

REPORT OF  
EXAMINATION

**Mountain West Farm Bureau Mutual Insurance Company, Inc.**

AS OF  
DECEMBER 31, 2004



STATE OF WYOMING  
DEPARTMENT OF INSURANCE  
CHEYENNE, WYOMING

## TABLE OF CONTENTS

SALUTATION .....	3
SCOPE OF EXAMINATION .....	4
DESCRIPTION OF THE COMPANY .....	4
History of the Company .....	4
Management and Control .....	4
Holding Company Structure .....	5
Significant, On-Going Contractual Relationships .....	5
Corporate Records .....	6
Fidelity Bonds and Other Insurance .....	6
Officers', Employees', and Agents' Welfare and Pension Plans .....	7
Territory and Plan of Operation .....	7
Growth of the Company .....	8
Business In Force by State .....	8
Loss Experience .....	8
Reinsurance .....	8
Accounts and Records .....	9
Market Conduct .....	11
BALANCE SHEET .....	12
STATEMENT OF INCOME .....	13
CAPITAL AND SURPLUS .....	14
RECONCILIATION OF SURPLUS ACCOUNT .....	15
SUMMARY OF RECOMMENDATIONS .....	16
CONCLUSION .....	17

**SALUTATION**

Cheyenne, Wyoming  
November 29, 2005

Honorable Alfred W. Gross  
Chairman, NAIC Financial Condition  
(E) Committee  
State Corporation Commission  
Bureau of Insurance  
Post Office Box 1157  
Richmond, Virginia 23218

Honorable Kenneth G. Vines  
Insurance Commissioner  
State of Wyoming  
122 West 25th Street  
Cheyenne, WY 82002-0440

Honorable Linda Hall  
Western Zone Secretary  
Division of Insurance  
Department of Community and Economic  
Development  
Post Office Box 110805  
Juneau, Alaska 99811-0805

Chairman, Secretary, and 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, 2004, of the financial condition, management, and affairs of

**MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**

hereinafter referred to as the "Company," at its home office located at 931 Boulder Drive, Laramie, 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(a). The Company was most recently examined as of December 31, 2001. The current examination covers the intervening three-year period ending December 31, 2004.

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. The examination utilized, where appropriate, work performed by the Company's independent certified public accountants. Limited market conduct procedures were also performed during the examination. 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.

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

During the examination, there were some immaterial items noted that are not included in this report. These issues are discussed in a management letter that was given to the Company and its Board of Directors under a separate cover.

## **DESCRIPTION OF THE COMPANY**

### **History of the Company:**

The Company has been located in Laramie, Wyoming, for its entire existence. The Company, formerly known as Wyoming Farm Bureau Mutual Insurance Company, was formed from the consolidation of Agricultural Indemnity Company of Wyoming and Agricultural Insurance Company of Wyoming, both stock companies, in 1956. At the time of the merger, the Company converted to mutual form. The current Company name was adopted in 1972.

### **Management and Control:**

Control of the Company rests with its board of directors, which is elected by the Company's policyholders. The only persons eligible to be directors are the members of the boards of directors of the Wyoming and Montana Farm Bureau Federations. The directors of the Federations are elected by their respective memberships. As of December 31, 2004, the following directors were holding office:

Elden Baldwin	David McClure
Justin Ellis	Bill Meadows
Keith Hamilton	JW Nuckolls
Robert Hanson	Tim Pexton
Karen Henry	Dale Strouf
Perry Livingston	Bruce Wright

The following were the officers of the Company as of December 31, 2004:

President - Karen Henry  
Vice President - David McClure  
Secretary – Ken Hamilton  
Treasurer - Roy Schmett  
Assistant Secretary – Cindy Romero  
Assistant Treasurer – John Dougherty

The daily operations of the Company are managed by Sam Clark, Chief Executive Officer and Executive Vice President. Mr. Clark is appointed by the board of directors.

#### **Holding Company Structure:**

The Company is a member of an insurance holding company system as defined in the Wyoming Statutes, Title 26, Chapter 44. The Company submitted a Registration Statement in accordance with Wyo. Stat. § 26-44-104.

*Western Computer Services, Inc. (WC)* is a 33 percent owned subsidiary located in Sandy, Utah, which provides electronic data processing services to the Company. The agreement governing the services rendered to the Company is a cost reimbursement agreement. The Company filed the appropriate Form D with the Wyoming Department of Insurance for this agreement.

*Western Farm Bureau Service Company* is a wholly-owned Wyoming subsidiary. Business activities include: leasing of property and equipment primarily to the parent company; financing insurance premiums on insurance policies issued by the parent company in Wyoming and Montana; financing purchases of real estate and personal property; investing in corporate bonds and stock; and placing various insurance coverages not offered by the parent for its insureds on a surplus lines basis.

#### **Significant, On-Going Contractual Relationships:**

The Company was originally formed to serve the specific insurance needs of the agricultural community. While non-agricultural risks are underwritten by the Company, agricultural interests still dominate it. These interests result in the Company being associated with a network of farm bureau organizations. These farm bureaus consist of associations of farmers and ranchers who have common interests and concerns. Individuals join county farm bureaus, which are, in turn, associated with state

farm bureaus. Finally, the American Farm Bureau Federation represents the mutual concerns of these various state farm bureaus.

The Company maintains long-term business relationships with various entities which also have farm bureau associations. The following are companies that are associated with the Company through the farm bureau network, but do not meet the requirements of the Holding Company Act so as to be considered part of the Company's holding company system:

***American Agricultural Insurance Company (AA)*** is an Indiana-domiciled insurer, licensed as a property and casualty insurer in Wyoming, which provides reinsurance to the Company. See the **Reinsurance** section.

The Company owns 8,338 shares of the Class A voting common stock of AA, valued by the Company at \$9,772,136 at December 31, 2004.

***Western Agricultural Insurance Company (WA)*** is an Arizona-domiciled insurer, licensed in Wyoming, which provides reinsurance to the Company. It also services the Company's sub-standard auto business written in the State of Arizona. Likewise, the Company services the sub-standard auto business that WA writes in the states of Montana and Wyoming. See the "Territory and Plan of Operation" and "Reinsurance" sections.

The Company owns one share of the Class A voting common stock and 2,682 shares of the Class B non-voting common stock of WA, valued by the Company at \$2,430 and \$6,517,260, respectively, at December 31, 2004.

***EquiTrust Investment Management Services, Inc. (EIMSI)*** is a subsidiary of FBL Financial Group. EIMSI executed an agreement with the Company in late 1994 to provide investment research and advice and to manage the Company's investment portfolio subject to the Company's supervision and review. The Company paid \$50,147 to EIMSI in 2004.

The Company owns 463,904 shares of the voting and 25,400 shares of the non-voting common stock of FBL Financial Group, valued by the Company at \$13,244,459 and \$725,170, respectively, at December 31, 2004. The Company non-admitted \$653,870 of this investment at December 31, 2004, in order to be in compliance with the 5 percent statutory limitation.

### **Corporate Records:**

The articles of incorporation, bylaws, and minutes of the meetings of the board of directors, and the Budget and Investment Committee were reviewed in detail. No compliance issues were noted during the review.

### **Fidelity Bonds and Other Insurance:**

The Company has fidelity insurance with Fidelity and Deposit Company of Maryland. The policy has an aggregate limit of liability of \$1,000,000, which meets the NAIC suggested minimum. Also, the Company has \$10,000,000 of directors and officers liability insurance with Great American Insurance

Company and \$10,000,000 of professional liability insurance with Great American Excess and Surplus Insurance Company.

The Company self-insures its buildings, equipment and automobiles.

**Officers-, Employees-, and Agents- Welfare and Pension Plans:**

The Company participates in a self-administered multi-employer defined benefit pension plan with several other farm bureau companies. The cost of the plan is borne entirely by the employer and is available to employees who meet certain age and service requirements. The Company contributed \$286,238 to the plan in 2004.

The Company has a defined contribution plan under I.R.C. Section 401(K) for the benefit of its employees. Under the plan, the Company is required to contribute 100 percent of the employees' contribution, limited to the first 4 percent of the employees' compensation. The Company contributed \$183,663 to the plan in 2004.

The Company has a self-administered supplemental retirement income plan (SRIP) for the officers of the Company. Benefit payments to the participants begin once they have reached the retirement age of 65. The Company made no contributions to this plan in 2004.

The Company has a deferred compensation plan for certain officers of the Company. The officers may elect to reduce their salary and have the Company make payments into a trust. The Company made no contributions to the plan in 2004.

In addition to pension benefits, the Company has established a postretirement health benefits plan, which provides medical benefits to the retired employees and agents of the Company. Retirees pay a monthly premium based on whether or not they are Medicare-eligible and whether or not any dependents are covered. Retirees whose age and years of service is equal to or greater than ninety (90) receive the benefit at no cost. Employees hired after December 31, 2003, are not eligible for the Rule of 90. The Company did not make any contributions to this plan in 2004.

**Territory and Plan of Operation:**

The Company is authorized as a multi-line property and casualty insurer in the State of Wyoming. The Company is also licensed to write property, casualty (including workers' compensation), marine, surety, and disability insurance in the State of Montana; and additionally, the Company is authorized to write property, casualty (without workers' compensation), and vehicle insurance in the State of Arizona.

The Company markets its products through exclusive agents who are independent contractors. The Company has focused its marketing on rural dwellings in the past, however, it is now writing some business and commercial policies as well. The Company uses mainly radio and newspaper advertisements, as well as some other local print media. No new lines of business are proposed at this time. The Company does not have any plans for expansion into other states.

As described above in **Significant, On-Going Contractual Relationships**, the Company directly writes sub-standard auto business on risks located in the State of Arizona. That business is serviced by Western Agricultural Insurance Company (WA) and is assumed 100 percent by WA (see the **Reinsurance** section).

**Growth of the Company:**

The Company has increased its surplus \$24,434,143 during the three-year examination period and its reported direct premiums written have grown from \$80,267,510 in 2002, to \$101,616,118 in 2004, an increase of \$21,348,608. The Company's admitted assets have increased by \$58,349,951 from \$207,965,230 in 2002, to \$266,315,181 in 2004.

**Business In Force by State:**

Revenues are generated by line of business in the following percentages for 2004:

<b>Line of business*</b>	<b>+Wyoming</b>	<b>+Montana</b>	<b>+Arizona</b>	<b>Grand Total</b>
Farmowners multiple peril.	17	17		17
Homeowners multiple peril.	18	15		16
Commercial multiple peril.	9	8		8
Private passenger auto liability.	22	31	62	27
Private passenger auto physical damage.	28	24	38	26
All other lines **	6	5		6
Totals	100	100	100	100

\* All figures are per the December 31, 2004, Annual Statement.

\*\* Fire, allied lines, inland marine, other liability, other commercial auto liability, and commercial auto physical damage.

+ Percentages in each column are calculated using direct premiums written by state.

**Loss Experience:**

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. Reported reserves were found to be reasonable as stated.

The Company has been given a copy of the actuarial report prepared by Taylor-Walker & Associates.

**Reinsurance:**

Reinsurance is primarily assumed from pools administered by American Agricultural Insurance Company (AA), and Western Agricultural Insurance Company (WA).

The following table presents 2004 data.

<b>Ceding Company</b>	<b>Premium Assumed</b>
AA Pools	\$3,319,709
WA Pools	3,635,263
Totals	<u>\$6,954,972</u>

Reinsurance is ceded predominantly to AA as shown in the following table.

<b>Reinsurer</b>	<b>Premium Ceded</b>
AA – Property Pro Rata Surplus Share	\$859,160
AA – Casualty Excess of Loss	1,113,074
AA – Other*	3,436,272
Factory Mutual – Boiler and Machinery	199,556
WA **	1,908,685
Parkwood Reinsurance Company	1,350,000
Total	<u>\$8,866,747</u>

\* Other consists of catastrophe auto and property, property per risk excess and umbrella.

\*\* As described above, the Company cedes 100 percent of its substandard auto business written on Arizona risks to WA.

Taylor-Walker & Associates reviewed the reinsurance agreements for proper risk transfer. No exceptions were noted.

### **Accounts and Records:**

The Company's accounts and records were reviewed in accordance with the examination programs in the NAIC Examiner's Handbook and the Wyoming Insurance Code.

The Company's administrative, accounting, underwriting, policy administration, and claims handling functions are performed at its home office in Laramie, Wyoming. Electronic data processing services are performed at Western Computer Services, Inc. in Sandy, Utah. The Arizona sub-standard auto business that is directly written by the Company is serviced by Western Agricultural Insurance Company.

The Company has its investments in a custodial account with First Interstate Bank of Laramie, Wyoming. This agreement was approved by the Wyoming Department of Insurance as complying with Wyo. Stat. § 26-24-129(a)(iii), which requires a company's assets to be maintained in the State of Wyoming.

During testing, it was noted that the Company has not remitted the funds for uncashed checks in the amount of \$13,265.18 to the Montana and Wyoming Unclaimed Property Divisions. These checks are older than five years and are considered abandoned per the statutes. Reports for both states are due November 1<sup>st</sup> and cover the reporting period ending June 30<sup>th</sup> of the same year.

Wyoming Statute § 34-24-106(a) states, “Any sum payable on a check, draft or similar instrument, except those subject to Wyo. Stat. § 34-24-105, on which a banking or financial organization is directly liable, including a cashier's check and a certified check, which has been outstanding for more than five (5) years after it was payable or after its issuance if payable on demand, is deemed abandoned, unless the owner, within five (5) years, has communicated in writing with the banking or financial organization concerning it or otherwise indicated an interest as evidenced by a memorandum or other record on file prepared by an employee thereof.”

Wyoming Statute § 34-24-118(a) states, “A person holding property tangible or intangible, deemed abandoned and subject to custody as unclaimed property under this act, shall report to the administrator concerning the property as provided in this section.”

Wyoming Statute § 34-24-118(d) states, “The report shall be filed no later than November 1 of each year for the reporting period ending June 30 next preceding. On written request by any person required to file a report, the administrator may postpone the reporting date.”

Wyoming Statute § 34-24-120(a) states in part, “At the time of the filing of the report required by Wyo. Stat. § 34-24-118 and with that report, the person holding property deemed abandoned and subject to custody as unclaimed property shall pay or deliver to the administrator all of the property shown on the report and remaining unclaimed by the apparent owner.”

Montana Code Annotated § 70-9-803 states in part, “(1) Except as provided in subsection (6), property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property: . . . (q) all other property, 5 years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.”

Montana Code Annotated § 70-9-808(1) states, “A holder of property presumed abandoned shall make a report to the administrator concerning the property.”

Montana Code Annotated § 70-9-808(4) states, “The report must be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year, but a report with respect to a life insurance company must be filed before May 1 of each year for the calendar year next preceding.”

Montana Code Annotated § 70-9-809(1) states, “Except for property held in a safe deposit box or other safekeeping depository, upon filing the report required by 70-9-808, the holder of property presumed abandoned shall pay, deliver, or cause to be paid or delivered to the administrator the property described in the report as unclaimed; however, if the property is an automatically renewable deposit and a penalty or forfeiture in the payment of interest would result, the time for compliance is extended until a penalty or forfeiture would no longer result. Tangible property held in a safe deposit box or other safekeeping depository may not be delivered to the administrator until 60 days after filing the report required by 70-9-808.”

The Company is not in compliance with Wyo. Stat. § 34-24-120(a) and Mont. Code Ann. § 70-9-809(1).

**RECOMMENDATION NO. 1:** It is recommended that the Company periodically review

outstanding checks, and report and remit checks meeting the abandonment designation to the appropriate Montana or Wyoming Unclaimed Property Division.

**Market Conduct:**

In conjunction with the financial examination, limited market conduct procedures were performed on the Company's claims settlement, marketing and advertising, and underwriting practices.

**Claims Settlement:** A total of forty-seven claims were tested for compliance with Wyoming and Montana Statutes regarding claims handling practices and procedures. No exceptions were noted.

**Marketing and Advertising:** The Company's advertising materials were reviewed and were found to be in compliance with the Wyoming Insurance Code.

**Underwriting:** The Company's underwriting practices were reviewed and were found to be in compliance with the Wyoming Insurance Code.

**MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**  
**BALANCE SHEET**  
as of December 31, 2004

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$177,005,829		\$177,005,829
Stocks – preferred	2,945,381		2,945,381
Stocks – common	42,841,089	653,870	42,187,219
Mortgage loans on real estate	28,917	28,917	0
Real estate occupied by the company	6,871,636		6,871,636
Properties held for sale	487,000		487,000
Cash, cash equivalents, and short-term investments	14,009,913		14,009,913
Other invested assets	572,395		572,395
Receivable for securities	201,039		201,039
Subtotal – cash and invested assets	\$244,963,199	\$682,787	\$244,280,412
Investment income due and accrued	2,369,684		2,369,684
Uncollected premiums and agents’ balances in course of collection	19,289,709	80,793	19,208,916
Amounts recoverable from reinsurers	44,465		44,465
Aggregate write-ins for other than invested assets	440,722	29,018	411,704
Total – all assets	\$267,107,779	\$792,598	\$266,315,181
<b>LIABILITIES &amp; SURPLUS</b>			
Losses			\$57,520,300
Loss adjustment expenses			9,010,320
Commissions payable, contingent commissions and other charges			1,036,321
Other expenses			10,957,021
Taxes, licenses and fees			376,259
Current federal and foreign income taxes			684,464
Net deferred tax liability			2,870,349
Unearned premiums			45,464,796
Advance premiums			2,056,798
Ceded reinsurance premiums payable			732,312
Funds held by company under reinsurance treaties			167,348
Payable to parent, subsidiaries and affiliates			14,809
Payable for securities			443,585
Aggregate write-ins for liabilities			177,170
Total liabilities			\$131,511,852
<b>SURPLUS</b>			
Unassigned funds (surplus)			134,803,329
Surplus as regards policyholders			\$134,803,329
Total liabilities & surplus			\$266,315,181

**MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**  
**STATEMENT OF INCOME**

for the Year Ending December 31, 2004

<u>Underwriting Income (Loss)</u>		
Premiums earned		\$95,931,825
Losses incurred		58,133,847
Loss expenses incurred		6,659,978
Other underwriting expenses incurred		23,353,695
Total underwriting deductions		88,147,520
	Net underwriting gain (loss)	7,784,305
<u>Investment Income</u>		
Net investment income earned		8,137,016
Net realized capital gains (losses)		1,049,439
	Net investment gain	9,186,455
<u>Other Income</u>		
Net gain (loss) from agents- or premium balances charged-off		(69,875)
Finance and service charges		892,953
	Total other income	823,078
Net income (loss) before federal and foreign income taxes		17,793,838
Federal and foreign income taxes		3,748,161
	Net income	\$14,045,677

**MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**  
**CAPITAL AND SURPLUS**  
for the Year Ending December 31, 2004

Surplus as regards policyholders, December 31, 2003	\$118,206,121
<u>Gains and (losses) in surplus</u>	
Net income	14,045,677
Change in net unrealized capital gains or (losses)	3,519,332
Change in net deferred income tax	(313,186)
Change in nonadmitted assets	(654,615)
Change in surplus as regards policyholders for the year	16,597,208
Surplus as regards policyholders, December 31, 2004	\$134,803,329

**MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**  
**RECONCILIATION OF SURPLUS ACCOUNT**

January 1, 2002 Through December 31, 2004

	****Per Annual Statements ****		Per Exam
	2002	2003	2004
Surplus, December 31, of previous year	\$110,369,186	\$105,524,962	\$118,206,121
Net income (loss)	(2,342,607)	7,192,056	14,045,677
Change in net unrealized capital gains or (losses)	(3,524,681)	6,254,444	3,519,332
Change in net deferred income tax	1,040,295	(771,147)	(313,186)
Change in nonadmitted assets	(17,231)	5,806	(654,615)
Net change in surplus	(4,844,224)	12,681,159	16,597,208
Surplus, December 31, of current year	\$105,524,962	\$118,206,121	\$134,803,329

## **SUMMARY OF RECOMMENDATIONS**

**RECOMMENDATION NO. 1:** It is recommended that the Company periodically review outstanding checks, and report and remit checks meeting the abandonment designation to the appropriate Montana or Wyoming Unclaimed Property Division.

**CONCLUSION**

Jeff Braunschweig, Doug Melvin, and Katy Cotton, examiners for the Wyoming Insurance Department, participated in the examination. Review of the Company's reserves was conducted by Glenn Taylor, ACAS, MAAA, and Randy Ross, 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 **MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY, INC.**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

---

Jeff Braunschweig, CPA, CFE  
Examiner In-Charge  
Senior Examiner  
Department of Insurance  
State of Wyoming

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

---

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

The foregoing instrument was acknowledged under oath before me this 30<sup>th</sup> day of December, 2005.

Witness my hand and official seal.

---

Notary Public

My Commission Expires: \_\_\_\_\_