

REPORT ON EXAMINATION
OF
BREMEN FARMERS MUTUAL INSURANCE COMPANY
201 BRENNEKE STREET
BREMEN, KANSAS 66412
AS OF
DECEMBER 31, 2020

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Bremen, Kansas
December 7, 2021

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd.
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

BREMEN FARMERS MUTUAL INSURANCE COMPANY

with its statutory home and main administrative office at:

**201 BRENNEKE STREET
BREMEN, KANSAS 66412**

hereinafter referred to as “the Company” or “Bremen”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners performed a single-state financial examination of Bremen, a Kansas domiciled property and casualty insurance company. The last examination covered the five-year period from January 1, 2012, through December 31, 2016. This examination covers the four-year period from January 1, 2017, through December 31, 2020.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The

Handbook requires the examiners plan and perform the examination to evaluate the 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the examination an adjustment is identified, the impact of such adjustment is documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer 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.

Independent Audit Reports

The financial statements of the Company were audited by Summers, Spencer & Company, P.A., of Shawnee, Kansas, for the years ending December 31, 2017, through December 31, 2020. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its

operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers obtained from the independent auditor.

Actuarial Review

The Department retained the services of Madison Consulting Group, Inc. ("MCG"), of Madison, Georgia, to perform a review of the Company's actuarial practices and reserves held as of December 31, 2020. MCG's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in setting up the reserves.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

General

The Company was first organized in 1878 as the Friendly Fire Society in Bremen, Kansas. The Company was incorporated and commenced business under the laws of the State of Kansas on March 26, 1888, to write fire, lightning, and windstorm insurance coverage. Charter amendments expanded underwriting facilities to include loss or damage to buildings by hail in December 1940, and multiple lines in January 1951. In 1989 the Company amended its articles of incorporation to allow operation under K.S.A. 40-1201.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. No changes to the articles of incorporation or the bylaws were made during the period under examination.

MANAGEMENT AND CONTROL

Policyholders

Article III of the Company's bylaws provides that: "An annual meeting will be held on the fourth Tuesday in January at 10:00 o'clock A.M. at the principal office of the company in the city of Bremen, Kansas."

Article III of the Company's bylaws also provides that: "Members present at the Annual meeting or any special meeting in person or by proxy shall constitute a quorum to transact such business of the company as may come before the meeting."

Article III of the Company's bylaws additionally provides that: "Every person insured shall be entitled to as many votes as there are directors to be elected."

Board of Directors

Article IV of the Company's bylaws provides that: "The business of the corporation shall be conducted by the Board of Directors. This Board shall consist of not less than five (5) nor more than twenty-five (25)."

Directors shall be elected for a term of three years, and not more than one third of the entire number shall be elected at any one annual meeting, except it be to fill a vacancy caused by the death, removal or resignation from office of a member of the Board.

Any vacancy in the Board shall be filled by the remaining members until the next annual meeting of the policyholders, at which time a successor shall be elected to fill the unexpired term.

The Board members elected and serving as of December 31, 2020, were as follows:

<u>Director</u>	<u>Position(s) Held</u>
Kirk C. Bradford	CEO, Retired Citizens State Bank
Alan W. Bruna	Owner Bruna Implement Company
Timothy K. Davis	Owner United First Agency, Inc.
Wayne D. Friedrichs	Former President, Retired Bremen Farmers Mutual Insurance Company
Curtis J. Holle	President and Treasurer Bremen Farmers Mutual Insurance Company
Gary L. Holle	Chairman of the Board and Prior President Bremen Farmers Mutual Insurance Company
Steven W. Meier	Vice President, Claims Bremen Farmers Mutual Insurance Company

Committees

Article IV of the Company's bylaws provides for an Executive Committee and in 2016, the Board of Directors approved the formation of an Audit Committee.

Board members appointed and serving in each of the committees at year-end, 2020, were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>
Gary L. Holle	Gary L. Holle
Steve W. Meier	Steve W. Meier
Wayne D. Friedrichs	Wayne D. Friedrichs
Curtis J. Holle	Curtis J. Holle

Officers

Article IV of the Company’s bylaws provides that: “The directors shall, within five days after each annual meeting, elect a President, Vice-President(s), Secretary, Treasurer, Chairman of the Board, and an Executive Committee. An Assistant Secretary may also be elected.”

The Officers elected and serving as of December 31, 2020, were as follows:

<u>Officer</u>	<u>Position(s) Held</u>
Gary L. Holle	Chairman of the Board
Curtis J. Holle	President and Treasurer
Vicki E. Ryser	Secretary
Steve W. Meier	Vice-President, Claims

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company is only authorized to transact business in Kansas. The Company’s product lines are distributed by independent agents throughout Kansas.

As of December 31, 2020, the Company’s largest lines of business by direct written premium were farmowners multiple peril 41.2%, homeowners multiple peril 38.9%, and allied lines at 14.2%. The remaining 5.7% represented fire and inland marine.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company’s financial results for the period of December 31, 2017, through December 31, 2020. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<i>(in \$000)</i>					
Admitted Assets	\$43,998	\$44,641	\$47,677	\$51,850	\$61,049
Liabilities	22,992	22,011	21,349	21,492	21,897
Capital and Surplus	21,007	22,630	26,328	30,358	39,152
Net Underwriting Gain/(Loss)	4,402	1,323	3,914	2,489	6,013
Net Income	3,930	2,012	3,862	3,328	7,572
Net Premiums Written	25,876	25,866	25,565	25,200	24,754

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000 omitted)</i>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Premium Type				
Direct Written Premium	\$31,130	\$31,010	\$30,542	\$29,830
Reinsurance Assumed	0	0	142	223
Reinsurance Ceded	(5,264)	(5,445)	(5,484)	(5,299)
Net Premiums Written	<u>\$25,866</u>	<u>\$25,565</u>	<u>\$25,200</u>	<u>\$24,754</u>

Assumed Reinsurance

Beginning in 2019, Bremen started assuming business from Regional Reciprocal Catastrophe Pool ("RRCP"), a catastrophe pool created by five insurance companies. RRCP's maximum capacity is \$60 million when fully subscribed; however, at December 31, 2020, \$17.6 million of its capacity was subscribed. RRCP is managed by Mutual Re, a Cherry Bell Valley, IL, insurance agency.

Ceded Reinsurance

As of December 31, 2020, the Company's reinsurance program includes the following types of coverage: property aggregate stop loss, multi-line excess of loss, property catastrophe excess of loss, property coded per risk excess of loss and multiple line clash and contingency excess of loss.

The Company maintains a multi-line excess of loss agreement which covers both property and casualty lines. The Company's retention under this agreement is \$125,000. The agreement consists of two layers which cover up to \$1,000,000 for property lines and \$1,200,000 for casualty lines.

The Company is also reinsured by the following coverages:

- Multiple line clash and contingency excess of loss reinsurance agreement which covers both property and casualty lines. The agreement provides coverage of \$1,000,000 in excess of \$1,000,000 retention for property lines and \$1,200,000 for casualty lines.
- Property per risk excess of loss agreement which provides \$3,400,000 of coverage on property risks in excess of \$1,000,000.
- Property catastrophe excess of loss treaty agreement which consists of two layers and covers up to \$28,500,000 in excess of the Company's retention of \$1,500,000.
- Property catastrophe excess of loss treaty agreement that provides a third layer of coverage up to \$10,000,000 in excess of the Company's retention of \$30,000,000.
- Property aggregate excess of loss agreement which covers up to \$4,000,000 should the Company exceed a 75% loss ratio on subject business in the period defined in the agreement.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

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, 2020. Any accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

BREMEN FARMERS MUTUAL INSURANCE COMPANY
ANALYSIS OF ASSETS
AS OF DECEMBER 31, 2020

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 44,474,432		\$ 44,474,432
Common stocks	7,336,292		7,336,292
Real estate	104,832		104,832
Cash and short-term investments	2,321,712		2,321,712
Investment income due & accrued	236,171		236,171
Uncollected premiums and agents' balances in the course of collection	3,175		3,175
Deferred premiums, agents' balances in course of collection	4,067,157		4,067,157
Amounts recoverable from reinsurers	410,226		410,226
Current federal and foreign income tax recoverable	1,350,000		1,350,000
Net deferred tax asset	643,376		643,376
EDP equipment and software	311,009	304,041	6,968
Furniture and equipment	9,264	9,264	-
Aggregate write-ins for other than invested assets	94,589		94,589
Total assets	\$ 61,362,235	\$ 313,305	\$ 61,048,930

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2020**

Losses	\$ 3,351,486
Loss adjustment expenses	140,919
Commissions payable	612,090
Other expenses	270,920
Taxes, licenses and fees	145,082
Current federal and foreign income taxes	1,779,369
Unearned premiums	14,883,146
Advance premiums	499,153
Ceded reinsurance premiums payable	128,000
Funds held by company under reinsurance treaties	87,000
Total liabilities	<u>\$ 21,897,165</u>
Unassigned funds	<u>\$ 39,151,765</u>
Surplus as regards policyholders	<u>\$ 39,151,765</u>
Total liabilities, surplus and other funds	<u><u>\$ 61,048,930</u></u>

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020**

UNDERWRITING INCOME

Premiums earned	\$ 25,102,564
<u>DEDUCTIONS</u>	
Losses incurred	10,660,602
Loss adjustment expenses incurred	1,177,506
Other underwriting expenses incurred	7,251,941
Total underwriting deductions	\$ 19,090,049
Net underwriting gain or (loss)	\$ 6,012,515

INVESTMENT INCOME

Net investment income earned	\$ 935,885
Net realized capital gains	2,048,072
Net investment gain or (loss)	\$ 2,983,957

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premiums	382,715
Aggregate write-ins for miscellaneous income	(2,823)
Total other income	\$ 379,892
Net income before dividends and federal income taxes	\$ 9,376,364
Dividends to policyholders	-
Net income after dividends and before federal income taxes	\$ 9,376,364
Federal income taxes incurred	1,804,382
Net income	\$ 7,571,982

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2016			<u>\$ 21,006,571</u>
Net income	2017	\$2,011,875	
	2018	3,862,380	
	2019	3,327,607	
	2020	<u>7,571,982</u>	16,773,844
Change in net unrealized capital gains or (losses)	2017	1,445	
	2018	(264,646)	
	2019	642,950	
	2020	<u>1,208,499</u>	1,588,248
Change in net deferred income tax	2017	(463,311)	
	2018	(2,847)	
	2019	38,568	
	2020	<u>(16,763)</u>	(444,353)
Change in nonadmitted assets	2014	73,538	
	2015	103,085	
	2016	20,896	
	2017	<u>29,936</u>	227,455
Surplus as regards policyholders, December 31, 2020			<u><u>\$ 39,151,765</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2020, was \$39,151,765, which was the same amount, reported by the Company in its 2020 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020 and into 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

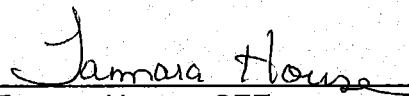
SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner and Ms. Tamara House, CFE, a Senior Insurance Examiner, all representing the Department, participated in this examination.

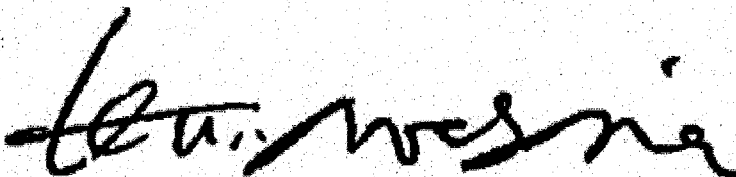
Respectfully submitted,



Tamara House, CFE
Senior Financial Examiner
Kansas Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas



Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas,

County of Shawnee,

Tamara House, being duly sworn, states as follows:

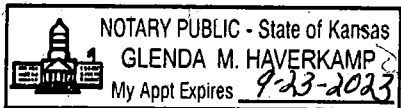
1. I have authority to represent the Kansas Insurance Department in the examination of Bremen Farmers Mutual Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Bremen Farmers Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tamara House
Examiner's Signature

Subscribed and sworn before me by Tamara House on this 20th day of December, 2021.

(SEAL)



Glenda M Haverkamp
Notary Public

My commission expires 9-23-2023
(date)