

**REPORT ON EXAMINATION**  
**OF**  
**UPLAND MUTUAL INSURANCE, INC.**  
**2220 LACY DRIVE**  
**JUNCTION CITY, KANSAS 66441**  
**AS OF**  
**DECEMBER 31, 2022**

**FILED**

**May 20, 2024**

**VICKI SCHMIDT**  
Commissioner of Insurance

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Topeka, Kansas  
April 26, 2024

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:

**UPLAND MUTUAL INSURANCE, INC.**

with its statutory home office and main administrative office at:

**2220 LACY DRIVE  
JUNCTION CITY, KANSAS 66441**

hereinafter referred to as the "Company" or "UML." 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 Department of Insurance ("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 UMI included Investments, Reinsurance, 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 audited by Strohm Ballweg, LLP of

Madison, Wisconsin for the years ending December 31, 2019, through 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**

Eric M. Mann, FCAS, MAAA, of Streff Insurance Services of Overland Park, Kansas was retained as the appointed actuary to perform a review of the Company's actuarial practices and reserves as of December 31, 2022. The appointed actuary's 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, The Kansas Farmers Mutual Insurance Association was incorporated in the State of Kansas on June 2, 1896, as a mutual fire and casualty company, and commenced writing business on June 2, 1896. On January 20, 1941, the Company changed its name to Upland Mutual Insurance, Inc.

## **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation during the examination period.

The Company's bylaws were amended on April 29, 2021. The amendments made were as follows:

- Article III Section 1 – changed the date of the annual policyholder meeting to the second Thursday in March from the third Wednesday in February.
- Article III Section 4 – inserted new section to implement restrictions on the business that may be conducted at the annual policyholder meeting.
- Article III Section 8 – inserted new section to restrict requested access to policyholder information for purposes of solicitation material.
- Article III Section 9 – inserted new section to establish the method of provision of notice to policyholders and directors.
- Article IV Section 1 – limited the Board's authority, when filling a vacancy to one-year rather than a full term, thus subjecting the new director to policyholder approval. Additionally, added nomination and voting requirements for board member elections.

The amendments were filed and approved by the Department on July 14, 2021.

Subsequent to the examination period, on December 19, 2023, the Company amended Article III Section 1 of the bylaws to change the date of the annual policyholder meeting to the fourth Tuesday in February from the second Thursday in March.

## **MANAGEMENT AND CONTROL**

### **Policyholders**

In accordance with the bylaws, each policyholder shall have one (1) vote regardless of the number of policies of insurance that policyholder has. The policyholder has the right to cast as many votes in the aggregate as shall equal the number of directors to be elected and no cumulative voting for a director is allowed. The annual meeting will be held on the second Thursday in March at the corporate office in Junction City, Kansas.

## **Board of Directors**

The Company's bylaws consist of twelve (12) 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 bylaws, the Board shall consist of not less than five (5) members nor more than twenty-five (25) members who shall be not less than eighteen (18) years of age, nor more than seventy-five (75) years of age. The number of directors may change from time to time by a resolution adopted by the Board. Additionally, a resolution which creates new Board positions will designate a one (1) year initial term of office for each new Board member. A director who turns seventy-five (75) during his or her term of office will complete the term. The age restriction does not apply to any director holding office at the time of the bylaw adoption. At the annual meeting, the policyholders shall elect directors, each of whom will hold office for a term of four (4) 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:

<b><u>Name</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Chris P. Brown	President and Chief Executive Officer Upland Mutual Insurance, Inc.
Morris A. Edwards	Insurance Agent Astra Insurance Agency
Loren D. Gugler	Insurance Agent (Retired) Gugler Insurance Agency
Bruce E. Hettenbach	President Hettenbach & Langdon, CPA, PA
Ronald L. Koester	Chief Financial Officer and Treasurer (Retired) Upland Mutual Insurance, Inc.
Terelle A. Mock	Attorney Fisher, Patterson, Saylor & Smith
Kami K. Poell	Physician Assistant

Casie M. Powell	Inspire ENT and Pulmonology Insurance Agent Krueger Insurance Management, Inc.
Scott D. Rock	Chief Information Officer Central National Bank

**Committees**

The Company’s bylaws stipulate that the Board may appoint such committees as it deems necessary. The established committees and the members elected and serving as of December 31, 2022, were as follows:

**Anti- Fraud Committee**

Morris A. Edwards  
Bruce E. Hettenbach

**Board Development & Management Oversight Committee**

Casie M. Powell, Chair  
Chris P. Brown  
Morris A. Edwards  
Loren D. Gugler  
Kami K. Poell

**Investment Committee**

Ronald L. Koester, Chair  
Chris P. Brown\*  
Wade O. Crain\*  
Bruce E. Hettenbach  
Scott D. Rock

**Reinsurance Committee**

Chris P. Brown, Chair  
Wade O. Crain  
Richard D. Gillispie  
Loren D. Gugler  
Ronald L. Koester

\* Non-Voting Member

**Officers**

Pursuant to the bylaws, the Company will have a Chair of the Board, a Vice Chair of the Board, a President, a Secretary, a Treasurer and other officers as determined by the Board. The bylaws direct the Board to elect at the annual board meeting a Chair of the Board, a Vice Chair of the Board, a President, a Secretary, a Treasurer and other



officers as determined by the Board. In accordance with the bylaws, the President shall be a member of the Board, and no one shall concurrently serve as more than two officers.

The following is a listing of officers and their position(s) held as of December 31, 2022:

<b><u>Name</u></b>	<b><u>Office</u></b>
Terelle A. Mock	Chair of the Board
Loren D. Gugler	Vice Chair of the Board
Chris P. Brown	President and Chief Executive Officer
Wade O. Crain	Chief Financial Officer and Treasurer
Richard D. Gillispie	Secretary

### **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 homeowners multiple peril at 38.8%, farmowners multiple peril at 31.1%, allied lines at 11.7%, private passenger auto physical damage at 7.5%, and fire at 5.9%.

### **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's omitted)</i>				
Admitted Assets	\$38,175	\$43,975	\$48,549	\$47,143
Liabilities	18,385	20,153	22,575	21,395
Capital and Surplus	19,790	23,821	25,974	25,748
Net Income (Loss)	917	3,531	2,098	858
Net Premium Written	17,138	17,114	16,684	17,206

## 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's omitted)</i>		<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Premium Type</b>					
Direct Premiums Written	\$	21,374	\$ 21,531	\$ 21,590	\$ 22,195
Reinsurance Assumed		29	26	34	49
Reinsurance Ceded:		(4,264)	(4,443)	(4,940)	(5,037)
<b>Net Premiums Written</b>	<b>\$</b>	<b>17,138</b>	<b>\$ 17,114</b>	<b>\$ 16,684</b>	<b>\$ 17,206</b>

### Assumed Reinsurance

UMI is a member of the National Association of Mutual Insurance Companies ("NAMIC"). NAMIC Insurance Company, Inc. ("NAMICO") was formed in 1986 due to the lack of affordable Director and Officers ("D&O") liability coverage availability to the NAMIC member companies. NAMICO's offerings now include Company D&O, Company Errors and Omissions ("E&O"), Agent E&O, Employment Practices Liability and Cyber Liability (which is fully reinsured).

Qualified NAMIC member companies participate in a pool to provide the 1<sup>st</sup> \$5,000,000 of coverage, and NAMICO secures reinsurance above \$5,000,000. Overall, the experience of the pool has been profitable. The pool substantially lowers the premium required to be charged to the member companies.

The Company has participated in the pool since 2015. UMI has assumed an immaterial amount of premium from the pool for all years under review.

### **Ceded Reinsurance**

The Company enters into excess of loss reinsurance contracts to protect against catastrophic or other unforeseen loss activity. The Company maintains a multi-line excess of loss agreement that covers both property and casualty lines with Dorinco Reinsurance Company (Dorinco). Dorinco is the lead reinsurer with twenty-five percent participation, with the various other (re)insurers making up the hundred percent placement. The Company's retention under this agreement is \$100,000. This agreement consists of two layers which covers up to \$1,900,000 in excess of the Company's retention. This agreement includes a basket cover of \$100,000 in excess of \$100,000.

The Company also maintains a property aggregate excess of loss agreement with R+V Versicherung AG (R+V). R+V is the lead reinsurer with twenty-nine and a half percent participation, with the various other (re)insurers making up the hundred percent placement, which covers up to \$5,000,000 should the Company exceed a 72.5% loss ratio on subject business in the period defined in the agreement.

The Company also maintains a catastrophe excess of loss agreement which consists of four layers and covers \$34,000,000 excess \$900,000. Additionally, the Company maintains facultative coverage with Arch Reinsurance Company for all risks with property coverages over \$2,000,000.

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. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

**UPLAND MUTUAL INSURANCE, INC.  
STATEMENT OF ASSETS  
AS OF DECEMBER 31, 2022**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$35,297,244	\$ -	\$35,297,244
Common stocks	5,225,726	-	5,225,726
Real Estate: Properties occupied by the company	152,735	-	152,735
Cash and cash equivalents	1,812,339	-	1,812,339
Investment income due and accrued	199,103	-	199,103
Uncollected premium and agents' balances in the course of collection	83,598	-	83,598
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,432,364	-	3,432,364
Amounts recoverable from reinsurers	316,282	-	316,282
Other amounts receivable under reinsurance contracts	279,051	-	279,051
Net deferred tax asset	344,824	-	344,824
Furniture and equipment	4,990	4,990	-
	<u>\$47,148,255</u>	<u>\$ 4,990</u>	<u>\$ 47,143,265</u>

**UPLAND MUTUAL INSURANCE, INC.  
STATEMENT OF LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2022**

Losses	\$ 2,779,202
Reinsurance payable on paid losses and loss adjustment expenses	81,980
Loss adjustment expenses	392,458
Commissions payable, contingent commissions and other similar changes	428,631
Other expenses	165,931
Taxes, licenses and fees	141,715
Current federal and foreign income taxes	57,471
Borrowed money	6,261,349
Unearned premiums	10,417,207
Advance premiums	327,894
Ceded reinsurance premiums payable	237,173
Funds held by company under reinsurance treaties	91,563
Amounts withheld or retained by company for account of others	6,337
Aggregate write-ins for liabilities	6,017
Total liabilities	21,394,928
Unassigned funds (surplus)	25,748,337
Surplus as regards policyholders	25,748,337
Totals	\$47,143,265

**UPLAND MUTUAL INSURANCE, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2022**

Premiums earned	\$16,863,875
<b>DEDUCTIONS</b>	
Losses incurred	10,832,512
Loss adjustment expenses incurred	1,055,482
Other underwriting expenses incurred	5,708,149
Total underwriting deductions	<u>17,596,143</u>
Net underwriting loss	(732,267)
<b>INVESTMENT INCOME</b>	
Net investment income earned	913,849
Net realized capital gains less capital gains tax	81,432
Net investment gain	<u>995,281</u>
<b>OTHER INCOME</b>	
Finance and service charges not included in premiums	569,300
Aggregate write-ins for miscellaneous income	77,743
Total other income	<u>647,042</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	910,056
Dividends to policy holders	<u>0</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	910,056
Federal and foreign income taxes incurred	52,302
Net income	<u><u>\$ 857,754</u></u>

**UPLAND MUTUAL INSURANCE, INC.  
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	\$ 18,465,402	\$ 19,790,282	\$ 23,821,392	\$ 25,974,148
Net income (loss)	916,915	3,530,612	2,098,059	857,754
Change in net unrealized capital gains or (losses)	438,173	463,962	248,705	(1,130,396)
Change in net deferred income tax	(20,054)	24,460	(202,348)	42,106
Change in nonadmitted assets	(10,153)	12,075	8,340	4,725
Surplus as regards policyholders, December 31 current year	<u>\$ 19,790,282</u>	<u>\$ 23,821,392</u>	<u>\$ 25,974,148</u>	<u>\$ 25,748,337</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 \$25,748,337, 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**

There were no events subsequent to December 31, 2022, that had a material effect on the Company.

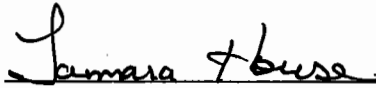
### **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report of 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 Department of Insurance

**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.



Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Department of Insurance

**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:

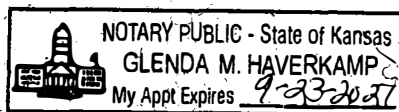
1. I have authority to represent the Kansas Department of Insurance in the examination of Upland Mutual Insurance, Inc.
2. Kansas Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Upland Mutual Insurance, Inc. 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 15th day of May, 2024.

(SEAL)



Glenda M. Haverkamp  
Notary Public

My commission expires 9-23-2027 [date].