

REPORT ON EXAMINATION
OF
FARMERS ALLIANCE MUTUAL INSURANCE COMPANY
1122 NORTH MAIN STREET
MCPHERSON, KANSAS 67460
AS OF
DECEMBER 31, 2021

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McPherson, Kansas
March 13, 2023

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

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:

FARMERS ALLIANCE MUTUAL INSURANCE COMPANY

with its statutory home office at:

**1122 NORTH MAIN STREET
MCPHERSON, KANSAS**

and main administrative office at:

**1122 NORTH MAIN STREET
MCPHERSON, KANSAS**

hereinafter referred to as the "Company" or "FAMI." The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2014, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

The examination was performed concurrently with the examination of the

Company's subsidiaries: Alliance Insurance Company, Inc. ("AIC") and Alliance Indemnity Company ("AInC"), collectively referred to as "The Alliance Group". 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 that 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.

Those activities considered in the examination as key or critical to FAMI included Capital Management, Expenses, Investments, Reinsurance, Related Party, Reserving, Taxes, and Underwriting and Pricing. The examination also included a review and evaluation of information technology general controls.

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 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 in the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

The consolidated financial statements of The Alliance Group were audited by Strohm Ballweg, LLP of Middleton, Wisconsin for the years ending December 31, 2018, through December 31, 2021. 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 as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

The Company retained the services of Willis Towers Watson, Russell L. Sutter, FCAS, MAAA of St. Louis, Missouri to perform a review of the actuarial practices and reserves as of December 31, 2021. Willis Towers Watson's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in their reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were identified during the examination.

COMPANY HISTORY

General

Pursuant to K.S.A. 40-1201 FAMI was incorporated under the laws of Kansas in the State of Kansas on July 20, 1888, as a mutual insurance company, and commenced writing business on July 20, 1888, under the name The McPherson County Farmers Fire Relief Association.

On December 31, 1889, the name of the Company was changed to Kansas Farmers Alliance Insurance Company. On October 3, 1893, the name of the Company was changed to Farmers Alliance Insurance Company of Kansas. On January 23, 1906, the name of the Company was changed to Famers Alliance Insurance Company. On April 9, 1954, the name of the Company was changed to Famers Alliance Mutual Insurance Company.

On April 9, 1954, the charter powers were expanded to permit multiple-line underwriting. In 1969, FAMI was merged with Alliance Mutual Casualty Company, with FAMI being the surviving entity. Effective April 1, 1993, Consolidated Farmers Mutual Insurance Company, Inc. of Colwich, Kansas, was merged with and into the Company with FAMI being the surviving entity.

The Company's charter provides for perpetual existence.

Capital Stock

FAMI was incorporated as a mutual insurer and does not issue capital stock.

Dividends and Capital Contributions

During the period under examination, no dividends were paid to policyholders and no capital contributions were made.

CORPORATE RECORDS

The Company's articles of incorporation that were last amended on February 24, 1987, were reviewed. The bylaws that were last amended on January 15, 2020, were reviewed. The amendment to the bylaws revised the minimum number of directors; minimum number of directors elected by policyholders at each annual meeting; language regarding the election and compensation of senior vice presidents, election of members to the governance committee and finance committee; responsibilities and duties for the executive committee, finance committee, governance committee, president and executive vice-presidents and senior vice presidents; and an indemnification clause.

MANAGEMENT AND CONTROL

Stockholders

The Company is controlled by its policyholders and managed by a Board of Directors ("Board").

Board of Directors

The Company's bylaws consist of twenty-one (21) articles that provide the framework for the operation, management, and control of the Company. As a mutual insurance company, FAMI is controlled by its policyholders and managed by the Board.

Pursuant to the Company's bylaws, the Board consists of no less than seven (7) and not more than thirteen (13) directors. At the annual meeting of policyholders, no less than two (2) directors are elected, each of whom will hold office for a term of three years,

or until a successor is elected and qualified or until such director's earlier resignation or removal. Should a vacancy occur on the Board, the remaining directors elect a successor to serve until the next annual policyholder meeting, at which time a successor is elected by vote of policyholders to fill the unexpired term.

Board meetings are to be held no less than quarterly. Special meetings of the Board will be called by the Company President when, in his judgment, the interests of the Company require it, or upon written application from members of the Board.

The following is a listing of directors elected and serving as of December 31, 2021:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Vincent Robert Amanor-Boadu	Agribusiness Economics & Management Professor Kansas State University
Lloyd Keith Birkhead	Chairman of the Board Farmers Alliance Mutual Insurance Company
Eric James Larson	Attorney at Law Bever Dye, LC
Brian David Lopata	President, Chief Executive Officer Farmers Alliance Mutual Insurance Company
Marilyn Bernadine Pauly	Vice Chairman Commerce Bank Wichita
Brett Alan Reber	Attorney at Law Wise & Reber, LC
Donald William Schwegman	Retired CPA Partner
Ernest William Weeks, III	Retired Underwriting Executive

Committees

The Company's bylaws indicate that the Board may elect members to various committees of the Board. As of December 31, 2021, the Board has established an executive committee, governance committee, finance committee, audit and risk committee, and a compensation committee. The established committees and members

elected and serving as of December 31, 2021, were as follows:

<u>Audit and Risk Committee</u>	<u>Compensation Committee</u>	<u>Corporate Governance Committee</u>
Vincent R. Amanor-Boadu	Vincent R. Amanor-Boadu	Vincent R. Amanor-Boadu*
Eric J. Larson	Eric J. Larson	Lloyd K. Birkhead
Marilyn B. Pauly	Marilyn B. Pauly	Brian D. Lopata
Brett A. Reber	Brett A. Reber*	Brett A. Reber
Donald W. Schwegman*	Donald W. Schwegman	Donald W. Schwegman
Ernest W. Weeks, III		Ernest W. Weeks, III

<u>Executive Committee</u>	<u>Finance Committee</u>
Lloyd K. Birkhead	Vincent R. Amanor-Boadu
Eric J. Larson*	Eric J. Larson
Brian D. Lopata	Marilyn B. Pauly*
Marilyn B. Pauly	Brett A. Reber
Brett A. Reber	Donald W. Schwegman

*Committee Chair

Officers

Pursuant to the bylaws, the Company will have a chairman of the board, president, executive vice-president, senior vice-president, secretary, and a treasurer appointed by the Board. Officers are elected for a term of one (1) year and to the time of qualification of any successor to such office. Vacancies for any position are filled by officers for the balance of the term in which the election may occur. The following is a listing of officers elected and serving as of December 31, 2021:

<u>Name</u>	<u>Office</u>
Brian David Lopata	President & CEO
Walter Paul Taliaferro*	Treasurer, Secretary, and Chief Financial Officer
Andrew Lee Edwardson	Senior Vice President – Chief Information Officer
Ryan Paul Hicks	Senior Vice President – Chief Human Resources Officer
John Michael Rader	Senior Vice President – Reinsurance & Chief Marketing Officer
Aaron James Valentine	Senior Vice President – Chief Insurance Officer
Tonya Kay Schafer	Vice President, Product and Compliance
Randall Leon Lutgen	Vice President, Underwriting
Brian Scott Schmidt	Vice President, Claims

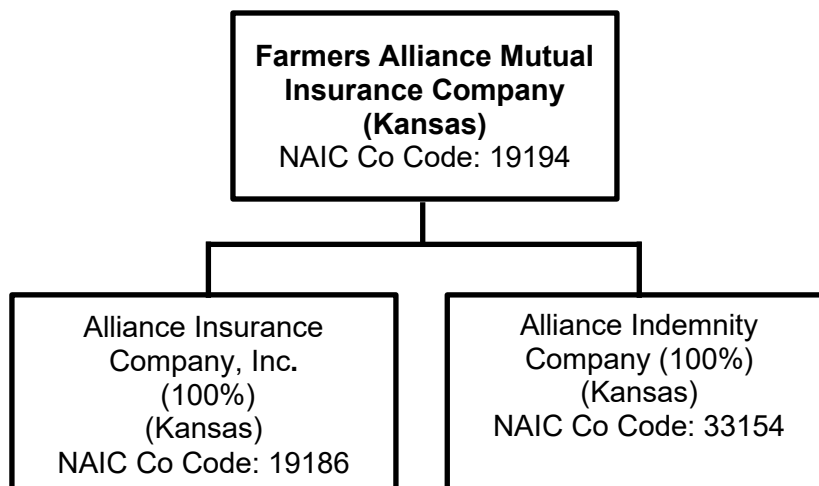
*- Walter Paul Taliaferro retired from his position as CFO on November 30, 2022. On December 2, 2022, the Board of Directors appointed Aaron Valentine as Chief Financial and Risk Officer.

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 and K.A.R. 40-1-28 require a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance.

The Company has submitted Form “B” and “C” registration statements on a consolidated basis with subsidiaries, AIC and AlnC, to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance companies and the controlling entity thereof as of December 31, 2021. The insurance subsidiaries are wholly owned by FAMI and are all Kansas insurance domestics.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2021.

Intercompany Quota Share Reinsurance Agreement

Effective January 1, 1979, FAMI and its subsidiaries, AIC and AInC, entered into an Intercompany Quota Share Reinsurance Agreement. FAMI is the lead company in the Agreement. Under the provisions of the Agreement, both AIC and AInC cede 100% of their premiums to FAMI. Of the business remaining after cessions to non-affiliated insurance companies, FAMI retains 87.5% of the pooled business and then retro-cedes 10% to AIC and 2.5% to AInC. All expenses directly attributable to the business ceded by AIC and AInC are divided in the same proportion as premiums ceded. Net amounts incurred including premiums, losses paid, and other relevant expenses in accordance with the Agreement for each of the years under examination were, \$3,174,242, \$4,601,823, \$6,363,051, and \$6,270,555, as of December 31, 2018, 2019, 2020 and 2021, respectively.

Tax Allocation Agreement

Effective December 31, 2007, FAMI and its subsidiaries entered into a Tax Allocation Agreement to file consolidated federal income tax returns with respect to the income tax imposed by Chapter 1 of the Internal Revenue Service Code in lieu of filing separate tax returns for each member of the holding company group. Balances are settled within sixty (60) days after the filing of the consolidated return.

Administrative Services Agreement

Effective October 1, 2015, FAMI and its subsidiaries entered into an Administrative Services Agreement whereby the Company agrees to render certain financial, legal, actuarial, marketing, administrative, claims administration and adjusting, underwriting, policy service and other services and share all costs allocated among each company based on the Intercompany Quota Share Reinsurance Agreement percentages. Balances due are calculated monthly as part of the intercompany payable or receivable and require settlement of outstanding amounts between parties within ninety (90) days in accordance with the Intercompany Quota Share Reinsurance Agreement. Net expense amounts received in accordance with the terms of the agreement for the years of examination were \$3,854,154, \$3,245,632, \$3,673,916, and \$3,614,987 as of December 31, for 2018, 2019, 2020, 2021, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company is authorized to transact business in the following fifteen (15) states: Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Washington, and Wyoming. FAMI is a qualified reinsurer in Delaware. The NAIC

Schedule T Exceptions Report was reviewed for each state where the Company is licensed. No exceptions were noted.

As of December 31, 2021, the Company's largest lines of business were farmowners multi-perils, private passenger auto physical damage, other private passenger auto liability, and homeowners' multi-perils at 50%, 8.8%, 8.3%, and 8.2% of direct premiums written, respectively. The remaining 24.7% represented premiums written in commercial multi-perils, allied lines, fire, inland marine, and other liability-occurrence.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$322,263	\$337,523	\$366,782	\$398,883
Liabilities	138,333	141,844	153,373	168,433
Capital and Surplus	183,930	195,679	213,410	230,450
Net Income (Loss)	8,661	10,164	12,554	12,134
Net Premium Written	151,014	159,403	167,738	175,893

REINSURANCE

General

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

(\$000s omitted)

Premium Type	2018	2019	2020	2021
Direct Premiums Written	\$ 136,849	\$ 145,063	\$ 154,509	\$ 166,212
Reinsurance Assumed	48,979	51,952	52,141	53,498
Reinsurance Ceded:	(34,814)	(37,611)	(38,912)	(43,816)
Net Premiums Written	\$ 151,014	\$ 159,403	\$ 167,738	\$ 175,893

Assumed Reinsurance

The Company's assumed reinsurance is predominantly comprised of the following:

1. Premium assumed from its subsidiaries under 100% Intercompany Quota Share contracts.
2. Premium assumed from unaffiliated reinsurers who are Program Partners of the Company, which were immaterial at year-end, 2021.

Ceded Reinsurance

The Company enters into reinsurance contracts to mitigate risk and manage net premium growth. The reinsurance partners consist of authorized and unauthorized professional reinsurers. The reinsurance programs are structured by individual program partners. The Company's reinsurance program reflects the specialty program nature of the business, with individual reinsurance programs in place.

FAMI limits the maximum net loss that can arise from significant risks or risks in concentrated areas of exposure by reinsuring certain levels of risk with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts or by negotiation on individual risks. There is a comprehensive reinsurance program in place that includes property and casualty excess of loss, fidelity, and surety bond excess of loss, commercial catastrophe excess of loss, three layers of property catastrophe excess of loss, and aggregate catastrophe excess of loss coverage.

Per risk Excess of Loss:

The Company has per-risk property and casualty excess of loss treaties with General Reinsurance Corporation. The casualty treaty covers automobile, and other liability with two layers: the first layer is \$500,000 excess of \$500,000, and the second layer is \$4 million excess of \$1 million. The property treaty covers property with three layers: the first layer is \$500,000 not to exceed \$1.5 million, all risks in one occurrence; the second layer is \$1 million not to exceed \$2 million, all risks in one occurrence; and the third layer is \$2 million not to exceed \$4 million all risks in one occurrence.

Catastrophe Coverage:

The property catastrophe excess of loss agreement has multiple layers with various reinsurers. The first layer is \$5 million excess of \$7 million, the second layer is \$13 million excess of \$12 million, and the third layer is \$25 million excess of \$25 million. The property aggregate excess of loss agreement is with various reinsurers with \$12 million excess of \$46.6 million.

Other Coverages:

The personal business and commercial umbrella policy is written by General Reinsurance Corporation with \$900,000 excess of \$1 million.

Mutual Boiler Re reinsures equipment breakdown coverage with contract limits of \$25 million any one policy.

General Reinsurance Corporation reinsures the cyber liability coverage with contract limits of \$100,000 excess of \$2,500.

All ceded reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others.

This contingent liability would become an actual liability in the event 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, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

FARMERS ALLIANCE MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$239,418,115	\$ -	\$239,418,115
Common stocks	79,462,679	-	79,462,679
Real Estate: Properties occupied by the company	6,407,318	-	6,407,318
Cash and cash equivalent	20,641,111	-	20,641,111
Other invested assets	2,500	-	2,500
Investment income due and accrued	1,335,563	-	1,335,563
Uncollected premiums and agents' balances and installments booked but deferred and not yet due	40,822,141	6,000	40,816,141
Amounts recoverable from reinsurers	40,613	-	40,613
Funds held by or deposited with Reinsured companies	100,000	-	100,000
Current federal and foreign income tax recoverable and interest thereon	1,900,959	-	1,900,959
Net deferred tax asset	3,863,987	-	3,863,987
Guaranty funds receivable or on Deposit	164,586	-	164,586
Electronic data processing equipment and software	905,536	452,821	452,714
Furniture and equipment, including health care delivery assets	573,900	573,900	0
Aggregate write-ins for other-than invested assets	5,432,894	1,156,527	4,276,367
	<u>\$401,071,902</u>	<u>\$2,189,248</u>	<u>\$398,882,653</u>

FARMERS ALLIANCE MUTUAL INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021

Losses	\$ 47,678,422
Reinsurance payable on paid losses and loss adjustment expenses	1,742,277
Loss adjustment expenses	5,973,559
Commissions payable, contingent commissions and other similar changes	4,350,903
Other expenses	353,704
Taxes, licenses and fees	1,352,835
Unearned premiums	90,363,717
Advance premiums	2,666,967
Ceded reinsurance premiums payable	3,874,403
Funds held by company under reinsurance treaties	67,500
Amounts withheld or retained by the company for accounts of others	9,828,126
Remittances and items not allocated	34,175
Provision for reinsurance	11,700
Drafts outstanding	134,466
Total liabilities	<u>168,432,754</u>
Aggregate write-ins for special surplus funds	500,000
Unassigned funds (surplus)	<u>229,949,901</u>
Surplus as regards policyholders	<u>230,449,901</u>
Totals	<u>\$ 398,882,655</u>

FARMERS ALLIANCE MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

Premiums earned	\$170,471,567
DEDUCTIONS	
Losses incurred	95,354,258
Loss adjustment expense incurred	14,772,268
Other underwriting expenses incurred	51,653,190
Total underwriting deductions	<u>161,779,716</u>
Net underwriting gain	8,691,851
INVESTMENT INCOME	
Net investment income earned	6,173,517
Net realized capital gains less capital gains tax	708,523
Net investment gain	<u>6,882,040</u>
OTHER INCOME	
Net gain from agents' or premium balances charged off	(78,713)
Finance and service charges not included in premiums	319,130
Aggregate write-ins for miscellaneous income	<u>(30,052)</u>
Total other income	<u>210,365</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>15,784,256</u>
Net income, after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	15,784,256
Federal and foreign income taxes incurred	<u>3,650,329</u>
Net income	<u>\$ 12,133,927</u>

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31 prior year	\$ 175,705,809	\$ 183,929,778	\$ 195,679,081	\$ 213,409,555
Net income (loss)	8,660,947	10,163,518	12,554,120	12,133,927
Change in net unrealized capital gains or (losses)	(699,425)	1,313,753	3,886,136	5,376,416
Change in net deferred income tax	(2,158,135)	(1,438,049)	83,482	(618,140)
Change in nonadmitted assets	1,189,752	2,541,806	1,206,737	159,840
Change in provision for reinsurance	-	-	-	(11,700)
Aggregate write-ins for gains and losses in surplus	1,230,829	(831,725)	-	-
Surplus as regards policyholders, December 31 current year	<u>\$ 183,929,778</u>	<u>\$ 195,679,081</u>	<u>\$ 213,409,556</u>	<u>\$ 230,449,898</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. Accordingly, the capital and surplus of the Company as of December 31, 2021, was \$230,449,898, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021, and 2022, 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 had not been a significant impact on the Company. However, the Department will continue to monitor the impact of the pandemic on the Company closely and will take necessary action if concerns arise.

SUMMARY OF RECOMMENDATIONS

The examination did not result in any material findings. Therefore, no recommendations were made.

CONCLUSION

The assistance and cooperation of the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kyra Brown, MBA, ARC, Senior Examiner; Dennis Schaeffer, CISSP, CISA, IT Manager; TJ Helm, CISA, Senior IT Examiner; Dave Wolfe, ACAS, MAAA, Actuarial Manager; Katelyn Stauder, Actuary Consultant, and Nathan Bolles, Actuary Consultant all of whom are Baker Tilly, US, LLP associates, participated in this examination.

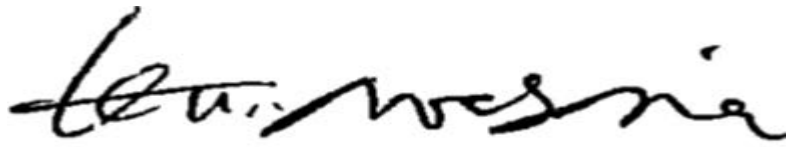
Respectfully submitted,



Junjie Pan, CPA, CFE
Examiner-in-Charge
Baker Tilly, US, LLP, representing the 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 prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written over a horizontal line.

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,

Junjie Pan, being duly sworn, states as follows:

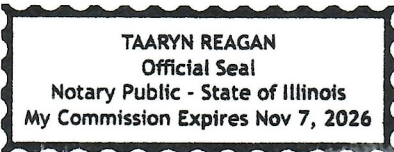
1. I have authority to represent the Kansas Insurance Department in the examination of Famers Alliance Mutual Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Famers Alliance 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.



Examiner's Signature

Subscribed and sworn before me by Junjie Pan on this 28 day of March, 2023.

(SEAL) 



Notary Public

My commission expires 11/07/2026 [date].