

REPORT ON EXAMINATION
OF
FARMERS MUTUAL INSURANCE COMPANY
16 NORTH MAIN
ELLINWOOD, KANSAS 67526
AS OF
DECEMBER 31, 2022

FILED

March 12, 2024

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
August 31, 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 MUTUAL INSURANCE COMPANY

with its main administrative and statutory home office at:

**16 NORTH MAIN
ELLINWOOD, KANSAS 67526**

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

SCOPE OF EXAMINATION

The examiners have performed a single 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, 2015, through December 31, 2018. This examination covers the four-year period from January 1, 2019, through December 31, 2022.

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 FMIC included Capital Management, Investments, Reinsurance, Related Party, Reserving, 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 within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were previously audited by SSC CPAs + Advisors for the years ending December 31, 2017, through December 31, 2021. Financial statements of the Company were audited by Adam Brown Strategic Allies and CPA's of Overland Park, Kansas for the year ending December 31, 2022. 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, 2022, 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 Dustin Gary, FCAS, MAAA, of Centric Actuarial Solutions of Overland Park, Kansas to perform a review of the Company's actuarial practices and reserves as of December 31, 2022. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

Pursuant to K.S.A. 40-1201 *et seq.*, Farmers Mutual Insurance Company was incorporated in the State of Kansas on April 12, 1895, as the German American Farmers

Association of Barton County. In 1904, the Company was admitted to Kansas, and in 1916 became a chartered corporation under the name, The German Mutual Fire Insurance Company of Barton County, Kansas. In 1918, the Company changed its name to The Farmers Mutual Insurance of Barton County, Kansas. In 1987, the articles of incorporation were amended providing perpetual existence and a change in the name to Farmers Mutual Insurance Company. The articles of incorporation were amended on July 22, 2022, to change the Company's name to Eagle Mutual effective January 1, 2023.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. The articles of incorporation and the bylaws were amended during the examination period on July 22, 2022. Both documents were properly filed and approved by the Department on October 12, 2022. The amendment was made to reflect the Company's name change to Eagle Mutual effective January 1, 2023.

MANAGEMENT AND CONTROL

Policyholders

Pursuant to the bylaws each policyholder shall be a member of the Company as long as their policy remains in force. Each member shall be entitled to one vote on each item at the annual or special member meetings. The annual meeting will be held on the third Thursday in February at the corporate office in Ellinwood, Kansas.

Board of Directors

The Company's bylaws consist of twenty-three (23) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to the Company’s bylaws, the Board should consist of no less than five (5) nor more than fifteen (15) directors. At the annual meeting, the policyholders shall elect directors which must be policyholders of the Company or its subsidiary, Eagle Insurance, Inc. formally known as Jensen Associates Inc. (“EII”), 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. The directors elected and serving as of December 31, 2022, were as follows.

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Hernan D. Hartig, Jr.	Partner/Manager, Harper Construction Company
Mindy J. Cure	Insurance Agency Agent and Partner, Hanston Insurance Agency
Troy L. Moore	Physical Therapist, Ellinwood District Hospital
Carissa L. Ringwald	Owner, TriAg
Mark A. Rondeau	Attorney, Watkins Calcara, Chtd.
Ronald G. Rugan	Farmer
Ruth A. Teichman	Retired, Former Kansas Legislator
Melvin D. Waite	Manager, National Billing, LLC
Curtis J. Wolf	Director, Fort Hays State University

Committees

The Company’s bylaws indicate that the Executive Committee will consist of the President, Vice President, Secretary-Treasurer, Assistant Secretary-Treasurer, and the Chief Executive Officer. The President or the Board may designate temporary or perpetual committees of the Board. The established committees and the members elected and serving as of December 31, 2022, were as follows:

Audit Committee

Troy L. Moore
Carissa L. Ringwald

Executive Committee

Herman D. Hartig, Jr.
Mindy J. Cure
Justin L. Lear
Ronald G. Rugan
Melvin D. Waite

**Investment and
Finance Committee**

Melvin D. Waite
Mindy J. Cure
Ruth A. Teichman

Nomination Committee

Mark A. Rondeau
Curtis J. Wolf

Officers

Pursuant to the bylaws, the Company will have a President, a Vice President and a Secretary-Treasurer and may also have an Assistant Secretary-Treasurer. The bylaws direct the Board to elect at its organizational meeting a President, a Vice President and a Secretary- Treasurer and may elect an Assistant Secretary-Treasurer. At the meeting, the Board appoints a Chief Executive Officer. The following is a listing of officers and their position(s) held as of December 31, 2022:

<u>Name</u>	<u>Office</u>
Herman D. Hartig, Jr.*	President
Melvin D. Waite*	Vice President
Mindy J. Cure	Secretary-Treasurer
Ronald G. Rugan	Assistant Secretary-Treasurer
Justin L. Lear	Chief Executive Officer

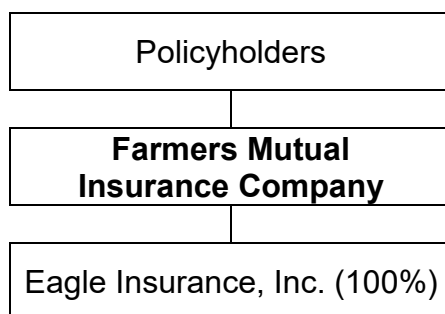
* Melvin D. Waite was elected President effective February 16, 2023 to replace Herman D. Hartig, Jr. effective as of the same date. Herman D. Hartig, Jr. was subsequently elected as a Vice President of the Company.

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires 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 Forms “B” and “C” registration statements 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 and non-insurance companies and the controlling entities thereof, as of December 31, 2022. Ownership is noted in parentheses and the Kansas domiciled insurer is bolded.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreement executed with its wholly owned subsidiary, that was in effect as of December 31, 2022.

Principal Lease and Management Agreement

Effective December 6, 2016, the Company entered into a Principal Lease and Management Agreement with EII. The agreement covers the rental of office space, staffing services and includes an overhead charge provided to FMIC by EII. Pursuant to the agreement, EII paid \$106,166; \$113,963; \$107,258; and \$115,886 to the Company in 2019, 2020, 2021, and 2022, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is authorized to transact business only in Kansas. The Company's product lines are distributed by independent agents throughout Kansas.

As of December 31, 2022, the Company's largest lines of direct written premium were allied lines at 48.6%, fire at 36.2%, and homeowners' multiple peril at 11.2%.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2019, through December 31, 2022. The financial amounts were obtained from annual statements filed by the Company.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$5,813	\$5,981	\$6,325	\$5,887
Liabilities	1,874	1,836	2,082	1,963
Capital and Surplus	3,939	4,145	4,244	3,924
Net Income (Loss)	325	270	150	102
Net Premium Written	2,593	2,488	2,504	2,509

REINSURANCE

General

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

<i>(\$000s omitted)</i>		<u>2019</u>		<u>2020</u>		<u>2021</u>		<u>2022</u>
Premium Type								
Direct Premiums Written	\$	3,112	\$	2,998	\$	3,030	\$	3,029
Reinsurance Assumed		0		0		0		0
Reinsurance Ceded:		(520)		(510)		(526)		(520)
Net Premiums Written	\$	<u>2,593</u>	\$	<u>2,488</u>	\$	<u>2,504</u>	\$	<u>2,509</u>

Ceded Reinsurance

The Company enters into excess of loss reinsurance contracts to protect against catastrophic or other unforeseen loss activity. The reinsurance partners consist of authorized and unauthorized insurers. The majority of the exposure to catastrophic risk pertains to the property business. The Company maintains a multiple year multi-line excess of loss agreement that covers both property and casualty lines. The Company's retention under this agreement is \$50,000 for property lines and \$25,000 for casualty lines. This agreement covers up to \$550,000 for property lines and \$675,000 for casualty lines. There is a multiple year property catastrophe excess of loss agreement which covers \$4,750,000 excess \$260,000. Additionally, the Company maintains facultative coverage for all risks with property coverages over \$600,000.

All reinsurance agreements in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All 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, 2022. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

**FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2022**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 625,627	\$ -	\$ 625,627
Common stocks	2,443,262	657,983	1,775,279
Real Estate: Properties occupied by the company	258,456	-	258,456
Cash and cash equivalents	2,497,856	-	2,497,856
Investment income due and accrued	4,447	-	4,447
Deferred premiums, agents' balances and installments book but deferred and not yet due	587,005	-	587,005
Amounts recoverable from reinsurers	48,428	-	48,428
Net deferred tax asset	68,536	-	68,536
Electronic data processing equipment and software	282,182	282,182	0
Furniture and equipment, including health care delivery assets	91,040	91,040	0
Aggregate write-ins for other-than invested assets	47,535	26,593	20,942
Totals	\$6,944,374	\$1,057,798	\$5,886,576

**FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2022**

Losses	\$ 164,677
Loss adjustment expenses	18,200
Commissions payable, contingent commissions and other similar changes	55,030
Other expenses	44,733
Taxes, licenses, and fees	41,256
Unearned premiums	1,608,810
Advance premiums	90,907
Ceded reinsurance premiums payable	<u>(61,000)</u>
Total liabilities	<u>1,962,613</u>
Unassigned funds (surplus)	<u>3,923,963</u>
Surplus as regards policyholders	<u>3,923,963</u>
Totals	<u><u>\$5,886,576</u></u>

**FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022**

Premiums earned	\$2,445,968
DEDUCTIONS	
Losses incurred	956,278
Loss adjustment expenses incurred	194,473
Other underwriting expenses incurred	1,423,502
Total underwriting deductions	<u>2,574,253</u>
Net underwriting gain	(128,285)
 INVESTMENT INCOME	
Net investment income earned	40,788
Net realized capital gains less capital gains tax	14,048
Net investment gain	<u>54,836</u>
 OTHER INCOME	
Finance and service charges not included in premiums	82,836
Aggregate write-ins for miscellaneous income	110,806
Total other income	<u>193,642</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	120,193
Dividends to policy holders	<u>0</u>
Net income, after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	120,193
Federal and foreign income taxes incurred	18,075
Net income	<u><u>\$ 102,118</u></u>

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Surplus as regards policyholders, December 31 prior year	\$ 3,369,614	\$ 3,938,780	\$ 4,144,907	\$ 4,243,768
Net income (loss)	324,800	270,409	149,621	102,118
Change in net unrealized capital gains or (losses)	247,851	165,085	254,846	(289,063)
Change in net deferred income tax	(385)	(1,750)	2,332	2,520
Change in nonadmitted assets	(2,900)	(227,617)	(307,938)	(135,380)
Surplus as regards policyholders, December 31 current year	<u>\$ 3,938,780</u>	<u>\$ 4,144,907</u>	<u>\$ 4,243,768</u>	<u>\$ 3,923,963</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, 2022, was \$3,923,963, which was the same amount reported by the Company in its 2022 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 into 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 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.

Effective January 1, 2023, the Company changed its name to Eagle Mutual from Farmers Mutual Insurance Company.

SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shane Mead, CISA, CISM, CRISC performed the information technology portion of the examination.

Respectfully submitted,



Tamara House, CFE
Examiner-in-Charge
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, appearing to read "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,

Tamara House, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of 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 Farmers Mutual Insurance Company, was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222

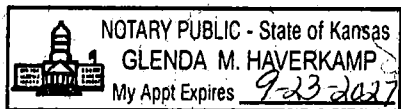
The affiant says nothing further.

Tamara House

Examiner's Signature

Subscribed and sworn before me by Tamara House on this 5th day of March, 2024.

(SEAL)



Glenda M. Haverkamp
Notary Public

My commission expires 9-23-2027
(date)