

REPORT OF
EXAMINATION

Mountain West Farm Bureau Mutual Insurance Company

AS OF
DECEMBER 31, 2010



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION

Cheyenne, Wyoming
March 7, 2012

Honorable Joseph Torti III
Chairman, NAIC Financial Condition
(E) Committee
Insurance Division
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg. No. 69-2
Cranston, Rhode Island 02920

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

Honorable Eleanor Kitzman
Western Zone Secretary
Texas Department of Insurance
Post Office Box 149104
Austin, Texas 78714

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, 2010, of the financial condition, management, and affairs of

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY

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

We have performed our multi-state examination of the Company as called for by Wyoming Statute § 26-2-116(a). The Company was most recently examined as of December 31, 2007. The current examination covers the period of January 1, 2008 through December 31, 2010.

We conducted our examination in accordance with the *NAIC Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state laws and regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

DESCRIPTION OF THE COMPANY

Prior Examination Findings:

During the last examination, there were three findings noted in the exam report. The first issue was that the booked unpaid loss and loss adjustment expense reserves were outside of the actuarial reasonable range. The second issue was that premium taxes were due on Farm Bureau Federation dues paid to the Company and that the dues should not be deducted from agent's commissions. The third issue was that claims needed to be paid within the 45-day statutory requirement and documentation regarding efforts to settle claims needed to be maintained in the claims files.

The first and third issues noted above were resolved during the current exam period. The second item is still an issue and is noted in this report.

Subsequent Events:

There are no material subsequent events that occurred after the exam as of date.

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.

Corporate Records:

The minutes of the annual policyholders' meetings and meetings of the board of directors were reviewed in detail. In addition, the minutes of the budget, investment, audit, executive, compensation and benefits committees, the corporate governance task force and the Western Farm

Bureau Service Company (a wholly owned subsidiary) were reviewed. No compliance issues were noted during the review.

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, 2010, the following directors were holding office:

Kevin Baars	Margaret Lester
David Garber	Perry Livingston
Robert Hanson	Hans McPherson
Jim Hefenieder	Tim Pexton
Ronda Johnston	Glen Reed
William Jones	Bruce Wright

The following were the officers of the Company as of December 31, 2010:

President – Perry Livingston
Vice President – Robert Hanson
Secretary – Ken Hamilton
Chief Executive Officer – Roy Schmett
CFO/Treasurer – Dave Perdue
Assistant Treasurer – Dan Bleak

The daily operations of the Company are managed by Roy Schmett, Chief Executive Officer. Mr. Schmett 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 submits a Registration Statement in accordance with Wyoming Statute § 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. Beginning on January 1, 2010, the Company also assumed the administrative management of WC pursuant to a management services agreement that was approved by the Department in a Form D filing.

Western Farm Bureau Service Company (WFBSC) is a wholly-owned Wyoming subsidiary. Business activities include: leasing of property and equipment primarily to the parent company; financing purchases of real estate and personal property; providing savings

accounts; and investing in corporate bonds and stock. WFBSB is licensed as a supervised lender by the Wyoming Department of Audit, Division of Banking.

360 Insurance Company (360) is an insurance company subsidiary that the Company formed in 2009. 360 was issued a Certificate of Authority by the Wyoming Department of Insurance on September 11, 2009. The Company owns 99.99913 percent of 360 and its board of directors own the remainder of the shares as required by W.S. §26-24-121. There is a service agreement between the Company and 360 where the Company provides certain services, rent, supplies and postage incurred. The agreement provides that 360 reimburse the Company on a quarterly 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 8,538 shares of the Class A voting common stock of AA, valued by the Company at \$11,876,358 at December 31, 2010. The Company also purchased a surplus note from AA on December 30, 2005. It is valued at \$2,250,000 as of December 31, 2010.

Western Agricultural Insurance Company (WA) is an Iowa-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.

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 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 \$13,300,128 and \$728,218 respectively, at December 31, 2010.

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 \$2,500,000, 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 E&S 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 \$638,501 to the plan in 2010.

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 employee's contribution, limited to the first 4 percent of the employee's compensation. The Company contributed \$272,650 to the plan in 2010.

The Company has a self-administered supplemental retirement income plan (SRIP) for members of its management team. Benefit payments to the participants begin once they have reached the retirement age of 65. The Company made no contributions to this plan in 2010.

The Company has a deferred compensation plan for members of its management team. Members of the management team may elect to reduce their salary and have the Company make payments into a trust. The Company made no contributions to the plan in 2010.

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 made a contribution of \$140,154 to this plan in 2010.

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 also writes some business and commercial policies as well. No new lines of business are proposed at this time.

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:

Due to significant, weather related losses in 2010, the Company’s surplus decreased by \$21,343,663 during the three-year examination period from \$181,765,886 at the beginning of 2008, to \$160,422,223 as of December 31, 2010. The Company’s reported direct premiums written have grown from \$115,768,218 in 2008, to \$131,043,570 in 2010, an increase of \$15,275,352. The Company’s admitted assets have increased by \$6,152,544 from \$337,048,081 in 2008, to \$343,200,625 in 2010.

Business In Force by State:

Revenues are generated by line of business in the following percentages for 2010:

Line of business*	+Wyoming	+Montana	+Arizona	Grand Total
Farmowners multiple peril.	18	17		18
Homeowners multiple peril.	23	20		22
Commercial multiple peril.	7	7		7
Private passenger auto liability.	20	28	70	24
Private passenger auto physical damage.	23	20	30	22
All other lines **	9	8		7
Totals	100	100	100	100

* All figures are per the December 31, 2010, Annual Statement.

** Fire, 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. The consulting actuary accepted the loss and LAE reserves of \$101,926,957 as reported.

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 2010 data.

Ceding Company	Premium Assumed
AA Pools	\$14,032,660
WA Pools	854,320
Total	<u>\$14,886,980</u>

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

Reinsurer	Premium Ceded
AA – Property Pro Rata Surplus Share	\$2,360,971
AA – Casualty Excess of Loss	1,272,344
AA – Umbrella	2,501,028
AA – Other*	1,814,586
Factory Mutual – Boiler and Machinery	302,510
WA **	552,411
Total	<u>\$8,803,850</u>

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

** 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 administrative, accounting, underwriting, policy administration, and claims handling functions are performed at its home office in Laramie, Wyoming. Electronic data processing services are performed by Western Computer Services, Inc. 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 Wyoming Statute § 26-24-129(a)(iii), which requires a domestic insurance company's assets to be maintained in the State of Wyoming.

The Company receives federation dues from its policyholders. The Wyoming Farm Bureau Federation dues received by the Company are subject to premium taxes, but the Company is not paying taxes on these dues to the Wyoming State Treasurer.

The effect of this condition is that Wyoming premium taxes are not being paid on the Wyoming federation dues received by the Company.

Wyoming Statute § 26-4-103(a) states in part, “Each authorized and formerly authorized insurer shall file with the commissioner . . . a report in a form the commissioner prescribes showing . . . total direct premium income including policy, membership and other fees, and all other considerations for insurance and annuity contracts, however designated, it received during the immediately preceding calendar year. . . .”

Recommendation 1: It is recommended that the Company pay premium taxes on all Montana and Wyoming federation dues received by the Company, or request that the agents get two separate checks from the policyholders. The check for the insurance premium should be sent to the Company and the check for the federation dues should be sent directly to the Federation by the agent.

During the general disbursements testing, one employee was reimbursed for a political contribution to the PCI PAC (Property Casualty Insurers Political Action Committee) on his expense report which is not allowed per statute.

Wyoming Statute § 26-13-120 states in part, “(a) No insurer shall in any manner pay or use, or offer, consent or agree to pay or use, any money or property: (i) For or in aid of any: (A) Political party, committee or organization; (B) Corporation or other body organized or maintained for political purposes; . . . or (ii) For the reimbursement or indemnification of any person for money or property so used.”

Recommendation 2: It is recommended that the Company comply with Wyoming Statute § 26-13-120 and not reimburse employees for political contributions or directly pay for political contributions to political action committees or to any other type of political organization.

During the general disbursements testing, one expense report listed an expense of \$260 that did not have any supporting documentation.

Wyoming Statute § 26-24-130 states in part, “(a) No insurer shall make any disbursement of twenty-five dollars (\$25.00) or more, unless evidenced by a voucher or other document correctly describing the consideration for the payment and supported by a check or receipt endorsed or signed by or on behalf of the person receiving the money.”

Recommendation 3: It is recommended that supporting documentation be obtained before payment or reimbursement is made by the Company. All expenses over \$25.00 require supporting documentation per W.S. §26-24-130.

Statutory Deposit:

The Company has US Treasury Notes with a book value of \$1,192,573 on deposit with the State of Wyoming for the protection of all policyholders and creditors as of December 31, 2010.

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

as of December 31, 2010

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$221,644,948		\$221,644,948
Stocks – preferred	4,793,646		4,793,646
Stocks – common	62,868,074		62,868,074
Real estate occupied by the company	6,043,086		6,043,086
Properties held for the production of income	1,080,097		1,080,097
Properties held for sale	265,670		265,670
Cash, cash equivalents, and short-term investments	2,238,585		2,238,585
Other invested assets	5,739,117		5,739,117
Receivable for securities	100,368		100,368
Subtotal – cash and invested assets	<u>\$304,773,591</u>		<u>\$304,773,591</u>
Investment income due and accrued	5,249,747		5,249,747
Uncollected premiums and agents’ balances in course of collection	27,514,262	101,996	27,412,266
Amounts recoverable from reinsurers	447,075		447,075
Current federal and foreign income tax recoverable and interest	4,169,481		4,169,481
Electronic data processing equipment and software	666,667		666,667
Aggregate write-ins for other than invested assets	482,590	792	481,798
Total – all assets	<u>\$343,303,413</u>	<u>\$102,788</u>	<u>\$343,200,625</u>
LIABILITIES & SURPLUS			
Losses			\$88,226,957
Loss adjustment expenses			13,700,000
Commissions payable, contingent commissions and other charges			1,534,461
Other expenses			7,978,275
Taxes, licenses and fees			2,439,066
Unearned premiums			63,059,340
Advance premiums			2,315,213
Ceded reinsurance premiums payable			1,001,507
Funds held by company under reinsurance treaties			51,146
Payable for securities			1,575,151
Aggregate write-ins for liabilities			897,288
Total liabilities			<u>182,778,404</u>
SURPLUS			
Unassigned funds (surplus)			160,422,223
Surplus as regards policyholders			160,422,223
Total liabilities & surplus			<u>\$343,200,627</u>

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
for the Year Ending December 31, 2010

<u>Underwriting Income (Loss)</u>		
Premiums earned		\$132,269,669
Losses incurred		144,669,852
Loss adjustment expenses incurred		13,066,828
Other underwriting expenses incurred		33,162,175
Total underwriting deductions		190,898,855
	Net underwriting gain (loss)	(58,629,186)
<u>Investment Income</u>		
Net investment income earned		13,539,512
Net realized capital gains (losses)		6,603,944
	Net investment gain	20,143,456
<u>Other Income</u>		
Net gain (loss) from agents' or premium balances charged-off		(84,647)
Finance and service charges		596,759
	Total other income	512,112
Net income (loss) before federal and foreign income taxes		(37,973,618)
Federal and foreign income taxes		(3,400,190)
	Net income	(\$34,573,428)

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
RECONCILIATION OF SURPLUS ACCOUNT

January 1, 2008 Through December 31, 2010

	****Per Annual Statements ****		Per Exam
	2008	2009	2010
Surplus, December 31, of previous year	\$181,765,886	\$176,143,969	\$191,182,814
Net income (loss)	1,609,983	11,561,679	(34,573,428)
Change in net unrealized capital gains or (losses)	(9,240,754)	4,675,568	2,336,335
Change in net deferred income tax	1,943,303	(1,198,049)	1,403,032
Change in nonadmitted assets	65,551	(353)	73,470
Net change in surplus	(5,621,917)	15,038,845	(30,760,591)
Surplus, December 31, of current year	\$176,143,969	\$191,182,814	\$160,422,223

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company pay premium taxes on all Montana and Wyoming federation dues received by the Company, or request that the agents get two separate checks from the policyholders. The check for the insurance premium should be sent to the Company and the check for the federation dues should be sent directly to the Federation by the agent.

Recommendation 2: It is recommended that the Company comply with Wyoming Statute §26-13-120 and not reimburse employees for political contributions or directly pay for political contributions to political action committees or to any other type of political organization.

Recommendation 3: It is recommended that supporting documentation be obtained before payment or reimbursement is made by the Company. All expenses over \$25.00 require supporting documentation per W.S. §26-24-130.

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 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**, 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 _____ day of March, 2012.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____