

REPORT OF
EXAMINATION

Wyoming Farmers Mutual Insurance Company

AS OF

DECEMBER 31, 2007



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
February 18, 2009

Honorable Kenneth G. Vines
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002

Commissioner:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2007, of the financial condition, management, and affairs of

WYOMING FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as the "Company," at its home office located at 1555 Mason, Wheatland, Wyoming. The following report of the examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

The examination reported upon herein was undertaken as a routine examination as called for by Wyo. Stat. § 26-2-116. The Company was most recently examined as of December 31, 2004. The current examination covers the period of January 1, 2005 through December 31, 2007.

The examination included a review and analysis of operations and a determination of the financial condition of the Company as of the date of examination. Valuation and verification of assets, determination of liabilities and reserves, and testing and analysis of such accounts and records deemed necessary to the examination were performed. In addition, the exam included a limited review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

An actuarial review of the Company was also performed during the examination. A copy of this report is attached.

The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the NAIC and other generally accepted insurance standards.

DESCRIPTION OF THE COMPANY

History of the Company:

Wyoming Farmers Mutual Insurance Company was formed as a result of the merger between Wyoming Mutual Insurance Company of Wheatland, Wyoming, which was originally incorporated in 1908 as a farm mutual insurer per Chapter 26 of the Wyoming Insurance Code, and Farmers Mutual Fire Insurance Company of Albin, Wyoming, which was originally incorporated in 1914 as a farm mutual insurer per Chapter 26 of the Wyoming Insurance Code.

The merger between Farmers Mutual Fire Insurance Company and Wyoming Mutual Insurance Company came about as the result of Farmers Mutual Fire Insurance Company's desire to liquidate its business. After discussions with Wyoming Mutual Insurance Company and the Wyoming Insurance Department, the management and policyholders of Farmers Mutual Fire Insurance Company decided to merge into Wyoming Mutual Insurance Company with Wyoming Mutual Insurance Company being the surviving entity. The Company then changed its name to Wyoming Farmers Mutual Insurance Company.

For the consideration of \$55,000 paid by Wyoming Mutual Insurance Company, an agreement was entered into on September 21, 1993, between Wyoming Mutual Insurance Company and Farmers Mutual Fire Insurance Company. The provisions of the agreement included the purchase of the insurance policies of Farmers Mutual Fire Insurance Company by Wyoming Mutual Insurance Company with the simultaneous resignation of Farmers Mutual Fire Insurance Company's Board of

Directors. Farmers Mutual Fire Insurance Company's original Board of Directors formed a committee that was responsible for the distribution of the \$55,000 to the policyholders of Farmers Mutual Fire Insurance Company. Wyoming Mutual Insurance Company's Board of Directors became the Board of Directors for Farmers Mutual Fire Insurance Company upon the resignation of the original Board of Directors in September of 1993, and the two companies continued to operate as separate entities under common management until the Certificate of Merger was issued by the Wyoming Secretary of State on December 29, 1995. The Company's home office is located in Wheatland, Wyoming.

Management and Control:

Control of the Company rests with its Board of Directors, which is elected by the Company's members. The directors are required to be a member of the insurer per Wyo. Stat. § 26-26-115. As of December 31, 2007, the following directors were holding office:

J.R. Blevins
Leonard Cussins
Dan Hartley
Clayton Rietz
Charles Shellhart

The following were the officers of the Company as of December 31, 2007:

President – Dan Hartley
Vice President – Clayton Rietz
Secretary - Lori Modesitt
Treasurer - Charles Shellhart

The Company is obtaining conflict of interest statements from its officers and directors on an annual basis. It was determined that the conflict of interest statements are adequate.

Corporate Records:

The minutes of the meetings of the Board of Directors were reviewed in detail. It was determined that the Company's minutes were adequately documented.

Fidelity Bonds and Other Insurance:

Wyoming Statute § 26-26-117 requires the treasurer and secretary of an insurer to each "give bonds to the insurer for the faithful performance of their duties in an amount the board of directors designates."

The Company currently has \$25,000 each in fidelity insurance with Western Surety Company for both the Secretary and Treasurer. In addition, the Company has \$10,000 in fidelity insurance with Western Surety Company for the President. Western Surety Company is licensed in the State of Wyoming.

The Company does not own any real estate. Per discussion with the Secretary and in reviewing the Company's disaster recovery plan, the Company has made the business decision not to purchase insurance on its property due to the relatively low value of its office equipment.

Officers', Employees', and Agents' Welfare and Pension Plans:

The Company does not offer any pension or other type of benefit plan to its officers and employees.

Territory and Plan of Operation:

Wyoming Statute § 26-26-102 states that farm mutual insurers "shall insure only against loss or damage by fire or other contingencies usually covered under extended coverage endorsements; and rural property consisting of dwellings, buildings, including the usual contents therein, livestock, machinery, vehicles, growing crops and other rural property owned by a member of the insurer or by his spouse." This statute further limits the Company's market area to property that is located within the state of Wyoming, and that is not located within an incorporated city or town. In addition, the Company is restricted to insuring no more than three-fourths of the property's actual value according to statute.

The Company is properly licensed to sell property insurance in the State of Wyoming. The Company's major producer is its Treasurer, who is a licensed producer in the State of Wyoming. In addition, the Company has appointed ten insurance agencies throughout Wyoming.

Growth of the Company:

Premiums written have decreased \$5,801.42 from \$44,961.65 in 2005 to \$39,160.23 in 2007. As of December 31, 2007, the Company's surplus per examination is \$111,189, which is a decrease of \$18,144 from the December 31, 2004, surplus per examination. Admitted assets have decreased \$20,331 from \$157,418 as of December 31, 2004, to \$137,087 as of December 31, 2007.

The Company's growth has been limited due to the statutory restrictions on the type of insurance it is able to write and the market area it is able to cover.

Business In Force:

Revenues are generated by line of business in the following percentages for 2007:

Line of business	Wyoming
Fire	52
Allied Lines	48
Total	100

Loss Experience:

The Company's loss experience fluctuates significantly because most of its claims are due to wind and hail storms, which vary from year to year. The Company only records a loss reserve for reported claims that have not been paid as of year-end. At year-end 2007, the Company did not report any loss reserves.

The Company conducts its business on the assessment plan, however, the Company has been able to pay for all of its losses with its excess surplus funds and has not had to make any special assessments.

Reinsurance:

As of December 31, 2001, the Company's reinsurance coverage was cancelled because its reinsurer was exiting the market. The Company has been unable to obtain replacement coverage due to its small premium volume.

Accounts and Records:

The Company's administrative, accounting, underwriting, policy administration, and claims handling functions are performed at its home office in Wheatland, Wyoming.

The Company's accounts and records were reviewed in accordance with the *NAIC Financial Condition Examiners Handbook* and the Wyoming Insurance Code.

WYOMING FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2007

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Cash and short-term investments	\$135,523	0	\$135,523
Subtotal – cash and invested assets	135,523	0	135,523
Investment income due and accrued	1,564	0	1,564
Total assets	\$137,087	\$0	\$137,087
LIABILITIES & SURPLUS			
Commissions payable			\$711
Other expenses			2,791
Unearned premiums			21,721
Amounts withheld or retained for account of others			675
Total liabilities			25,898
SURPLUS			
Unassigned funds (surplus)			111,189
Surplus as regards policyholders			111,189
Total liabilities & surplus			\$137,087

WYOMING FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
for the Year Ending December 31, 2007

Underwriting Income

Premiums earned	\$40,044
Losses incurred	6,069
Loss expenses incurred	1,756
Other underwriting expenses incurred	45,946
Total underwriting deductions	53,771
Net underwriting gain or (loss)	(13,727)

Investment Income

Net investment income earned	5,193
Net investment gain	5,193
Net income / (loss)	(\$8,534)

WYOMING FARMERS MUTUAL INSURANCE COMPANY
RECONCILIATION OF SURPLUS ACCOUNT
December 31, 2005 Through December 31, 2007

	Per Annual Statements		Per Exam
	2005	2006	2007
Surplus, December 31, of previous year	\$129,333	\$126,607	\$119,723
Net income (loss)	(2,726)	(6,884)	(8,534)
Net change in surplus	(2,726)	(6,884)	(8,534)
Surplus, December 31, of current year	\$126,607	\$119,723	\$111,189

CONCLUSION

Kathryn E. Cotton, CPA, AFE, and Jeff Braunschweig, CPA, CFE, examiners for the Wyoming Insurance Department, participated in the examination.

An actuarial review of the Company was conducted by Randall D. Ross, ACAS, MAAA, and R. Glenn Taylor, ACAS, MAAA, of the firm Taylor – Walker & Associates, Inc.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **WYOMING FARMERS MUTUAL INSURANCE COMPANY**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

Kathryn E. Cotton, CPA, AFE
Examiner In-Charge
Wyoming Department of Insurance

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda L. Johnson, CPA, CFE
Chief Financial Examiner
Wyoming Department of Insurance

The foregoing instrument was acknowledged under oath before me this ____ day of March 2009.

Witness my hand and official seal.

Notary Public

My Commission Expires:_____



February 18, 2009

Ms. Linda Johnson, CPA, CFE
Chief Financial Examiner
State of Wyoming Insurance Department
106 East 6th Avenue
Cheyenne, WY 82002

Dear Linda:

**WYOMING FARMERS MUTUAL INSURANCE COMPANY
ACTUARIAL EXAMINATION AS OF DECEMBER 31, 2007**

We reviewed the information that you provided regarding Wyoming Farmers Mutual Insurance Company (WFMIC, or Company). Given the timing of the examination, we were able to review the financial statements, claims, and policy listing for 2008. This more current information is most relevant to the Company's ongoing operations.

As you know, the small volume of claims data does not allow for any traditional actuarial analysis. In the prior examination as of December 31, 2002, we provided some comments regarding the Company's lack of reinsurance protection. In the current review, we offer some summary comments and concerns relating to our limited review of WFMIC's current and prospective operations.

The Company addressed some of the issues relating to the December 31, 2002 examination recommendations in the General Interrogatories of the 2007 Annual Statement, and are listed below:

- The Company imposed a limit of \$200,000 per insured item on covered property. We noticed two policies in 2008 with coverage limits in excess of \$200,000. According to Company management, these policies include multiple buildings.
- The Company imposed a \$250 deductible in 2004, consistent with our prior examination recommendation. This translates to a slight increase in rate adequacy.
- The Company stated that they have taken steps to ensure that all properties are fully insured at the maximum 75% of value allowed by

Wyoming statute. In 2002, there were 132 policies, with an average fire coverage amount of approximately \$44,000 per policy. In 2008, the average coverage amount was approximately \$62,600 on 75 insured properties. Although not conclusive, this suggests that their efforts have been successful. However, we noticed that there were still eight properties with fire coverage less than \$15,000 in 2008.

Some key observations from our current review are summarized below:

- WFMIC's net income has been negative in each of the eleven years available for our review, 1996 through 2000, and 2003 through 2008. Based on the level of surplus at years-ending 2000 and 2002, it appears that the Company has had negative income in each of the past thirteen years.
- In each of the years 2003 through 2008, the Company's underwriting expenses have been in excess of premiums written. Written premiums have been only about \$40,000 in each of the past three years, 2006 through 2008.
- Incurred claims have averaged only about \$6,000 annually for the 2003 through 2008 calendar years. This translates to a very low loss ratio of less than 15%. Given the small volume of business, it is our opinion that this favorable experience has been fortuitous. If WFMIC levies are comparable to insurance industry premium rates, we would expect a long-term average losses to be in excess of 60% of levies.
- The Company has very limited surplus available to withstand a large claim or occurrence. Based on the preliminary financial information provided for 2008, the Company's surplus as of December 31, 2008 is approximately \$92,000. This has reduced significantly from the approximate \$229,000 of surplus available at year-end 1996.
- According to Wyoming statute, WFMIC is allowed to assess an increased levy in the event of operating losses during a year. Company management indicated that they have not exercised this option in recent years. Although this may help to fund a large claim, it may also cause members to seek coverage elsewhere.
- The Company increased their levy by approximately 18% in April of 2007. Despite the increased rate, total written premiums did not increase, due to the decreased volume of business written. In our opinion, this increase

was necessary. Unfortunately, this action caused some members to find coverage elsewhere.

- In our prior review, we found that surplus was adequate to cover a total loss on any one of the policies in force in 2002. Sixteen of the policies written in 2008 have coverage limits in excess of the available surplus as of year-end 2008. In this respect, the Company has increased its exposure to severe adverse financial results.

As in our prior review, it is still our opinion that the Company's lack of reinsurance coverage does not pose a material threat to solvency. The minimum cost to acquire reinsurance would be prohibitive to this small Company. Reinsurance premiums would exceed the expected value of the benefit provided by ceded reinsurance claims.

We are concerned that the Company does not maintain the critical mass necessary to continue as a viable insurance entity. Although claims and underwriting expenses are extremely low, premium volume is lower. The law of large numbers does not apply to WFMIC. Recent favorable claims experience does not provide a statistically credible basis for projecting similar experience going forward. Recent levy increases inadvertently resulted in the loss of business. In current operations, a single claim could be greater than annual premiums, or may even exceed the amount of total free surplus. Company management is well aware of these concerns, and shares them.

In summary, the Company needs to build surplus to ensure that it can absorb deviations from expected claims experience. This will require increased business volume, without decreasing the levy. Relative rate adequacy can be further enhanced by additional measures to ensure that property values are current on all policies.

Thank you for your assistance on this project. If you have any questions or need anything further, please contact us. We appreciate the opportunity to work with the Wyoming Insurance Department.

Cordially,



Randall D. Ross, ACAS, MAAA
Consulting Actuary



R. Glenn Taylor, ACAS, MAAA
President