFB CASUALTY INSURANCE COMPANY**  
NAIC Co. CODE 23868

As of

December 31, 2010



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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

September 7, 2011

Honorable Joseph Torti, III  
Chair, NAIC Financial Condition (E) Committee, NAIC  
Superintendent, State of Rhode Island  
Department of Business Regulation  
Division of Insurance  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

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

Dear Superintendent and Commissioner:

Pursuant to the authority vested in Appointment Number 3668, an examination has been made of the affairs and financial condition of:

**UFB Casualty Insurance Company**  
**225 South East Street**  
**Indianapolis, Indiana 46202**

hereinafter referred to as the "Company" or "UFBCIC", an Indiana domestic property and casualty insurance company. The examination was conducted at the Company's corporate offices in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2010, 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  
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MEDICAL MALPRACTICE  
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SECURITIES / COMPANY RECORDS  
(317) 232-1991

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2005. The present risk-focused examination covered the period from January 1, 2006 through December 31, 2010, and was conducted by Noble Consulting Services, Inc., on behalf of the State of Indiana. This examination was conducted in conjunction with the examinations of United Farm Family Life Insurance Company, United Farm Family Mutual Insurance Company (UFFMIC), and United Home Life Insurance Company.

David M. Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc. was appointed by the IDOI to conduct a review of the Company's statutory reserves as of December 31, 2010. There were no actuarial adjustments resulting from the review performed by Mr. Shepherd.

We conducted our 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, 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. The workpapers prepared by Deloitte & Touche, LLP, the Company's independent auditors, in their audit of the Company's accounts for the year ended December 31, 2010, were reviewed. A portion of the auditor's workpapers have been incorporated into the examination workpapers and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

## HISTORY

UFBCIC was created and incorporated under the laws of the State of Indiana on December 31, 1985, and adopted its current name on February 21, 1986. The Company commenced business on March 1, 1986 and is a wholly-owned subsidiary of UFFMIC. The company operates under the sponsorship of Indiana Farm Bureau, Inc. (IFBI), an Indiana not-for-profit agricultural membership.

## CAPITAL AND SURPLUS

The Company is authorized to issue 1,000 shares of common stock with a par value of \$10,000 per share. As of December 31, 2010, 200 shares were issued and outstanding and were held by UFFMIC. During the period under review, there were no changes to the capital account, surplus paid in, or contributed capital. No shareholder dividends were paid during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company is a multiple line carrier primarily focused on personal lines business with a small amount of direct commercial auto. The Company is licensed only in the state of Indiana; and its products are available only to members of the IFBI. All of the Company's premiums are from personal lines, with the largest segment being homeowners 66% and the personal auto line 16%.

The Company uses a common multi-line agency force of approximately 475 agent accounts that exclusively market IFBI products. The agents are based in the IFBI offices located in every county in Indiana.

Premiums and losses are ceded 100% to the Company's parent, UFFMIC.

## 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 Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Income(Loss)</u>
2010	\$ 8,075,125	\$ (13,910)	\$ 8,089,035	\$ 197,165
2009	7,874,036	(18,267)	7,892,303	91,050
2008	7,789,362	18,644	7,770,718	249,254
2007	7,831,687	310,881	7,520,806	618,004
2006	6,963,778	47,829	6,915,949	(173,653)

Net income throughout the examination period fluctuated largely as a result of changes to the management agreement with UFFMIC and economic volatility experienced in 2008 and 2009. Prior to 2008, the ceding commission paid was determined starting at a rate of 25% and was then adjusted based on the Company's loss ratio. The agreement was amended in 2008 to change the fee to a ceding commission only of 25% thereby, eliminating any underwriting gain. Therefore, the net income from 2008 forward consists only of investment related activity.

The largest hailstorm damage losses in Company history occurred in April 2006 and the financial impact of those losses are reflected in the net loss reported in 2006 and through the large increase in liabilities during 2007. Reinsurance recoverables from the storm were received in 2007 to offset the reported loss in 2006.

## MANAGEMENT AND CONTROL

### Directors

UFBCIC is governed by a Board of Directors. Board members are elected by the Shareholder and serve one (1) year terms. The Company's Bylaws state that the Board of Directors shall consist of thirteen (13) members. The following is a listing of persons serving as directors as of December 31, 2010:

<u>Name and Address</u>	<u>Principal Occupation</u>
Mark Ellis Bacon Milroy, IN	Farmer Self-Employed
Steven Alan Maple Kokomo, IN	Farmer Self-Employed
Randall Charles William Kron Evansville, IN	Vice President Indiana Farm Bureau, Inc.
Donald Bruce Villwock Edwardsport, IN	President Indiana Farm Bureau, Inc.
Philip Herbert Springstun Boonville, IN	Farmer, Construction Self-Employed
Kerry James Goshert Mentone, IN	Farmer Self-Employed
David Lee Wyeth North Salem, IN	Farmer Self-Employed
Kendell Culp Rensselaer, IN	Farmer Self-Employed
Isabella Franziska Chism Galveston, IN	Farmer Self-Employed
Jeffrey Allen Gormong Farmersburg, IN	Farmer Self-Employed
Scott Thomas Trennepohl Middletown, IN	Farmer Self-Employed
Larry John Jernas Knox, IN	Farmer Self-Employed
Robert Leo Schickel Lanesville, IN	Farmer Self-Employed

## Officers

The Company's Bylaws state that the principal officers of the Company shall consist of the President, Secretary, Treasurer, and General Counsel, and may consist of one (1) or more Vice Presidents. The following is a listing of key officers and their respective titles as of December 31, 2010:

<u>Name</u>	<u>Office</u>
Donald Bruce Villwock	President
Lynn Brundage Jongleux	Senior Vice President/General Counsel/Secretary
Joseph Alan Martin	Chief Operating Officer
Joseph Jerry Canada	Executive Vice President/Chief Executive Officer
Gregory James Clancy	Senior Vice President, Information Services
Kevin Thomas Murphy	Senior Vice President, P&C Operations
Thomas Jefferson Faulconer	Senior Vice President, Marketing
Mark Richard Miske	Senior Vice President/CFO/Treasurer

## CONFLICT OF INTEREST

The Company requires officers and directors to review and sign Conflict of Interest statements on an annual basis. The officers and directors have reviewed and signed their statements as of December 31, 2010.

## OATH OF OFFICE

Indiana Code 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 corporation. As of December 31, 2010, all directors have reviewed and signed Oaths of Office.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

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

### Minutes

The Board of Directors and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

UFBCIC is a wholly-owned subsidiary of UFFMIC. IFBI is the ultimate parent of UFFMIC and its subsidiary companies. UFBCIC was incorporated and UFFMIC was created and organized by IFBI to provide property and casualty insurance to its members.

### Affiliated Agreements

The following affiliated agreements were disclosed as part of the Form B – Holding Company Registration Statement and were filed and not disapproved with the IDOI as required by Indiana Code 27-1-23-4.

#### *Indemnity Reinsurance and Management Agreement*

The Company maintains an Indemnity Reinsurance and Management Agreement whereby UFFMIC assumes 100% of the business of the Company. Under this agreement, UFFMIC indemnifies the Company for all lines of insurance written. In 2010, the Company paid a management fee to UFFMIC of \$3.6 million for services rendered under this agreement. In addition, UFFMIC paid the Company a ceding commission of \$3.6 million.

#### *Servicing Agreement*

The Company files a joint tax return with UFFMIC pursuant to a servicing agreement. As provided by this agreement, the Company is charged or refunded the amount that the Company would be entitled to if it had filed on a separate return basis.

## 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 Saint Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$6.0 million with a deductible of \$50,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2010, including but not limited to auto, property and liability, workers' compensation, umbrella liability, and directors and officers liability.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees, and therefore, there were no employee pension or insurance plans. All personnel necessary to conduct business operations of the Company are provided by its affiliate, UFFMIC, pursuant to the Inter-Company Services Agreement. UFFMIC provides benefits to employees, and then passes proportional expenses, at cost, on to its affiliates.

## STATUTORY DEPOSITS

The Company reported a statutory deposit for the benefit of all policyholders with a book value of \$99,978 and a fair value of \$99,769. The deposit was comprised of non-guaranteed obligations of agencies and authorities of the US Government as of December 31, 2010.

## REINSURANCE

### Reinsurance Assumed

During the examination period, the Company did not assume any material amount of reinsurance premium or reserves.

### Reinsurance Ceded

UFBCIC cedes 100% of its business written to its parent company, UFFMIC. Total premiums ceded to UFFMIC under this arrangement in 2010 were \$14.6 million and total reinsurance recoverable as of December 31, 2010, was \$10.3 million. UFFMIC is an authorized reinsurer and thus all recoverables qualify for statutory reserve credit.

## 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, 2009 and 2010, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2006, through December 31, 2010, were agreed to each year's independent audit report with no material exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

**UFB CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**

Assets

As of December 31, 2010

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 7,291,708	\$ -	\$ 7,291,708	\$ 7,321,262
Cash, cash equivalents and short-term investments	653,913	-	653,913	415,362
Subtotals, cash and invested assets	7,945,621	-	7,945,621	7,736,624
Investment income due and accrued	63,348	-	63,348	74,625
Current federal and foreign income tax recoverable and interest thereon	66,156	-	66,156	62,787
Total assets excluding Separate Accounts, Segregated Account & Protected Cell Accounts	8,075,125	-	8,075,125	7,874,036
<b>TOTALS</b>	<b>\$ 8,075,125</b>	<b>\$ -</b>	<b>\$ 8,075,125</b>	<b>\$ 7,874,036</b>

**UFB CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**  
**Liabilities, Surplus and Other Funds**

As of December 31, 2010

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Liabilities:</b>				
Taxes, licenses, and fees	\$ (21,282)	\$ -	\$ (21,282)	\$ (25,206)
Net deferred tax liability	7,372	-	7,372	6,939
<b>Total liabilities</b>	<u>(13,910)</u>	<u>-</u>	<u>(13,910)</u>	<u>(18,267)</u>
Common capital stock	2,000,000	-	2,000,000	2,000,000
Gross paid in and contributed surplus	1,000,000	-	1,000,000	1,000,000
Unassigned funds (surplus)	5,089,035	-	5,089,035	4,892,303
Surplus as regards policyholders	8,089,035	-	8,089,035	7,892,303
<b>TOTALS</b>	<u>\$ 8,075,125</u>	<u>\$ -</u>	<u>\$ 8,075,125</u>	<u>\$ 7,874,036</u>

**UFB CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**  
Statement of Income

As of December 31, 2010

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Net investment income earned	\$ 228,478	\$ -	\$ 228,478	\$ 231,429
Net realized capital gains (losses)				
less capital gains tax of \$25,965	48,221	-	48,221	(28,844)
Net investment gain (loss)	276,699	-	276,699	202,585
Federal and foreign income taxes incurred	79,534	-	79,534	111,535
<b>Net income</b>	<b>\$ 197,165</b>	<b>\$ -</b>	<b>\$ 197,165</b>	<b>\$ 91,050</b>

**UFB CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**  
**Capital and Surplus Reconciliation**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Capital and Surplus Account:</b>					
Surplus as regards policyholders, December 31 prior year	\$ 7,030,706	\$ 6,915,949	\$ 7,520,806	\$ 7,770,718	\$ 7,892,303
Net income	(173,653)	618,004	249,254	91,050	197,165
Change in net unrealized capital gains less capital gains tax	53,492	-	-	-	-
Change in net deferred income tax	5,404	(13,147)	658	30,535	(433)
Change in surplus as regards policyholders for the year	<u>(114,757)</u>	<u>604,857</u>	<u>249,912</u>	<u>121,585</u>	<u>196,732</u>
<b>Surplus as regards policyholders, December 31 current year</b>	<u>\$ 6,915,949</u>	<u>\$ 7,520,806</u>	<u>\$ 7,770,718</u>	<u>\$ 7,892,303</u>	<u>\$ 8,089,035</u>

**COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2010, based on the results of this examination.

**SUBSEQUENT EVENTS**

There were no significant subsequent events noted after December 31, 2010 that would impact the financial statements.

**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. and actuarial assistance from Merlino & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **UFB Casualty Insurance Company**, as of **December 31, 2010**.

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 **UFB Casualty Insurance Company**, as of **December 31, 2010**, as determined by the undersigned.

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

State of:

County of:

On this 6<sup>th</sup> day of October, 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: \_\_\_\_\_

  
\_\_\_\_\_  
Notary Public



**KATHLEEN M. GROTE**  
Notary Public, State of Ohio  
My Commission Expires  
May 28, 2016