

**REPORT ON EXAMINATION  
OF  
UPLAND MUTUAL INSURANCE, INC.  
2220 LACY DRIVE  
JUNCTION CITY, KANSAS 66441  
AS OF  
DECEMBER 31, 2018**

**FILED**  
**JUN 22 2020**  
**VICKI SCHMIDT**  
**Commissioner of Insurance**

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Junction City, Kansas  
May 7, 2020

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

Dear Commissioner:

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

**UPLAND MUTUAL INSURANCE, INC.**

with its statutory home and main office at:

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

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

**SCOPE OF EXAMINATION**

The examiners have performed a multi-state financial examination of UMI, a Kansas domiciled property and casualty insurance company. The last examination covered the five-year period from January 1, 2010 through December 31, 2014. This examination covers the four-year period from January 1, 2015, through December 31, 2018.

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 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. The Department may have identified other items during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and the Company.

### **Independent Audit Reports**

Financial statements of the Company were audited by Strohm Ballweg, LLP for the years ending December 31, 2015, through December 31, 2018. In each of the years under examination, the auditors concluded that the financial statements 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 during the course of this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

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

### **COMPANY HISTORY**

#### **General**

The Company was originally organized and chartered in Kansas on June 2, 1896, as The Kansas Farmers Mutual Insurance Association. On January 20, 1941, the Company changed its name to Upland Mutual Insurance, Inc. The purpose of the Company is to make and issue contracts of insurance of all types and classes authorized to be written by mutual insurance companies as set forth in Chapter 40, Article 12 of the Kansas Statutes Annotated, and all amendments thereto.

### **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed during the examination. During the period under review, the articles of incorporation were amended on June 13, 2017, in order to align certain language with the bylaws and the bylaws were amended on December 15, 2016, in order to make various additions, deletions, and clarifications to existing language. The amendments to both documents were properly filed with the Department.

### **MANAGEMENT AND CONTROL**

#### **Policyholders**

Article III, Section 1 of the Company's bylaws provides that: "The annual meeting of the policyholders of the Company (hereinafter "policyholders") shall be held on the third

Wednesday in February, of each year, at nine o'clock in the forenoon, at the principal office of the Company. Annually when policies are mailed the Company shall notify policyholders of the date and time of the policyholder annual meeting.”

Article III, Section 5 of the Company’s bylaws provides that: “Each policyholder shall have one (1) vote regardless of the number of policies of insurance that policyholder has at any given time. Each policyholder shall have the right to cast as many votes in the aggregate as shall equal the number of directors to be regularly elected and there shall be no cumulative voting for directors. The candidate receiving the largest number of votes shall be elected a director and the candidate receiving the next largest number of votes shall be elected a director, thus filling each position to be filled on the Board until all such positions have been filled. If more than one person is insured under a single policy, then the persons so insured shall be entitled to only one vote collectively.”

### **Board of Directors**

Article IV, Section I of the Company’s bylaws provides that: “The Board of Directors (the "Board") shall consist of not less than five (5) members nor more than twenty-five (25) members who shall not be less than eighteen (18) years of age, nor more than seventy-five (75) years of age. The exact number of members on the Board shall be established, from time to time, by resolution adopted by the Board. A resolution which creates new Board positions shall designate an initial term of office for each new Board member so that terms shall be staggered and not all director positions expiring in the same year. After such initial term subsequent terms shall be for four (4) years. The director who attains his seventy-fifth (75) birthday during his term of office shall be eligible to complete his term of office, provided the age restriction shall not apply to any director holding office at the time of the adoption of this bylaw. Any vacancy in the Board may be

filled by the remaining directors until the next annual meeting of policyholders at which time a successor shall be elected to fill the unexpired term.”

The following is a listing of directors and their position(s) held as of December 31, 2018:

<b><u>Director</u></b>	<b><u>Position Held</u></b>
Chris P. Brown	President and Chief Executive Officer Upland Mutual Insurance, Inc.
Ronald L. Koester	Treasurer and Chief Financial Officer Upland Mutual Insurance, Inc.
Kenneth G. Abitz	Director of Financial Surveillance (Retired) Kansas Insurance Department
Kenneth W. Albers	Farmer
Morris A. Edwards	Insurance Agent Astra Insurance Agency
Wayne H. Gfeller	Farmer
Loren D. Gugler	Insurance Agent (Retired) Gugler Insurance Agency
Bruce E. Hettenbach	President Hettenbach & Langdon, CPA, PA
Terelle A. Mock	Attorney Fisher, Patterson, Saylor & Smith
Scott D. Rock	Chief Information Officer Central National Bank

### **Committees**

Article IV, Section 3 of the Company’s bylaws provides that: “The Board shall appoint such committees as it shall deem necessary.” As of December 31, 2018, the committees established by the Board are as follows: Anti-Fraud, Board Perpetuation, and Reinsurance.

## **Officers**

Article V, Section 1 of the Company's bylaws provides that: "The officers of the Company shall be a chair of the Board, vice chair of the Board, president, secretary, treasurer and such other officers as shall be determined by the Board. These officers shall be elected for a term of one (1) year and shall hold office until their successors are duly elected and qualified. No one who is not a director of the Company shall be eligible for the office of president. No one shall concurrently serve as more than two officers. Any such officer who ceases to be a director shall cease to hold office as soon as his successor is elected and qualified."

The following is a listing of officers and their position(s) held as of December 31, 2018:

<b><u>Officer</u></b>	<b><u>Position Held</u></b>
Loren D. Gugler	Chair
Morris A. Edwards	Vice Chair
Chris P. Brown	President and Chief Executive Officer
Ronald L. Koester	Treasurer and Chief Financial Officer
Richard D. Gillispie	Secretary

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2018, the Company is authorized to transact business in the states of Kansas and Nebraska. However, the Company only wrote business in Kansas during the period of examination. Products are distributed by independent agents throughout Kansas.

In 2018, the Company's five largest lines of business by percentage of direct written premium are as follows: homeowners multiple peril (39%), farmowners multiple peril (29%), allied lines (13%), private passenger auto physical damage (7%), and fire (6%). Private passenger auto liability and other liability-occurrence made up the remaining balance of the Company's writings.



## **SELECT FINANCIAL INFORMATION**

The exhibit below shows select financial information of the Company's financial results for the period of December 31, 2014, through December 31, 2018. The financial results were obtained from annual statements filed by the Company.

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
<i>(in thousands)</i>					
Admitted Assets	23,692	26,550	30,124	31,849	36,297
Liabilities	13,024	14,470	15,504	16,130	17,832
Capital and Surplus	10,668	12,080	14,620	15,719	18,465
Net Underwriting Gain/(Loss)	775	1,181	2,100	54	2,340
Net Income	1,381	1,579	2,382	1,158	3,135
Net Premiums Written	15,964	16,259	15,853	16,156	16,889

## **REINSURANCE**

As of December 31, 2018, the Company's reinsurance program includes the following types of coverage: multi-line excess of loss, property coded per risk excess of loss, property catastrophe excess of loss, and aggregate 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 \$100,000. The agreement consists of two layers which cover up to \$1,900,000 in excess of the Company's retention. The agreement includes a basket cover of \$100,000 in excess of \$100,000.

The Company also maintains a property coded per risk excess of loss agreement which provides \$1,000,000 of coverage on property risks in excess of \$2,000,000.

The Company also maintains a property catastrophe excess of loss treaty agreement which consists of four layers and covers up to \$34,000,000 in excess of the Company's retention of \$900,000.

The Company also maintains a property aggregate excess of loss agreement which covers up to \$4,500,000 should the Company exceed a 72.5% loss ratio on subject business in the period defined in the agreement.

### **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, 2018. 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.

**UPLAND MUTUAL INSURANCE, INC.**  
**ASSETS**  
**AS OF DECEMBER 31, 2018**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 28,187,846	\$ -	\$ 28,187,846
Preferred stocks	177,440	-	177,440
Common stocks	2,822,908	-	2,822,908
Properties occupied by the Company	301,986	-	301,986
Cash and short-term investments	392,802	-	392,802
Receivable for securities	259,437	-	259,437
Investment income due & accrued	174,770	-	174,770
Uncollected premiums and agents' balances in the course of collection	78,062	-	78,062
Deferred premiums and agents' balances and installments booked but deferred and not yet due	3,329,317	-	3,329,317
Amounts recoverable from reinsurers	10,593	-	10,593
Other amounts receivable under reinsurance contracts	60,811	-	60,811
Net deferred tax asset	500,660	-	500,660
Electronic data processing equipment and software	638	-	638
Furniture and equipment	19,977	19,977	-
<b>Totals</b>	<b>\$ 36,317,247</b>	<b>\$ 19,977</b>	<b>\$ 36,297,270</b>

**UPLAND MUTUAL INSURANCE, INC.  
LIABILITIES, CAPITAL AND SURPLUS  
AS OF DECEMBER 31, 2018**

Losses	\$ 1,951,131
Reinsurance payable on paid losses and loss adjustment expenses	32,685
Loss adjustment expenses	330,361
Commissions payable, contingent commissions and other similar charges	548,458
Other expenses	228,085
Taxes, licenses and fees	134,719
Current federal and foreign income taxes	115,704
Borrowed money	4,359,587
Unearned premiums	9,779,216
Advance premiums	231,959
Ceded reinsurance premiums payable	104,508
Funds held by Company under reinsurance treaties	10,000
Aggregate write-ins for liabilities	5,455
Total liabilities	<u>\$ 17,831,868</u>
Unassigned funds (surplus)	<u>\$ 18,465,402</u>
Surplus as regards policyholders	<u>\$ 18,465,402</u>
Total liabilities, capital and surplus	<u><u>\$ 36,297,270</u></u>

**UPLAND MUTUAL INSURANCE, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**UNDERWRITING INCOME**

Premiums earned	\$ 16,535,847
<b>DEDUCTIONS:</b>	
Losses incurred	7,893,455
Loss adjustment expenses incurred	884,201
Other underwriting expenses incurred	5,418,197
Total underwriting deductions	<u>\$ 14,195,853</u>
Net underwriting gain	<u>\$ 2,339,994</u>

**INVESTMENT INCOME**

Net investment income earned	\$ 845,845
Net realized capital gains	46,971
Net investment gain	<u>\$ 892,816</u>

**OTHER INCOME**

Finance and other service charges not included in premium	<u>\$ 624,366</u>
Total other income	<u>\$ 624,366</u>
Net income after dividends and before federal income taxes	\$ 3,857,176
Federal income taxes incurred	722,664
Net income	<u><u>\$ 3,134,512</u></u>

**UPLAND MUTUAL INSURANCE, INC.  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2014			<u>\$ 10,668,088</u>
Net income	2015	1,579,386	
	2016	2,381,644	
	2017	1,158,279	
	2018	<u>3,134,512</u>	8,253,821
Change in net unrealized capital gains or (losses)	2015	(248,909)	
	2016	188,888	
	2017	268,685	
	2018	<u>(497,316)</u>	(288,652)
Change in net deferred income tax	2015	103,050	
	2016	(64,444)	
	2017	(329,393)	
	2018	<u>99,778</u>	(191,009)
Change in nonadmitted assets	2015	(21,911)	
	2016	34,222	
	2017	1,767	
	2018	<u>9,076</u>	<u>23,154</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 18,465,402</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, 2018, was \$18,465,402, which was the same amount reported by the Company in its 2018 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**

No significant or material subsequent events were identified that warranted inclusion in this Report on Examination.

## **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 the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mr. Shane Mead, CISA, CRISC, CISM, an Information Systems Examiner, and Ms. Tamara House, CFE, a Senior Insurance Examiner, both representing the Department, participated in this examination.

Respectfully submitted,



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Christopher W. Buchanan, CPA, CFE  
Examiner-in-Charge  
Kansas Insurance Department

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

State of Kansas

County of Shawnee

Christopher W. Buchanan, being duly sworn, states as follows:

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

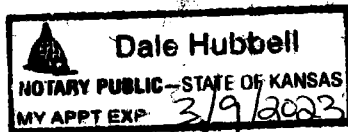
The affiant says nothing further.



\_\_\_\_\_  
Examiner's Signature

Subscribed and sworn before me by Christopher W. Buchanan on this 24 day of June, 2020.

(SEAL)



\_\_\_\_\_  
Notary Public

My commission expires 3/9/2023  
(date)