

Minnesota Association of Farm Mutual Insurance Companies

Mutual LINK

Tornado History 101

Karl Porisch, Western Mutual Manager

What comes to your mind when someone says the word “tornado?” Images of Dorothy and Toto swirling around the silver screen in black and white, or maybe scenes from the 1996 movie “Twister,” starring Helen Hunt and Bill Paxton? Both venues were products of Hollywood and not near as real as the tornados that have caused countless deaths and millions of dollars in damage throughout the Midwest.

With the arrival of spring, Minnesota will once again be in the tornado season as it extends from March to November. The months of May, June, and July account for most of the tornados that occur in Minnesota, with June being the month with the most activity. The main reason for tornados occurring in the spring and summer timeframe, is mainly due to the increased flow of moist, warm air from the Gulf of Mexico. With this influx of moist air and the mixing with our colder dryer air the chances for tornadic activity increases significantly. The severity of a given tornado is based upon the Enhanced Fujita Scale, (right).

There are scores of statistics surrounding these weather phenomena, all of which shed light into the destructive power of one of nature’s most damaging event:

- First reported tornado: Ft. Snelling 4/19/1820
- Most deaths from tornado: 72; St. Cloud/Sauk Rapids 4/14/1886
- Greatest number of tornadoes in one year: 74, 2001
- Greatest number of tornadoes in one month: 38, June 2001
- Greatest number of tornadoes in one day: 27, June 16, 1992

The most probable time for a tornado in Minnesota is between 2 PM and 9 PM, but they can occur almost any time of the day or night. So as spring in Minnesota arrives, be on the alert for severe thunderstorms and the tornados these storms sometimes spawn.



1820 Sauk Rapids Tornado. Photo by Bishop Brothers

F-Scale	Intensity Phase	Wind Speed	Frequency
EF0	Gale Tornado	65 – 85 mph	53.5%
EF1	Moderate Tornado	86 - 110 mph	31.6%
EF2	Significant Tornado	111 - 135 mph	10.7%
EF3	Severe Tornado	136 - 165 mph	3.4%
EF4	Devastating Tornado	166 - 200 mph	.7%
EF5	Incredible Tornado	> 200 mph	.1%

Top Ten Risks To the Insurance Industry

According to the Ernst & Young study, “Strategic Business Risk 2008,” the top ten risks[to the insurance industry] are:

1. **Climate change:** long-term, far-reaching and with significant impact on the industry.
2. **Demographic shifts in core markets:** offers business opportunities but risk that other sectors will capitalize first.
3. **Catastrophic events:** rising costs and serious impact on earnings for insurers.
4. **Emerging markets:** risk and opportunity but competitive threat from new players.
5. **Regulatory intervention:** increased scrutiny impacting on operations and practices.
6. **Channel distribution:** technology is changing the way insurance is sold and purchased.
7. **Integration of technology with operations and strategy:** an enabler to keep pace with competition but lack of integration is a threat at the strategic business level.

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President's Letter

Wes Gainey, MAFMIC President

"Policies are many, principles are few. Policies will change, principles never do." - Dr. John Maxwell

This past year, the insurance industry has faced the dual challenge of record property losses and a downturn in investment income. Our companies have faced challenges like these and many more over the last 150 years, but because of conservative principles coupled with the willingness to adapt their techniques to a changing environment the industry remains strong and stable.

Over the last twenty years, 25 farm mutual companies have joined with other member companies through merger. The silver lining, in all of this, is that our remaining companies are stronger and more secure. Over this same time period the total direct written premium, insurance in force, and policyholder surplus have tripled. According to some who have experienced their fair share of hard and soft market cycles, policyholder numbers overall appear to have remained stable over the last twenty years despite the loss in numbers during this current soft market.

With history as a guide and realizing that change is happening at a faster pace than ever before, here is a guess at what our industry might expect in 20 years:

- Mergers will continue and the average size of the 60-65 existing mutuals will increase to about \$3 million dollars in annual premium.
- Total direct written premium, insurance in force and

policyholder surplus will quadruple.

- Policyholder numbers will remain stable perhaps increasing slightly.
- The trial lawyers will introduce the twentieth bill in as many years to strengthen the bad faith law in Minnesota.
- Minnesota will have a full time legislature and the number of bills introduced in the legislature will double to about 8,000 per year meaning more legislation.
- State and federal regulation of insurance will continue to increase – with or without federal regulation of insurance.
- Minnesota's population will exceed 6 million people; over 20% will be elderly (U.S. Census Bureau).
- The number of family farms will continue to decline. Existing farms will become larger.
- A majority of most farm mutual's business will be coverage of homes.
- Home and farm policy language will continue to evolve because of new technologies, changing agriculture methods and size of farming operations.

Size and severity of storm damage will continue to increase.

Whatever the industry faces over the next twenty years, change is inevitable and we will face challenges unimaginable today. It is also certain that those companies that are willing to change and adapt while sticking to time honored principles will have a secure, successful future.

"Improvise. Adapt. Overcome." - Gunnery Sgt. Tom Highway (Heartbreak Ridge)

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New Prague-Ceska-Louisville Mutual

Carol Weiers, Manager

New Prague-Ceska-Louisville Mutual Insurance (NPCL) is the result of a three company merger, but each were formed by farmers who could not find appropriate insurance coverage for their specialized needs.

New Prague Mutual was founded in 1882 by a group of German Farmers; Louisville Mutual, located in Shakopee was founded in 1885; and a group of Bohemians from Lonsdale formed Ceska Mutual in 1890.



NPCL building built in 2001

The mergers began when Ceska and Louisville Mutual merged in 1991 and in 2001, New Prague Mutual was added. It is said that New Prague Mutual could only be an addition if bologna would continue to be served at annual meetings, which is why each meeting consists of turkey, dressing and bologna. In December of 2001, the merged trio built a new office building located in New Prague.

NPCL has had the pleasure of insuring generations of families throughout the years and contributes that to the philosophy the company strives to work by. The philosophy is to offer exceptional personal customer service and quality coverage at a com-

petitive rate. The one word used to describe the company is "dedicated."

The company would like to continue to grow in the future by adding policies while improving financial strength. A more thorough inspection program that would prevent and/or lessen the severity of claims is also on the agenda for years to come as well as maintaining competitive prices.

Even though NPCL has clear goals in mind, challenges could arise. Some potential challenges the company sees include insuring bigger risks like farms and increased value of homeowner's dwellings. Also staying current with industrial and technological advancements poses threats as well as the assumption that as a farmers mutual, the company only insures farms.

NPCL currently writes homeowners and farm policies with 12 agents, a part time solid fuel inspector, part time administrative assistant and one full time manager. Policies are written in ten counties with statewide companies RAM and NorthStar.

NPCL supports local 4-H clubs, FFA organizations, New Prague Area School programs, New Prague Fire and Ambulance depart-

working relationships



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Looking For Solutions

Marcus Marsh, MAFMIC

The 2009 Legislature is struggling with a budget deficit of over \$4.6 billion, which originated as \$6 billion. The original \$6 billion deficit was slightly lessened by a Federal Stimulus bill of \$1.4 billion.

The current state budget is \$32 billion dollars. There are about as many ideas to fix the problem as there are Legislators; 201. Add to that the taxpayers and all the entities that depend on State money such as school districts, cities, counties, higher education and etc. It's easy to understand that Legislators are being pulled in many directions.

We continue to work to stop harmful bills to the insurance industry such as the One Way Loser Pay Bill, S.F. 528 Chief Author Senator Tom Bakk (D-Cook) and H.F. 417 Chief Author Representative Joe Atkins (D-Inver Grove Heights).

This bill simply makes it much easier to file suit for commercial policies (including farms) and adds attorney's fee's on top of any settlement.

The ban on credit information was defeated in the Senate Commerce Committee, the bill is S.F. 263 Chief Author Senator Mary Olson (D-Bemidji) and H.F. 675 Chief Author Representative Debra Hilstrom (D-Brooklyn Center).

The Department of Commerce Financial Bill H.F. 2029 Chief Author Representative Jim Davnie (D-Minneapolis) and S.F. 1849 Chief Author Senator Dan Sparks (D-Austin) includes the Modernization Language. The bill has taken a different path than Commerce Department Bills in the past, which usually go from committee right to the House or Senate floor.

The latter was the case in the Senate but the House claimed the bill had to go to



Congresswoman Michele Bachmann made a visit to the MAFMIC Office February 19.

Energy Finance and Policy Division (which is a sub-committee of the Finance Committee). The bill was added to the Energy Bill which was then added to the Omnibus Finance Bill. So the original bill has become somewhat of a moving target.

On the national front, we will again be going to Washington, June 16 and 17 to meet with members of the Minnesota Congressional Delegation. The Congressional Contact Program (CCP) is coordinated with NAMIC and is always important; This year even more so. Some members of Con-

gress want to pass Federal Regulation of the Insurance Industry, some are looking at banning credit information, others are talking of applying the Community Reinvestment Act to insurance and the list goes on.

We need to stop the bad bills as well as pass an increase in the Small Company Tax Credit. Please consider going with us to Washington this year, it is extremely important.

"It's easy to understand that Legislators are being pulled in many directions."

"A positive attitude may not solve all your problems, but it will annoy enough people to make it worth the effort." - Herm Albright



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Owatonna Farm Show

March 19-21



Doug Eustice (McPherson Minn Lake Mutual) and Dick Swanson (North Star Mutual) after setting up the MAFMIC booth at the Owatonna Farm Show.

A Lighter ‘Fare’ on Investments

Wayne Schluchter, Schluchter Investment Advisors

Q1: With the current market turmoil, what’s the easiest way to make a small fortune?

A: Start off with a large one.

Q2: What’s the definition of optimism?

A: An Investment Banker ironing five shirts on Sunday evening.

Q3: A Mutual manager went to the ATM this morning and it said “insufficient funds”.

The manager wondered, “Is it them or me”?

Fact1: More than twice as many households own their home ‘free & clear’ of debt compared to the number of households where the outstanding mortgage debt exceeds the market value of the home (source: American Housing Study, Money Magazine).

Fact2: It costs the US Mint 9 cents to make a nickel (source: Pennies.org). Just think what that means for a penny?

MAFMIC Manager’s Retreat

Mutual Managers, Assistance Managers and Co-Managers are invited to spend the night at Thumper Pond Resort in Ottertail, Minn.

The Retreat features 5 hours of group discussion on issues concerning each mutual as well as organized activities such as golfing, various spa treatments and a trap shooting tournament.

Registration forms are available on the website at www.mafmic.org or you can call the MAFMIC office for details at (320) 271-0909

Top Ten Risks, (cont’d from front)

8. **Securities markets:** changes in capital providers and the way capital is entering the insurance industry are causing major changes in the industry.
9. **Legal risk:** significant and unexpected change in the legal environment, such as government legislation or evolving case law, will continue to have a critical impact on the insurance industry.
10. **Geopolitical or macroeconomic shocks:** likely causes unknown but consequences potentially severe.

Source: Insurance Journal, March 2008.

Are you taking advantage of the MAFMIC Mutual Assistance Manual?

The MAFMIC Mutual Assistance Manual is a tremendous resource for questions or concerns for just about any subject involving the operation of a Minnesota mutual.

The current version of the manual is available at www.mafmic.org under the “Services” tab. The MAFMIC Mutual Assistance Committee strives to keep the manual up-to-date.

Your assistance would be appreciated. If you see something that needs to be changed, updated or added to the manual, please contact a member of the Mutual Assistance Committee or the MAFMIC office at info@mafmic.org.

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Fair Claims Practices Act

Kirby Dahl, Willenbring, Dahl, Wocken, Zimmerman

Minnesota Statutes 72A.201 (the Act) gives the Department of Commerce (DOC) the authority to regulate the methods that insurance companies utilize in claims handling. The Act is commonly referred to as the "The Unfair Claims Practices Act."

The Act is regulatory in nature meaning that a violation of the Act exposes those covered by the Act to DOC investigations and potential sanctions imposed by the DOC, however, a violation does not provide the basis for a lawsuit by an insured. The Act applies to all non-township mutual insurance company members of MAF-MIC. The DOC contends that it always intended that the Act would apply to township mutual insurance companies when handling claims made on homeowner's policies.

In order to clarify the law, the DOC has now introduced legislation which specifically states that the Act will apply to township mutual insurance companies when handling claims made on homeowner's insurance policies. The Act still will not apply to the handling of claims made on non-homeowner's policies issued by township mutual insurance companies.

The Act sets forth specific "safe harbor" standards for handling claims as well as identifying the individual acts which constitute "unfair settlement practices." Those specific acts which constitute unfair claims settlement practices will be addressed in a

later article. In order to avoid a claimed violation of statutory standards in the handling of claims, companies covered by the Act are required to implement the following claims handling practices:

- Within ten (10) business days of receipt of the notice of claim, you must provide the insured all necessary claim forms and instructions how to process the claim including providing the identity and telephone number of the company representative who can assist the claimant in complying with policy requirements.
- Upon receipt of a claim, you must notify the insured of all available benefits or coverages which the insured may be eligible to receive under the policy.
- You must maintain a claim log of all telephone contacts regarding a claim. The log must include the name of the person talked to as well as the date, time and substance of each telephone conversation.
- If a communication received from the insured reasonably indicates a response is requested, the response must be made within ten (10) business days.
- Within thirty (30) business days of a notice of claim, you should complete your investigation, however, if the

investigation cannot be completed within thirty (30) business days, you must communicate to the insured the reason(s) why the investigation is not complete and the expected date on which the investigation will be completed. NOTE: In cases of suspected fraud, you need not provide the specific reasons for failure to complete the investigation, however, upon request, these specific reasons must be made available to the DOC.

- You must give prior notice to the insured as to any time limits in the policy that apply. You must advise an insured in writing of the expiration of a statute of limitations at least sixty (60) business days prior to the date on which the statute of limitations will run. This requirement does not apply when the insured is represented by an attorney.
- You may not tell an insured not to obtain the services of an attorney or of a public adjuster nor can you tell an insured that payment will be delayed if an attorney or public adjuster is retained by the insured.
- You may not demand information from an insured which would not

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affect the settlement of the claim.

- You must accept or deny the proof of loss within sixty (60) business days following the receipt of a proof of loss from the insured.
- If you deny a claim, the specific policy provision (s), condition(s) or exclusion(s) on which the denial is based must be identified.
- You may not deny a claim on the basis that an application was falsified by an agent if the insured did not have knowledge of the agent's act of falsifying the application.

If following the investigation by the DOC it has been determined that your company has utilized claims practices which are unlawful, the Department may assess administrative sanctions or fines. A single violation of the Act does not constitute a "claims practice." The magnitude of the harm to the insured as well as the actions by the insured will be considered in determining the appropriate administrative sanction or fine.

Congressional Contact Visit

Marcus Marsh, MAFMIC



The 2009 Congressional Contact Program is scheduled for June 16 and 17 in Washington DC. This is a very important joint program of MAFMIC and NAMIC to meet with members of the Minnesota Congressional Delegation on important issues that affect our companies and policyholders.

This year is more important than ever with proposals such as Federal Regulation of the Insurance Industry, Small Company Tax Exemption, elimination of credit information, etc.

Minnesota has had the largest delegation of any state in the nation the last two years and we have made a difference with our Senators and Representatives from Minnesota.

Please be a part of the 2009 CCP.

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MAFMIC 2009 CALENDAR OF EVENTS

May	19-20	Manager's Retreat Thumperpond Resort, Ottertail
June	16-17	Congressional Contact Visit Washington, DC
July	15	Manager & Director Seminar Holiday Inn, St. Cloud
July	16	Education Scholarship Golf Outing Little Crow Country Club, Spicer
August	4-6	Farm Fest Gilfillan Estates, Redwood County
August	4-6	NAMIC PLAF School Mariott Airport, Minneapolis
August	11	Mutual Support Staff Seminar Holiday Inn, St. Cloud

In Sympathy

Gladys Ulrich, mother of Alvin Ulrich from Buffalo Lake-New Auburn Mutual passed away March 9, 2009 at the age of 97. Alvin is an agent and director for the township mutual. (picture not available).

MAFMIC wishes to express its sympathy to the friends and family of Gladys.



**North Star Mutual
Employment Opportunity**

North Star Mutual Insurance Company of Cottonwood, MN has an opening for **Farm Underwriting Manager**. North Star is a progressive growing company, is rated A+ by AM Best, and offers a stable work environment. The company writes farm, home, auto, and commercial insurance through independent agents in Minnesota, North Dakota, South Dakota, Nebraska, Iowa, and Oklahoma. See www.nstarco.com or call the Human Resources Department at 507-423-6262 for an application.

To submit an article to be published in the Mutual Link please send them to Mutual Link, PO Box 880, St. Joseph, MN 56374, or email them to info@mafmic.org.