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Minnesota Association of Farm Mutual Insurance Companies

Mutual LINK

Members Impact Federal Issues

Advocating on behalf of the mutual insurance industry, individuals from Minnesota met face-to-face with members of Congress and/or their staffs on June 19, 2008 in Washington, D.C. The group of 45 people, representing MAFMIC member companies, was once again the largest group from any state participating in the annual NAMIC Congressional Contact Program.

MAFMIC Chairman Doug Oachs is flanked by Congressman Collin Peterson and Senator Amy Klobuchar

While in Washington, members met with U.S. Senators, Norm Coleman and Amy Klobuchar as well as most of the Minnesota U.S. House members and their key staff. The visit allowed the participants from MAFMIC to have a significant impact on legislation affecting our industry by educating and developing relationships with the Minnesota congressional delegation. Some issues that were discussed included federal regulation of the insurance industry, small company tax exemption, potential repeal of the McCarran-Ferguson Anti-Trust exemption, the possible repeal of credit scoring and the National Flood Insurance Program.

Senator Norm Coleman speaking with group representing MAFMIC member companies

MAFMIC and NAMIC have been a strong voice with members of Congress from Minnesota because we have made the effort to go to Washington and meet with our elected representatives. Thanks again to everyone who went to Washington. Your commitment to the Minnesota mutual insurance industry is outstanding.

18th Annual Golf Outing

First place team of (left to right) Ted Albers, Dan Smith, Orville Koosman and Mitch Gerdes

The day of the 18th Annual Golf Outing had dark clouds and heavy rain at first light and continued until about 10:00 a.m. but then there was some hope on radar as the system moved east. By the time noon rolled around for teeing off it was partly cloudy and a little later beautiful sunshine.

This year 92 golfers participated with the various events including the Putting Contest, Hit-the-Circle Contest, Break

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the Windshield Contest and a Hole-in-One Contest. Together these contests raised approximately $2000 for the MAFMIC Auxiliary Scholarship Fund.

First Place winners of this years golf outing are from Crate Farmers Mutual—**Ted Albers, Dan Smith, Orville Koosman and Mitch Gerdes.** The team had a net score of 55. The second place team from Norwegian Mutual included **Pete Hellie, Mark Noack, Dave Geihl and Craig Norland.**. The third place team was made up of **Linda Jaskowiak, Candy Clark, Dean Kerfield and Bert Tellers** from Sumter Mutual.

Other competition winners included **Don Hughes** (closest to the pin), **Tina Johnson** (shortest drive) **Pete Hellie** (longest drive), and **Tim Iverson** (longest putt).

MAFMIC would like to thank everyone who participated in the golf outing and the sponsors who donated money to the scholarship fund. It was another great event and we would like to invite everyone to join us next year the 19th annual educational scholarship golf outing.

A Photo Gallery is on our website at www.mafmic.org.

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Changing Agent Commissions

Kirby Dahl
Willenbring, Dahl, Wocken & Zimmermann, PLLC

The question often arises regarding what an insurance company needs to do in order to implement a change in the commissions it pays to its agents. As is often the case when dealing with insurance law issues, there is no single, simple answer to the question.

If you are contemplating decreasing agent commissions, before actually implementing a reduction in agents' commission you need to look at the law that regulates your company and the written contracts you have with your agents.

For township mutual insurance companies which operate under Chapter 67A of Minnesota Statutes, there are different answers depending on the type of policy your agent is processing. Minnesota Statutes Chapter 60A addresses general insurance powers including relations with agents, however, nowhere in Chapter 60A does it say that the law applies to township mutual insurance companies and nowhere in Chapter 67A laws does it say that Chapter 60A laws apply to township mutual insurance companies; therefore, with regard to commissions paid agents for policies issued exclusively under Minnesota Statutes Chapter 67A (commonly called "farm" or "TP Series" policies), the provisions of Chapter 67A apply exclusively. Since Chapter 67A is silent as to when and how a company may change the commissions it pays to its agents, your company may decrease its agents' commissions paid on such policies at any time and without advance notice subject only to any contrary requirements that may appear in the contract your company has with its agents.

If your company is a Chapter 67A company and writes what are commonly called "homeowner's" or "PH Series" policies and since all "homeowner's insurance" issued by a township mutual is subject to the provisions of non-67A Minnesota laws, it is likely that

Minnesota Statutes Chapter 60A applies to control your agency relationship. Minnesota Statutes Chapter 60A.175, Subdivision B, provides in part "An insurer may not reduce agent commissions, bonuses, or other compensation contained in written agreements without first providing written notice of change to the agent at least 180 days before its effective date." Of course, if the contract you have with your agent calls for a longer period of advance notice, the contract would control. You cannot, by contract, shorten the advance notice requirement since such a contract provision would be contrary to law.

Put simply, for township mutual companies, as to your book of "farm" policies, you may immediately and without advance notice reduce the commissions you pay to your agents, however, as to your "homeowner's" book of policies, you must give your agent at least 180 days advance notice before implementing commission reductions. However, if your agent contract requires a longer notification time that applies to reducing commissions, the number of advance notice days as stated in the agency contract would, of course, control.

If your company operates under Minnesota Statutes Chapter 66A (commonly referred to as "mutual insurance companies"), then Minnesota laws Chapter 60A which was discussed above does control the relationship between you and your agent and that law requires that regardless of the type of policy that you write, your company may not reduce agent commissions, bonuses or other compensation without first providing written notice of the change to the agent at least 180 days before the effective date of the change. As is always the case, if your agent contract requires notification longer than 180 days, that contract notice requirement would apply.

Finally and not surprisingly, there is no law that restricts when you may increase agent commissions, bonuses, or other compensation due your agents.

Ask The Department

Manny Munson-Regala JD, Deputy Commissioner
Minnesota Department of Commerce

Q. What is the status of the Department of Commerce Fraud Unit?

A. As you know, the recent budget bill in the Legislature made a $3 million dollar transfer from the fraud account to the general fund. Notwithstanding that transfer, the fraud unit continues operation and recently hired two more officers. They will be moving into their new location (still the Golden Rule Building but with more room for their work, lab and interview facilities).

There will also be a new training facility that will be used both for internal and for external presentations. We are also engaged in conversations with the Minnesota County Attorney's Association on whether or not an in-house fraud attorney (or prosecutor) would be a useful resource for them. If they concur, we will likely add such a resource to the Commerce Department.

Editors Note: The 2004 Legislature (at the request of the insurance industry) established the Fraud Unit to investigate fraud against insurance companies. If a member company feels fraud is being committed by an insured the Fraud Unit is a resource to investigate the matter.

MAFMIC Officer Recommendations

The MAFMIC Nominating Committee is asking for recommendations from the membership for the offices of Vice Chairman and Secretary-Treasurer of the association. The nominees will be presented to the membership for their approval at the next annual meeting. The Nominating Committee is chaired by Immediate Past Chairman Pete Hellie, Norwegian Mutual, and includes current MAFMIC board members and past chairmen. If you wish to suggest someone or be considered yourself, please notify the Nominating Committee Chairman no later than October 15th.

Insuring Large Farm and Home Risks

Dan Rupp, CPCU, Vice-President Agency Services RAM Mutual Insurance Company

According to the USDA's National Agricultural Statistics Service the total number of farms in Minnesota has declined 24% from 104,000 in 1977 to 79,000 in 2007. The size of the remaining farms continues to increase. The underpriced homeowners insurance market continues to be very competitive and the replacement values of today's newly constructed homes continues to increase as well. With farm and home risks being the primary classes of property for Minnesota township mutuals to insure we are often asked by our mutuals if they should start or continue to insure the larger farming operations and high valued homes and just how large of an exposure can they insure?

If your company is contemplating insuring much larger farm and home properties the following are some items you might consider researching and evaluating first:

1. Your company's financial condition. Do you have an adequate surplus and surplus to written premium ratio? The MAFMIC companies' average is $2.50 of surplus for every $1.00 of written premium.

2. Large confinement operations pose numerous property and liability hazards. Does your company currently have the underwriting, loss prevention, loss investigation and loss adjusting expertise necessary to insure and service large hog, dairy or poultry operations? If you do not have the expertise comfort level you desire in these areas what would be the costs involved to acquire this expertise? Does your reinsurer offer the underwriting, loss prevention, loss investigation and loss adjusting services that you will need to do so? Initial and ongoing training of inspectors and adjustors will be very crucial to your company's success or failure when insuring these larger risks. Annual on site inspections of these large risks should be considered.

3. How many of these larger risks are in your company's writing territory? If very few are present should your company expand its writing territory to potentially acquire more similar risks? Can your company expand its writing territory or are you currently operating in the maximum number of townships your company can operate in?

4. Reinsurance. What is your company's current reinsurance treaty limit (excess of single loss occurrence coverage)? Do the risks you are considering insuring exceed your treaty limit and if so, does your company have access to a facultative reinsurance/ specific ceding facility for these larger risks? Facultative reinsurance is commonly offered on either a **pro-rata basis or excess of loss basis**. With **pro-rata reinsurance** the primary insurer (township mutual) and reinsurer proportionately share the amounts of insurance, policy premiums and losses (including loss adjustment expenses). If a pro-rata basis is available, what percentages of the risk are you required to retain and will your treaty limit cover the retained amount? Your company will be responsible for the underwriting, servicing, inspecting and adjusting of all ceded accounts. What ceding commission will your company receive for the expenses you incur on the behalf of the ceding company? Will the ceding commission received cover these expenses or will you have to surcharge ceded risks? How does the ceding commission compare to your company's expense ratio? With **excess of loss reinsurance** or non-proportional reinsurance the primary insurer (township mutual) is indemnified by the reinsurer for losses that exceed a specified dollar amount and instead of sharing the policy premium proportionately the primary insurer is charged a premium or rate which is usually a percentage of the policy premium charged by the primary insurer for each ceded risk. Generally, reinsurers do not pay ceding commissions under excess of loss agreements so it is a common practice for the primary insurer to pass on the additional ceding cost to the policyholder. The ceding facility may have ceding limitations per policy or per location which may limit the size of an account you can insure. You should incur some economies of scale when insuring larger risks. Economies of scale are production advantages derived from increased market

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and risk size. Your company should also consider to what degree will a large loss of one of these risks affect future reinsurance premiums?

5. What commission level should be paid on these larger risks? It is not uncommon for companies to pay a lesser commission rate on large accounts especially if they are using excess of loss reinsurance to cede the larger risks.

6. What underwriting standards will you require of larger risks? Some to consider include: fire, smoke and entry alarms, fire protection between confinement buildings (ie: firewalls, fire doors, fire stops/fire barriers), fire department protection, lightning and surge protection, snow load and structural wind load, electrical, heating, insulation, housekeeping and maintenance concerns.

As you can see the decision to insure or not to insure large farm and home risks should not be taken lightly. How large of a risk for your company to insure will be based largely on your reinsurance program, facultative reinsurance available and your company's desire to take on the added risk vers us profit potential.

Good Luck in making your decision!

President's Letter

Wes Gainey

It has not been a great year in respect to the number and severity of losses. I know this is not a news flash for you.

According to Munich Re Group, 2008 will probably go down in history as a year with one of the highest numbers of victims and insured losses. In the first half of 2008, the United States alone was hit by a large number of weather extremes. Much of the country, and especially the Midwest, have endured significant weather events – deadly tornadoes, heavy rain and hail and severe flooding. These events have caused billion dollar losses significantly impacting the property casualty insurance industry.

My own conversation with many of you confirms that this has not been a good year for losses. Some even claim that this is the worst loss year in memory. These conversations are usually coupled with a positive spin for which I have grown accustomed to from our Minnesota mutuals. To paraphrase – "After all, we are in the risk business."

This ability to face adversity with a positive mental attitude is one thing I believe contributes to our industry's success. Just look around at the high achievers in any field, you will almost always find that they display a positive mental attitude. These groups or individuals display an attitude where failure is not an option and look for positives in every situation. They demonstrate perseverance, commitment and focus - knowing that every year won't go along smoothly, but they accept it, then plan and work toward future success. Those who are successful also hang out with others who are successful. This is something Minnesota mutuals do very well! Come hang out with us at the November *Short Course—Transforming Today's Challenges into Tomorrow's Business.*

Seipp Service Award Nominations

Last February, George Paur joined a distinguished list of honorees when he was presented with the prestigious Robert C. Seipp Service Award at the MAFMIC Annual Convention. Established in 1986 to honor past MAFMIC President Robert Seipp, this award recognizes professionalism and service to the Minnesota mutual insurance industry.

A successful nominee will have provided service and generously given of his or her time and expertise to promote a professional image for MAFMIC and the mutual insurance industry; be a current or past employee, director, officer or agent of MAFMIC or a MAFMIC member company; and provided ten (10) or more years of service to MAFMIC and/or a MAFMIC member company.

If you know someone who is deserving of consideration, please submit a nomination letter to MAFMIC President Wes Gainey no later than **Friday, October 31st**. The nomination letter should include:

- Nominee's name, organization and contact information
- History of nominee's employment and/or offices held within MAFMIC
- Education (industry and other) and professional designations
- Awards and other recognitions
- Participation in MAFMIC and/or NAMIC
- How has the nominee served and enhanced the mutual insurance industry? Why is the nominee deserving of this award?
- Contact information and position of person making nomination

How to Keep From Seeing Me

Kimberly S. Long, Investigator
Grinnell Mutual Reinsurance Company

"I'd rather not have to see you." As an investigator, I hear this almost daily from Adjusters and Mutual Managers. I do not take this statement personally and certainly understand the sentiment. In fact, I am often asked how to lessen the frequency of my visits, so I compiled the following from conversations that took place after losses:

• "We didn't inspect this because…"- Making sure that you have quality Underwriting Guidelines is essential but if the agents are unsure of them, or are not required to follow them, their value is diminished. Set guidelines and adhere to them.

• "I didn't ask all the questions because he was in a hurry" - We live in a society where you can no longer personally know everyone you insure. Often the only way you know your insured is through an application. If that is all the information you have, make sure it is complete and do not accept it otherwise.

• "He didn't say he had prior claims, so we assumed he didn't"-- What people tell you is important. What people do NOT tell you can be imperative. Actively listen when you meet with an insured. Pay attention to the answers they provide and whether there is an avoidance of any issues. Make sure they answer your questions.

• "Besides those three small theft claims in the past two years, he's a good insured"- There are many times that small claims are paid without thorough questioning. The justification of not enough time or it not being cost effective has to be considered; however, keep in mind that the deficit between income and expenses is increasing. Small claims may be utilized to obtain quick cash in order to sustain a manner of living. The influx of cash may solve their immediate problems but it is not a long term solution and easily obtained cash from an insurer may lead to recurring or larger claims. Make sure that you ask questions and have the answers before payments are issued.

• "We don't need a full investigation. They come from a good family."- Use all investigative tools available including utilizing experts, conducting an Examination Under Oath when necessary and following up with all information found during the investigation. Remember that word of mouth is a powerful tool. Individuals who submit fraudulent claims are often very aware of which insurance companies fully investigate claims and which do not.

Hopefully these basics will provide some assistance so you do not have to meet your investigator too often. Believe me, we do not want to meet under these circumstances either.

Member Profile

Jonathan Troe, Manager
Owatonna Mutual Fire Insurance Company

The company was founded in 1881 as The Deerfield Mutual Fire Insurance Company. There appears to be no ethic or other special interests in the formation of the company other then farmers who were concerned about protecting their farms. The corporation changed its name in 1960 to the Owatonna Mutual Fire Insurance Company when it moved its offices from Deerfield Township to the City of Owatonna.

Owatonna Mutual writes Homeowners and Farm Polices in the counties of Steele, Dodge, Goodhue, Rice, Waseca, Freeborn and Mower.

The company has two full time employees and seven agents.

Manager Jonathan Troe says, "We feel we have an advantage over larger insurance companies because our small size has allowed us to become very familiar with most of our policyholders. We treat them fairly as our neighbors and as a result have a membership that is very loyal to us."

Owatonna Mutual is currently working on a new loss prevention program which is part of their five year goal to obviously reduce claims and holding down the cost of premiums.

A big challenge facing Owatonna Mutual is the changing farm environment. Manager Jonathan Troe stated, "We need to be able to accommodate the farmers with large risks as well as dealing with the increasing numbers of old farm buildings that are no longer getting the maintenance that they need."

Owatonna Mutual supports the local 4-H clubs and the Owatonna Chapter of the FFA. They know that many of their future policyholders will be more successful as a result of being involved in these organizations. The president of the company has been an FFA advisor for many years.

To describe Owatonna Mutual Fire Insurance Company in one word it would be "neighborly."

Global Write-down of Investment Assets"

Wayne Schluchter, Schluchter Investment Advisors

We have all read about the huge write-downs by banks, insurance companies and brokerage firms the past year. As an example, in late July two well known firms posted bigger than expected losses due to accounting write-downs and outright sale of bonds held for investment. First, Ameriprise posted a $3.9 billion loss from write-downs of existing fixed income holdings. Secondly, Merrill Lynch posted a $6.7 billion loss from sale on a portion of their low quality mortgage portfolio. That portfolio was liquidated at 22 cents on the dollar. The two fore mentioned examples are simply illustrations of the write-downs we have witnessed from all financial companies holding bonds for investment. This is not meant to be alarming, it is meant to be informative and a reality-check. Hopefully, this information will result in a review and a discussion prior to year end, of the assets held for investment by Township Mutual Insurance Companies.

The Minnesota Legislature, through statute 67A, authorizes Minnesota Township Mutual Companies to primarily invest in fixed income securities. The vast majority of assets held for Township Mutuals in Minnesota are 'investment grade' bonds. These bonds are rated in the highest four credit quality categories by a nationally recognized rating agency. Despite the investment grade status required at the time of purchase, some bonds held today in Township Mutual portfolios are priced at a significant discount to cost basis. It is possible that some of these securities may be deemed 'impaired' for accounting purposes. In the Jan/Feb 2008 issue of the Mutual Link, Mike Kuefler wrote an article on the *["Statutory Accounting for Impaired Assets and Fair Value Disclosures."]* It is an article worth reading again. You can reference it online. In the article Mike discusses differences of 'temporary' and 'other than temporary' impairment of securities. It is the 'other than temporary' impairment which has caused the vast majority of financial institutions to write down securities.

So what needs to be reviewed? First of all, the investment portfolio should be reviewed comprehensively by the board at least once a year. If this is not common place for your company, then begin the practice this year. Secondly, US Government securities will show no impairment. Most tax backed municipal securities will show only tempo rary impairments if any. It is in the 'corporate' and 'whole loan mortgage' areas that most companies hold assets that may need to adjust cost basis. An honest evaluation of the securities, their present pricing, and the reality of future recoveries or declines should be made with your financial advisor and auditor. There are tax considerations to take into account before selling any securities. Do not rush to judgment or action but take a long term, realistic, view of the facts.

This is a situation that all financial institutions find themselves analyzing this year in light of developments that have occurred across global markets. The Township Mutual Insurance industry will be no different. It will be the exception rather than the rule where a company does not hold at least one security subject to scrutiny under the 'impaired security' accounting principals. Speak with your investment advisor and identify any securities that need attention this year. Conduct a deeper evaluation of those securities needing attention and consult with your auditor on any tax implications. There is plenty of time to conduct a thoughtful review of your portfolio and make sound decisions based on the information you gather.

Thank you to our 2008 Education Partners!

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Company News & Notes

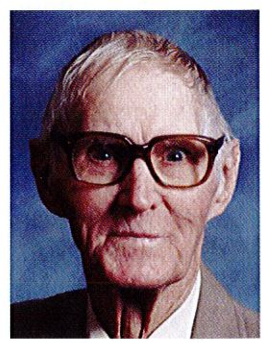
MAFMIC 2008 Calendar of Events

Sept. 28- Oct. 1	**NAMIC National Convention** Philadephia, Pennsylvania
Nov. 5-6	**Short Course** St. Cloud Civic Center, St. Cloud
Feb. 1-3	**2009 Convention** Sheraton, Bloomington

New Mutual Manager

Chisago Lakes Mutual in Scandia announced that Jane Dreyer, CPCU, is the new manager effective July 15, 2008. Jane is a graduate from the University of Wisconsin–Madison with a Bachelors Degree in Marketing. She has over 15 years of experience in the insurance industry, including seven years at the management level. Jane earned her Chartered Property & Casualty Underwriter (CPCU) designation in 2001 and she is a licensed Property & Casualty Agent.

IN SYMPATHY



George Anderson, 94, of Waseca passed away on July 18, 2008. George farmed his entire life as well as sold Mutual Insurance and was on the Board of Directors of Mid-State Mutual Insurance Company for 37 years. George was an active member of the Waseca County Dairy Association, the Minnesota Valley Breeders Association and Faith United Methodist Church in Waseca. He loved to dance, play cards, tell jokes, relay history and spend time with his family.

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

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