

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**FARMERS UNION MUTUAL
INSURANCE COMPANY
JAMESTOWN, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2010**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Farmers Union Mutual Insurance Company

Jamestown, North Dakota

as of December 31, 2010, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

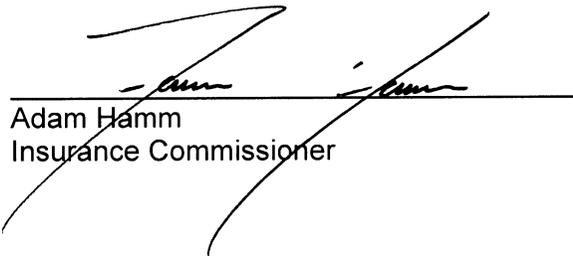
IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 27th day of

January, 2012.





Adam Hamm
Insurance Commissioner

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Jamestown, North Dakota
December 16, 2011

Honorable Joseph Torti III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Bldg. 69-2
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Honorable Stephen W. Robertson
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Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
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Honorable Adam Hamm
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Farmers Union Mutual Insurance Company
Jamestown, North Dakota**

Farmers Union Mutual Insurance Company, hereinafter referred to as the Company, was last examined as of December 31, 2005, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2006, to and including December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed 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.

Work papers provided by the Company's independent auditor, Brady Martz & Associates, P.C., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the three exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2001, to December 31, 2005. We determined that the Company had satisfactorily addressed all of these items.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

Elwood Barth was elected President at the Company's Annual Meeting on November 18, 2011, to replace Robert Carlson who is retiring and Mark Anderson was appointed General Manager replacing Odean Olson who is also retiring.

HISTORY

General

The Company was incorporated on March 20, 1944, as a mutual insurance company under the laws of the State of North Dakota. The Company's term of existence is perpetual. In 1974, the Articles of Incorporation were amended extending the Company's term of existence by 30 years to the year 2004. In 2003, the Articles of Incorporation were amended again to make the Company's term of existence perpetual.

MANAGEMENT AND CONTROL

Membership

Membership consists of policyholders of the Company who are members in good standing in the Farmers Educational and Cooperative Union of America, North Dakota Division (NDFU).

The date and place of the annual meeting of the members shall be fixed by the Board of Directors and shall be at the time and place of the NDFU annual convention. Notice of the annual meeting of the membership is done by publication in the North Dakota Union Farmer or by written notice to each member at his last known address.

Each member of the Company is, for the purpose of representation, assigned to a local and/or county governing unit of the NDFU.

Board of Directors

The Company's business is managed by the Board of Directors consisting of nine members elected by the policyholders. For the purpose of electing directors, the state is divided into seven districts. One director is chosen from each of the seven districts and two directors are elected at large. Each director is elected for a one-year term.

The annual meeting of the Board of Directors is held immediately following the NDFU annual convention. The directors hold regular quarterly meetings in January, April, July, and November, or at such other time and place as the Board may fix by resolution.

Directors duly elected and serving at December 31, 2010, together with their addresses and business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Elwood Barth Solen, ND	Farming
Terry Borstad Devils Lake, ND	Farming
Robert Carlson Jamestown, ND	President NDFU, FUSA and FUMIC
Jon Erickson Minot, ND	Farming
Robert Kuylen South Heart, ND	Farming
Ellen Linderman Carrington, ND	Farming
Wes Niederman Grant County, ND	Farming
Dennis Stromme Zahl, ND	Farming
Marcy Svenningsen Valley City, ND	Farming

Officers

Officers are elected by the Board of Directors and serve until the next annual meeting of the Board. Elected officers serving with their respective duties as of December 31, 2010, are as follows:

<u>Officer</u>	<u>Title</u>
Robert L. Carlson	President
Elwood Barth	Vice President
Odean P. Olson	Secretary and Treasurer

Committees

During each of the years under review, the Board of Directors designated two committees to assist the directors in various aspects of Company operations. The committees and their respective members were as follows:

Executive Committee

Robert Carlson
Elwood Barth
Odean Olson

Investment Committee

Robert Carlson
Elwood Barth
Odean Olson
Mark Anderson (Advisory)

Audit Committee

The full Board of Directors serves as the de facto audit committee of the Company. During the period under examination the Company's independent auditor, Brady Martz & Associates, P.C. (BMA), conducted annual audits of the Company's books and records. During those audits, the main contacts were the General Manager, Odean Olson and the Controller, Mark Anderson. The Company indicated that BMA conducts an exit interview with the Executive Committee at the completion of field work; however, no minutes were kept for the Executive Committee so the examiners were not able to confirm this.

It is recommended that the Board of Directors appoint or establish an Audit Committee if the Board does not want to have the external auditors report directly to the full Board. It is also recommended that, if the Board establishes an Audit Committee, the minutes of its meetings be kept.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No changes were made to the Articles of Incorporation or the Bylaws during the period under examination.

Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committees for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws. The deliberations of the board were adequately documented and support the Company's transactions and events.

Conflict of Interest

The procedure for disclosure of any conflict requires that every director, officer, trustee, or responsible employee of the Company annually sign a conflict of interest form. The signed statements are reviewed by the Board of Directors. The conflict of interest statements for the years 2006 through 2010 were reviewed and no conflicts were noted. However, conflict of interest forms were only completed by members of the Board of Directors.

It is recommended that the Company have all key employees complete the Conflict of Interest Statements and that the Company retain the completed statements for review by the North Dakota Insurance Department examiners.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2010, the Company was protected against fraudulent or dishonest acts of its employees by a financial institution bond. The bond insures the Company and affiliates up to \$1,000,000, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including: Professional Liability, Directors and Officers Liability, Employment Practices Liability, Business owners Policy, Commercial Umbrella Liability, and a Notary Bond.

AFFILIATED SERVICE AGREEMENTS

Agency Contract

Effective January 1, 2006, the Company entered into an agency agreement with Farmers Union Service Association, Ltd. (FUSA), a North Dakota corporation. The Company shares a common Board of Directors and common officers with FUSA. The Company appoints FUSA as its agent and representative in North Dakota. FUSA is responsible for entering into agreements with agents and assumes the obligation for compensating each appointee. FUSA provides all advertising for the promotion of the Company's insurance policies. In return, the Company pays FUSA a gross commission of 2.5 percent above the rate paid to the agents for its services. In addition, the Company will pay FUSA a contingency profit bonus of 25 percent of the underwriting profit.

FUSA also owns and provides all of the office equipment, furniture, fixtures, automobiles, and other fixed assets required by the Company for the operation of its business except the IBM AS/400 computer and all supporting hardware and software. The annual rental charge for the use of such fixed assets, equipment, and automobiles shall be the actual depreciation cost plus an interest factor of one percent less than the 12-month certificate of deposit rate as published in the Wall Street Journal on the first business day of each calendar year. FUSA is billed by FUMIC for FUSA's proportionate share of computer utilization on a "fee for service" basis. The agreement may be terminated by either party with a 60-day written notice.

In 2010, the Company paid FUSA \$5,442,318 for gross commissions and a profit commission of \$1,349,952.

Loss Adjusting Services Agreement

Effective January 1, 1992, the Company and National Farmers Union Property Casualty Company (PACCO), a Wisconsin corporation, entered into an agreement whereby PACCO will adjust and settle the Company's casualty claims in exchange for the payment of 5.5 percent of the Company's casualty earned premium. For each claim, PACCO will provide through its adjusters and other personnel, loss adjusting services including inspection of the damaged property, determining the amount of the loss, making a written claim report to the Company, and settling the claim on behalf of the Company.

The Company paid \$418,047 to PACCO for loss adjusting services in 2010.

Lease Agreement

Effective January 1, 2010, the Company entered into a lease agreement with NDFU for 10,338 square feet of office space at NDFU's state headquarters located in Jamestown for \$10,340 per month.

In 2010, the Company paid \$124,080 to NDFU for rent of office space.

Intercompany Services and Cost Allocation Agreement

Effective December 20, 2007, the Company, FUSA and NDFU entered into an agreement to share general and administrative expenses based on actual cost. The providing party will charge for services based on the cost to provide the service, where direct costs are impractical to determine, an allocation methodology will be established. Costs incurred for the general benefit of the entire group will be allocated using a methodology that will be developed and used consistently from year to year. General and administrative services and costs consist of, but are not limited to, services by the Board of Directors, executives, management, professional, technical or clerical staff, financial and accounting services corporate governance, compliance services, payroll processing, fleet management and tax services. Amounts due under the agreement will be billed monthly with payment due in the following calendar month. The agreement may be terminated in whole, or in part, by any party with a 60-day notice.

In 2010, the Company paid FUSA \$11,111 for the use of furniture, fixtures, and automobiles and \$70,689 for telephone and postage. FUSA paid \$79,464 to the Company for its computer use. In addition, the Company paid NDFU \$3,130 for printing services, and \$10,790 for telephone usage. NDFU paid \$650 to the Company for its computer use.

Other Related Party Transactions

Article IV of the Bylaws requires that all policyholders of the Company be members of NDFU. In 2010, the Company remitted \$507,550 to NDFU representing membership fees collected by the Company on behalf of NDFU.

Article VI of the Bylaws provides that the directors shall set aside a sum equal to five percent of the annual net income of the Company before taxes as an educational fund to be used in teaching cooperation, all of which shall be paid to the Farmers Educational and Cooperative Union of America, North Dakota Division (NDFU). Educational fund expenses for 2010 were \$307,466.

PENSION AND INSURANCE PLANS

Employee Benefit Plan

All qualified full-time employees are provided with group life insurance, accidental death and dismemberment, and comprehensive medical expense. A group long-term disability and short-term disability insurance plan is also provided. The cost of the disability plan is jointly shared (50 percent each) between the Company and the employee.

Employee Retirement Plan

At December 31, 2010, the Company had a defined benefit pension plan covering substantially all full-time employees with 12 months of service. The plan is administered by the Pension Committee appointed by the Executive Committee of NDFU. The plan provides for an annual benefit equal to 1.2 percent of the employee's final average compensation multiplied by years of service, plus 0.6 percent of the final average compensation in excess of Social Security covered compensation multiplied by years of service.

Farmers Union Mutual Insurance Company and Farmers Union Service Association, Ltd. Employee's Salary Savings Plan 401(k)

The 401(k) plan provides for retirement benefits based on the amount of contributions made plus investment income. The plan is administered by the Company and FUSA. The employee may elect to make before-tax contributions to the plan up to the maximum amount determined by the IRS. For each plan year, the Company shall make a profit sharing contribution equal to a 100 percent match of every dollar contributed by a participant up to 1.8 percent of their compensation, and a 50 percent match of every dollar contributed above this amount by a participant up to 2.4 percent of compensation.

TERRITORY AND PLAN OF OPERATION

At December 31, 2010, the Company was authorized to transact the business of insurance in North Dakota, South Dakota, Iowa, and Wisconsin. The Company currently writes business only in the State of North Dakota.

The Company's primary lines of business consist of farm owners, homeowners, and commercial multiple perils. As noted above, the Company has an agency agreement with FUSA for sale of the Company's products.

GROWTH OF COMPANY

The following represents the Company's net written premium activity as it relates to surplus over the examination period:

	Premiums Written				
	2010	2009	2008	2007	2006
Direct	\$40,498,955	\$37,782,873	\$35,098,684	\$33,314,799	\$31,465,255
Assumed	9,433,432	10,440,112	7,297,281	4,712,484	4,764,964
Ceded	7,944,670	6,210,850	5,536,536	6,298,506	4,568,063
Net Written Premiums	\$41,987,717	\$42,012,135	\$36,859,429	\$31,728,777	\$31,662,156
Surplus	41,730,171	37,233,133	31,653,818	30,125,474	27,546,577
Premium-to-Surplus Ratio	101%	113%	116%	105%	115%

The Company's premium to surplus ratio remained fairly constant over the examination period. Premium growth and policy count growth has been modestly positive over the exam period.

LOSS EXPERIENCE

The following represents the five-year history of the Company's loss reserves:

	2010	2009	2008	2007	2006
Loss reserves	\$3,702,329	\$7,404,721	\$7,331,366	\$5,296,145	\$4,246,959
LAE reserves	721,435	714,922	633,678	670,855	405,209
Total Reserves	\$4,423,764	\$8,119,643	\$7,965,044	\$5,957,000	\$4,652,168
Losses and LAE Incurred	\$25,444,421	\$26,831,160	\$22,448,970	\$20,627,985	\$15,981,238

The Company's loss reserves have increased consistent with the increase in net premiums written.

REINSURANCE

The following is a summary of the significant reinsurance treaties in force at December 31, 2010:

Reinsurance Ceded

1. Type: **Casualty Excess of Loss**

Reinsurers:	Aspen Insurance UK Limited	17.5%
	Platinum Underwriters Reinsurance Inc.	32.5%
	QBE Reinsurance Corporation	40.0%
	SCOR Reinsurance Company	10.0%

Scope: Casualty Business classified as Other Liability, Farm Liability, Commercial Automobile Liability, and Section II of Farm owners, Homeowners, and Commercial Multiple Peril.

Coverage: \$800,000 excess of \$200,000

Premium: 8.175 percent of subject net premium

Effective Date: January 1, 2010

Termination: January 1, 2011

2. Type: **Excess Casualty Clash**

Reinsurers:	Aspen Insurance UK Limited	17.5%
	Platinum Underwriters Reinsurance Inc.	32.5%
	QBE Reinsurance Corporation	40.0%
	SCOR Reinsurance Company	10.0%

Scope: Casualty Business classified as Other Liability, Farm Liability, Commercial Automobile Liability, and Section II of Farmowners, Homeowners, and Commercial Multiple Peril.

Coverage: \$2,000,000 in excess of \$1,000,000

Premium: 1.274 percent of the Company's subject net premium

Effective Date: January 1, 2010

Termination: January 1, 2011

3. Type: **Umbrella Liability Quota Share**
- Reinsurers: Aspen Insurance UK Limited 17.5%
 Platinum Underwriters Reinsurance Inc. 32.5%
 QBE Reinsurance Corporation 40.0%
 SCOR Reinsurance Company 10.0%
- Scope: Commercial, Personal, and Farm owners Umbrella Liability
- Coverage: 90 percent first \$1,000,000 and 97.5 percent thereafter up to \$5,000,000
- Premium: Pro-rata – Company cedes 90 to 97.5 percent and retains the remainder with a 30 percent ceding commission
- Effective Date: January 1, 2010
- Termination: January 1, 2011
4. Type: **Equipment Breakdown**
- Reinsurer: Factory Mutual Insurance Company 100%
- Scope: Business Owners Packages and Contractors Property – equipment breakdown.
- Coverage: The Company shall cede 100 percent of its net liability to the reinsure less 35 percent ceding commission and less paid losses.
- Premium: Pro-rata
- Effective Date: June 1, 2005
- Termination: Either party may cancel as of December 31 by providing not less than 90 days notice.
5. Type: **Property Per Risk**
- Reinsurers: Various Lloyds Syndicates 42.2%
 R +V Versicherung AG 25.0%
 QBE Reinsurance Corporation 10.0%
 Catlin Insurance Company, Ltd. 10.0%
 AMLIN Bermuda, Ltd. 7.8%
 SCOR Reinsurance Company 5.0%

Scope: Fire and Allied Lines, Inland Marine, Glass, Burglary and Theft, Commercial Auto Physical Damage (Comprehensive only), Section 1 of Homeowner's Farmowner's and Commercial Multiple Peril.

Coverage: \$4,500,000 excess of \$500,000

Premium: 1.1632 percent of subject net premium

Effective Date: January 1, 2010

Termination: January 1, 2011

6. Type: **Property Per Risk**

Reinsurers: General Reinsurance Corporation 100%

Scope: Property per risk events such as Fire and Tornado

Coverage: \$3,000,000 excess of \$5,000,000

Premium: 1.1632 percent of subject net premium

Effective Date: January 1, 2007

Termination: 90 days written notice by either party.

7. Type: **Property Excess of Loss**

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>
Reinsurers:			
Various Lloyds Syndicates	45.3%	42.6%	44.3%
Catlin Insurance Company, Ltd.	10.0%	10.0%	10.0%
R +V Versicherung AG	20.0%	20.0%	20.0%
SCOR Switzerland AG	6.0%	5.1%	5.3%
AMLIN Bermuda, Ltd.	1.6%	1.3%	1.4%
Sirius International Insurance Corp.	0.0%	4.0%	4.0%
Endurance Specialty Insurance	17.0%	17.0%	15.0%

Scope: Property Business classified as Fire and Allied Lines, Commercial Automobile Physical Damage, (Comprehensive only) Inland Marine, Glass and Burglary and Theft and Section I of Farm owners, Homeowners, and Commercial Multiple Peril

Coverage
and Retention:

	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's Retention	\$2,500,000	\$7,500,000	\$15,000,000
Reinsurer's Limit (97.5% of)	\$5,000,000	\$7,500,000	\$27,500,000
Annual Minimum Premium	\$1,043,250	\$541,125	\$429,000
Premium Rate	4.354%	2.258%	1.79%
Annual Deposit Premium	\$1,304,063	\$676,406	\$536,250

Effective Date: January 1, 2010

Termination: January 1, 2011

8. Type: **Aggregate Excess Catastrophe**

Reinsurers:	Various Lloyds Syndicates	23.05%
	Farmers Mutual Hail of Iowa	20.00%
	R +V Versicherung AG	25.00%
	Sirius International Insurance Corp.	4.00%
	Catlin Insurance Company, Ltd.	20.00%
	AMLIN Bermuda, Ltd.	2.00%
	SCOR Switzerland AG	5.95%

Scope: Property Business classified as Fire and Allied Lines, Commercial Automobile Physical Damage, (Comprehensive only) Inland Marine, Glass and Burglary and Theft and Section I of Farm owners, Homeowners, and Commercial Multiple Peril

Coverage: 97.5 percent of \$4,000,000 excess of \$7,000,000

Premiums: 1.1632 percent of subject net premium

Effective Date: January 1, 2010

Termination: January 1, 2011

9. Type: **Private Passenger Stop Loss**
- Reinsurer: Houston Casualty Company, UK Branch
- Scope: Private passenger auto written under Private Passenger Auto Quota Share with National Farmers Property and Casualty Company through FUSA.
- Coverage: 95 percent of losses incurred greater than 65 percent but less than 110 percent.
- Premium: 2.63 percent of subject net earned premiums for business ceded subject to a minimum premium of \$70,000.
- Effective Date: January 1, 2010
- Termination: January 1, 2011
10. Type: **Combined Excess of Loss Agriculture**
- Reinsurers: Various Lloyds Syndicates 40%
R +V Versicherung AG 50%
QBE Reinsurance Corporation 10%
- Scope: Crop hail and Multiple peril crop insurance (MPCI) written by Agri General Insurance Company and produced through Rain and Hail, LLC.
- Coverage: 95 percent of \$4,200,000 excess of \$320,000
- Premium: 3.78 percent of subject net earned premium
- Effective Date: January 1, 2010
- Termination: January 1, 2011

During the period under examination the Company used the services of a reinsurance broker to help purchase and place its ceded reinsurance program. The examiners noted that the Company did not have a written reinsurance intermediary agreement, did not obtain a Statement on Standards for Attestation Engagements (SSAE) 16 report, or perform any due diligence reviews on its reinsurance broker. Under N.D.C.C. § 26.1-31.1-03 transactions between a reinsurance intermediary broker and the insurer it represents in such capacity may only be entered into, pursuant to a written authorization, specifying the responsibilities of each party.

It is recommended that the Company obtain a written agreement with its reinsurance broker to document the responsibilities of the parties in providing reinsurance coverage for the Company and that the Company perform periodic due diligence reviews of the reinsurance broker.

Reinsurance Assumed

1. Type: **MPCI Quota Share**
Ceding Company: Agri General Insurance Company
Scope: Multiple Peril and Aquatic Crop
Coverage: \$7,000,000 of Multiple Peril Crop and Aquatic Crop Insurance business from ACE American Insurance Company.
Premium: Pro-rata subject to a 6 percent ceding commission and a 50 percent profit sharing commission if profit exceeds five points.
Effective Date: January 1, 2003
Termination: By termination of the underlying contract or by either party on any December 31 with at least 60 days written notice.

2. Type: **Crop Hail Quota Share**
Ceding Company: Agri General Insurance Company
Scope: Crop Hail business
Coverage: \$1,000,000 of Crop Hail business written through ACE American Insurance Company. (Crop Hail premium through the ACE, Ltd/Agra General pool of business.)
Premium: Pro-rata subject to a 28 percent ceding commission, 3 percent loss adjustment expense and a 50 percent profit sharing commission.
Effective Date: January 1, 2003
Termination: By termination of the underlying contract or by either party on any December 31 with at least 60 days written notice.

3. Type: **Private Passenger Auto Quota Share**
Ceding Company: National Farmers Union Property and Casualty Company
Scope: Private passenger auto and farm auto physical damage and liability coverages produced by Farmers Union Service Association
Coverage: 10 percent of private passenger and farm auto written.

- Premium: Pro-rata subject to a 34 percent ceding commission and a 50 percent profit sharing commission.
- Effective Date: April 1, 2008
- Termination: By either party on any December 31 with at least 90 days written notice.
4. Type: **NAMICO Reinsurance Facility**
- Ceding Company: NAMIC Insurance Company
- Scope: Mandatory pool participation for qualified companies insured under the NAMIC Insurance Company program.
- Coverage: The pooling percentage is based on the Company's capacity to the total pool capacity. The pool limits its exposure to the first five million dollars of liability per loss with a fifty percent limit on the first million and eighty percent thereafter for a \$3,700,000 loss limit per loss. The ceding commission is 35%. Lines covered under the reinsurance facility are Directors and Officers Liability, Insurance Company Professional Liability, Insurance Agents and Brokers Error and Omissions Liability, Insurance Company Trustees and Fiduciaries Liability and Professional Liability for Insurance Related Organizations.
- Premium: .98527 percent of subject net premium
- Effective Date: January 1, 2010
- Termination: January 1, 2011

All treaties contained an insolvency clause and entire agreement clause as required by N.D.C.C. § 26.1-02-21.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2010, was traced to the appropriate schedules of the Company's 2010 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is annually audited by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

Safekeeping Agreement

During the period under examination the Company's securities were held by The Bank of North Dakota (BND) in Bismarck, North Dakota, and First Western Bank and Trust (FWB&T) in Minot, North Dakota. The Company has safekeeping agreements in place with both BND and FWB&T.

Examiners reviewed the safekeeping agreements for compliance with N.D. Admin. Code § 45-03-23-02. The agreement with BND contained all of the provisions required by the administrative rule. However, the agreement with FWB&T did not contain any of provisions required by N.D. Admin. Code § 45-03-23-02.

It is recommended that the safekeeping agreement with First Western Bank and Trust be amended to comply with N.D. Admin. Code § 45-03-23-02.

Third-Party Administrator Agreements

During the period under examination the Company used the services of two independent claims adjusting firms to help with overflow during busy times. The firms utilized by the Company were Heinrich & Company and Border Area Adjustment. Examiners noted that the Company did not have written agreements in place with either Heinrich & Company or Border Area Adjustment to ensure that the adjusters were following the claims administration policies of the Company.

It is recommended that the Company enter into written agreements with all third-party administrators to ensure that the terms and conditions are documented.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2010. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2010
Summary of Income, Year 2010
Reconciliation of Capital and Surplus, January 1, 2006, through December 31, 2010

Farmers Union Mutual Insurance Company
Statement of Assets
December 31, 2010

	Ledger & Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$53,943,939		\$53,943,939
Stocks:			
Common	3,261,617		3,261,617
Cash	6,804,932		6,804,932
Investment Income Due and Accrued	597,162		597,162
Premiums in Course of Collection	188,971		188,971
Installments Booked but Deferred and Not Yet Due	2,828,098		2,828,098
Amounts Recoverable from Reinsurers	675,811		675,811
Funds Held by Reinsured Companies	2,311,440		2,311,440
Federal Income Tax Recoverable	153,352		153,352
Net Deferred Tax Asset	1,855,674	\$167,072	1,688,602
Electronic Data Processing Equipment and Software	211,483	211,483	0
Receivable from Parent, subsidiaries and affiliates	30,855		30,855
Defined Benefit Pension Plan	775,695	775,695	0
Defined Benefit Intangible Asset	38,140	38,140	0
Totals	<u>\$73,677,169</u>	<u>\$1,192,390</u>	<u>\$72,484,779</u>

**Farmers Union Mutual Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2010**

Losses	\$ 3,702,329
Loss Adjustment Expenses	721,435
Commissions Payable	2,268,751
Other Expenses	1,077,860
Taxes, Licenses, and Fees	366,290
Unearned Premiums	20,793,987
Advance Premium	722,819
Ceded Reinsurance Premiums Payable	949,000
Amounts Withheld or Retained by Company for Account of Others	44,434
Remittances and Items Not Allocated	75,609
Payable to Parent, Subsidiaries or Affiliates	<u>32,094</u>
Total Liabilities	\$30,754,608
Surplus as Regards Policyholders	<u>41,730,171</u>
Total	<u>\$72,484,779</u>

**Farmers Union Mutual Insurance Company
Statement of Income
December 31, 2010**

Underwriting Income

Premiums Earned		\$40,800,719
Deductions:		
Losses Incurred	\$ 22,864,311	
Loss Adjustment Expenses Incurred	2,580,110	
Other Underwriting Expenses Incurred	<u>11,611,049</u>	
Total Underwriting Deductions		<u>37,055,470</u>
Net Underwriting Gain or (Loss)		<u>\$ 3,745,249</u>

Investment Income

Net Investment Income Earned	\$2,079,462	
Net Realized Capital Gains or (Losses)	<u>14,573</u>	
Net Investment Gain or (Loss)		<u>\$ 2,094,035</u>

Other Income

Miscellaneous Income	<u>\$ 5,421</u>	
Total Other Income		<u>\$ 5,421</u>
Net Income Before Federal Income Taxes		\$ 5,844,705
Federal Income Taxes Incurred		<u>1,758,501</u>
Net Income		<u>\$ 4,086,204</u>

**Farmers Union Mutual Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2006, Through December 31, 2010**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus as Regards Policyholders, December 31, Prior Year	\$22,807,542	\$27,546,573	\$30,125,474	\$31,653,818	\$37,233,113
Net Income	4,514,975	2,498,058	4,054,466	3,177,105	4,086,204
Net Unrealized Capital Gains or (Losses)	77,336	(35,390)	(662,942)	400,580	276,181
Change in Net Deferred Income Tax	165,099	108,834	885,905	(450,017)	(183,903)
Change in Nonadmitted Assets	(249,979)	(101,115)	(1,338,439)	985,189	336,228
Change in Provision for Reinsurance	0	0	(17,000)	17,000	0
Pension Minimum Liability Change	231,600	108,514	(1,393,646)	1,449,438	(17,652)
Change in Surplus for the Year	<u>4,739,031</u>	<u>2,578,901</u>	<u>1,528,344</u>	<u>5,579,295</u>	<u>4,497,058</u>
Surplus as Regards Policyholders, December 31, Current Year	<u>\$27,546,573</u>	<u>\$30,125,474</u>	<u>\$31,653,818</u>	<u>\$37,233,113</u>	<u>\$41,730,171</u>

CONCLUSION

The financial condition of the Company, as of December 31, 2010, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$72,484,779</u>
Total Liabilities	\$30,754,608	
Surplus as Regards Policyholders	<u>41,730,171</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$72,484,779</u>

No adjustment of the balance sheet amounts reported by the Company in its 2010 Annual Statement was made by this examination.

Since the last examination, the Company's admitted assets have increased \$26,709,601, its total liabilities have increased \$7,786,972, and its surplus as regards policyholders has increased \$18,922,629.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Matt Fischer, Nick Nankivel and Mike Andring, FCAS, MAAA, of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,



Edward Moody, CFE
Examiner In Charge
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Board of Directors appoint or establish an Audit Committee if the Board does not want to have the external auditors report directly to the full Board. It is also recommended that if the Board establishes an Audit Committee, the minutes of its meetings be kept.

It is recommended that the Company have all key employees complete the Conflict of Interest Statements and that the Company retain the completed statements for review by the North Dakota Insurance Department examiners.

It is recommended that the Company obtain a written agreement with its reinsurance broker to document the responsibilities of the parties in providing reinsurance coverage for the Company and that the Company perform due diligence reviews on the reinsurance broker.

It is recommended that the safekeeping agreement with First Western Bank and Trust be amended to comply with N.D. Admin. Code § 45-03-23-02.

It is recommended that the Company enter into written agreements with all third-party administrators to ensure that the terms and conditions are documented.