

Report of Examination of

**German Farmers Mutual Insurance Company**  
New Knoxville, Ohio

As of December 31, 2019

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Columbus, Ohio  
March 17, 2021

Honorable Judith L. French  
Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3rd Floor – Suite 300  
Columbus, Ohio 43215

Dear Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**German Farmers Mutual Insurance Company**

an Ohio domiciled, mutual protective property association, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2016. The Department’s current examination covers the period of January 1, 2017 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statements of Statutory Accounting Principles (“SSAPs”). The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in ORC Section 3901.07 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of Combs & Company provided an unqualified opinion on the Company's financial statements based on Statutory Accounting Principles. Representatives of the Department reviewed the audit report and supporting work papers during the examination.

### **Management and Control**

#### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Daniel Bensman	Attorney
Joshua Buehler	Vice President-Banking
Thomas Dickman	Farmer
Tim Hegemier	Farmer
Bruce Von Sossan	Farmer
David Wolters	Mercer County Treasurer

#### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
James P. Wellman	President, Treasurer and Secretary

#### **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The following organizational chart displays ownership of the Company and its subsidiary:

German Farmers Mutual Insurance Company  
German Farmers Insurance Agency, Inc.

## **Territory and Plan of Operations**

The Company is licensed and authorized to do business in Ohio in accordance with ORC Section 3939. The majority of business is written in Allen, Auglaize, Darke, Logan, Mercer, Miami, Putnam, and Shelby counties.

### **Reinsurance**

#### **Assumed**

The Company does not assume reinsurance.

#### **Ceded**

The Company has a per risk excess of loss reinsurance agreement that provides coverage of \$5,000,000 above the Company's retention of \$100,000; an aggregate excess of loss agreement that provides coverage of 100% of losses above \$1,200,000; and an each loss, each risk, reinsurance agreement that provides coverage of \$15,000,000 excess \$5,000,000 provided that the Company promptly notifies the Reinsurer of any risk exceeding \$10,000,000.

The Company also has a catastrophe excess of loss agreement that provides coverage of 100% of the ultimate net loss, per loss occurrence, above the Company's retention of \$300,000.

Effective March 1, 2014, the Reinsurer accepts 80% of the liability on all perils (except earthquake and scheduled personal property) for all qualifying dwelling policies issued by the Company for an amount in excess of \$125,000 but less than \$1,000,000.

### **Financial Statements**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying Notes to Financial Statements should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Income  
Statement of Changes in the Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2019**

**Assets**

Bonds	\$ 1,233,757
Preferred stocks, common stocks and mutual funds	1,422,426
Real estate	27,621
Cash	<u>3,511,533</u>
Subtotal, cash and invested assets	6,195,337
Investment income due and accrued	26,492
Assessments or premiums in the course of collection	12,176
Deferred premiums, agents balances and installments booked	314,926
Current federal income tax recoverable	<u>1,152</u>
Total admitted assets	<u><u>\$ 6,550,083</u></u>

**Liabilities**

Unpaid losses	\$ 24,500
Commission due and payable to agents	173,796
Other expenses	4,991
Net deferred tax liability	41,197
Unearned assessment/premium reserve	1,071,774
Advance premium	81,410
Ceded reinsurance premiums payable	<u>65,015</u>
Total liabilities	<u><u>\$ 1,462,683</u></u>

**Surplus**

Surplus as regards policyholders	\$ <u>5,087,400</u>
Total liabilities, capital and surplus	<u><u>\$ 6,550,083</u></u>

**Statement of Income**  
**For the Year Ended December 31, 2019**

Direct Assessments/Premiums earned	\$ 2,156,233
Deduct premiums for reinsurance ceded	<u>619,213</u>
Net Assessments/Premiums earned	<u>1,537,020</u>
Losses incurred	934,392
Loss expenses incurred	18,750
Other underwriting expenses incurred	<u>626,559</u>
Total underwriting deductions	<u>1,579,701</u>
Net underwriting gain	<u><u>\$ (42,681)</u></u>
Net investment income earned	\$ 141,972
Net realized capital gains	<u>27,810</u>
Net investment gain (loss)	<u><u>\$ 169,782</u></u>
Aggregate write-ins for miscellaneous income	<u>\$ 106,225</u>
Total other income	<u><u>\$ 106,225</u></u>
Net income before federal income taxes	\$ 233,326
Federal income taxes incurred	<u>33,062</u>
Net income	<u><u>\$ 200,264</u></u>

## Statement of Changes in the Surplus Account

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Surplus as regards policyholders, prior year end	\$ 4,729,558	\$ 4,128,933	\$ 3,915,262
Net income	200,264	721,544	105,382
Change in net unrealized capital gains (losses)	156,424	(122,041)	107,135
Change in non-admitted assets	<u>1,154</u>	<u>1,154</u>	<u>1,154</u>
Net change in surplus as regards policyholders for the year	<u>357,842</u>	<u>600,625</u>	<u>213,671</u>
Surplus as regards policyholders, current year end	<u>\$ 5,087,400</u>	<u>\$ 4,729,558</u>	<u>\$ 4,128,933</u>

## Notes to Financial Statements

### Investments

The Company's investment portfolio consists primarily of cash, certificates of deposit, fixed income securities, and mutual fund investments. The Company's investment portfolio is in compliance with ORC Section 3939 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Loss and Loss Adjustment Expense Reserves

In 2019, the Company did not exceed their aggregate excess of loss retention and therefore established \$24,500 in unpaid loss reserves. Based on procedures performed by the examiners, it was determined that loss and loss adjustment expense reserves were reasonable as of December 31, 2019.

### Subsequent Events

On March 11, 2020, The World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, President Donald J. Trump declared COVID-19 a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the global supply chain as well as the demand for labor, products and services in the U.S. The economic disruptions caused by COVID-19 and the increased uncertainty about its magnitude has also caused extreme volatility in the financial markets. While the full effect of COVID-19 is still unknown at the time of this report, the Department and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of COVID-19 on U.S. insurers.

## Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2019, and is summarized as follows:

Total Admitted Assets	<u>\$ 6,550,083</u>
Liabilities	1,462,683
Surplus as Regards Policyholders	<u>5,087,400</u>
Total Liabilities and Surplus	<u>\$ 6,550,083</u>

## Acknowledgement

In addition to the aforementioned and undersigned, the following representative of the Department participated in the examination: Stephen W. Bishel, CPA, CISA.

Respectfully,

s/Zachary Wheatley (via email authorization 4/15/2021)  
Zachary L. Wheatley, CPA, AFE  
Examiner-in-Charge  
Office of Risk Assessment  
Ohio Department of Insurance

s/Rick Rhoades (via email authorization 4/15/2021)  
Rick A Rhoades, CPA (Inactive), CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2019.

\_\_\_\_\_  
Examiner-In-Charge                      Date

\_\_\_\_\_  
Assistant Chief Examiner                      Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Zachary L. Wheatley and Rick A. Rhoades, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_\_, 2021.

\_\_\_\_\_  
(Notary Public)

\_\_\_\_\_  
My Commission Expires