

Minnesota Association of Farm Mutual Insurance Companies

Mutual LINK

2008 Short Course A Success



Mike McKinley, CSP, CPAE

The 2008 MAFMIC Short Course at the St. Cloud Civic Center flew by last November but not without having its successes.

Preceding the event was the Education Committee Meeting, when the sound of a gavel echoed through the halls. **Doug**

Oachs, Chairman, was kind enough to extend invitations to his hotel suite for hors d'oeuvres, refreshments and access to a television covering the Presidential Election.

Mike McKinley was the first and last speaker of Short Course. He didn't leave without getting a few laughs and engaging the members in a little kazoo concert.

Pat Haggerty presented an analysis of the recent election and gave an overview of the start of the lava lamp. **Linda Jaskowiak**, Manager of Sumter Mutual and Education Committee Chairman was sur-



Steve Knutson, President of RAM Mutual

prised with a lava lamp of her own by Haggerty.

Jim Barta and **Mike Kuefler** kept the crowd entertained with their antics during their "Insurance Accounting 101" presentation.

Steve Knutson's presentation focused on many of the mutual insurance companies, highlighting their years of service and what we can expect in the future.

A first for the Short Course was "Putting for PAC," which took place during the Adjustment Hour. MAFMIC's very own **Marcus Marsh** took first place after a battle with **Aaron Grove** of Sverdrup Mutual and **Bert Tellers** of RAM Mutual. The event generated quite a buzz and will hopefully be even more successful in years to come.

Judging by the evaluations MAFMIC has received, our members were generally pleased with all of our speakers and events at the 2008 MAFMIC Short Course and we hope future years will be just as great. Thanks to all those who lent a hand, those that attended and those that gave MAFMIC their feedback.



Aaron Grove, Sverdrup Mutual; Marcus Marsh, MAFMIC; Bert Tellers, RAM Mutual

Convention Around The Corner

The 114th Annual Convention is coming up February 1-3 at the Sheraton Bloomington Hotel. This year's Convention will feature promising new speakers and entertainment along with the Chairman's theme, D.R.E.A.M: Dedication, Responsibility, Education. Attitude and Motivation.

The speakers include keynote and closing speaker, Bryan Townsend, Frank Whitcomb, Jacqueline Gardner, Gary Metz and Judy Janish.

The entertainment for the Convention will include James Wedgwood, ventriloquist and comedian, Vicki Emerson, comedic musician and Scott Novotny, comedian. Also, the MAFMIC Choir will perform during the Prayer Breakfast, the St. Thomas Cadets will perform during the

Opening Session and Sue Poser of Gruber's Quilt Shop in Waite Park will lead the Auxiliary Program.

The Chairman's Reception is a "Southwest" theme, so grab your sombreros and chili peppers!

A number of other events, such as the Legislative visit and Exhibit Show will also take place.

The registration for the convention was included in the last issue of the Mutual Link and a more detailed overview of the itinerary is available on our website, www.mafmic.org. Don't forget to return your registration before January 9 to get the Early Bird Rate!

More Short Course pictures page 6

INSIDE THIS ISSUE

President's Letter	2
Member Profile	3
New Congress	4
Defenses for Claims	5
Bear Markets	
Ask The Dep't	6
Short Course Cont'd	7
Sympathies/Calendar	8

President's Letter

Wes Gainey, MAFMIC President

In December, the National Bureau of Economic Research stated that the United States has been in a recession since last December. This announcement probably did not come as news to any of you.

It seems that one cannot open the paper or watch the news lately without learning of another company raising prices, asking for a bailout, laying off workers or filing for bankruptcy. In fact as I write this, a headline announces "Jobless Claims Rise to a 26-Year High". The barrage of economic reports continues to cause the markets to suffer, hurting

individual and corporate investments.

The investments that your company holds have no doubt been affected negatively as well. I have heard many of our member companies express concern regarding the economy and the soft market.

At MAFMIC, we are striving to find way to reduce expenses and not raise dues, while continuing to provide the same exceptional service our members have come to expect and deserve.

Please send me a letter or an e-mail letting me know *What your company is doing to thrive in the midst of bad economic news?* I hope to be able to share some of the responses in future issues or at future meetings.

Send to: MAFMIC
PO Box 880
St. Joseph, MN 56374
Attn: Wes Gainey
Or email at Wes@mafmic.org



Congrats!

As of December 15, Pete Hellie assumed the position of Vice President of Finance at North Star Mutual. Mark Nelson is the new manager at Norwegian Mutual.
Congratulations Pete and Mark!

Editorial Advisory Committee

Al Anderson, Chairman - North Star Mutual

Dave Pederson, PFMM - Farmers Mutual, Manchester

Richard Raun - Woodland Mutual

Colleen Anderson - Corn Belt Mutual

Jonathan Troe, PFMM - Owatonna Mutual

Wayne Schluchter - Schluchter Investment Advisors

Kirby Dahl - Willenbring, Dahl, Wocken & Zimmerman

Mike Soldan, Spring Valley Mutual - *Board Liaison*

Marcus Marsh, MAFMIC - *Editor*

Lindsey Schuler, MAFMIC - *Communications Coordinator*

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Send address changes to
Mutual Link, PO Box 880, St. Joseph, MN 56374

ANNUAL STATEMENTS

It's that time of year again. MAFMIC is looking for a copy of your annual policyholder statement. These statements are used to profile our industry when working with legislators, to prepare the year-end compilation of our members financial status and to provide information for the financial analysis program.



Rise for Today. Plan for Tomorrow.



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Member Profile

Dwayne Pipping, Manager, New Sweden Mutual

New Sweden Mutual was founded by area farmers who saw a need for proper insurance coverage on March 28, 1882. The mutual started writing in ten townships in Nicollet County and later added the remaining three townships. Other counties were added in later years and as of now, we are writing in nineteen counties.

We write all the township mutual (67A) perils except flood. Homeowner's policies comprise just over half of our policies in force. In the past six years, we have added about 100 policies per year and are currently at just over 2000 policies total in force.

We have two full time staff and one part time in the office and one part time adjuster. We have 25 agencies and about 42 agents writing business for us at this time.

I think the best word to describe our company is "friendly." Our

philosophy has always been to write the best policies we are allowed to write and to treat our agent's right so they can bring in new business.

We have been able to keep our rates from rising for many years and it is our goal to continue that trend as well as have steady growth for the future.

Keeping everyone, such as agents and policyholders, educated on the continuing changes as well as keeping up with technology is something we are always running in to as challenges; But the way we look it at, challenges keep us young.

We are also involved in our community. We try to support 4-H, FFA and our schools in any way that they ask. We also support our chamber of commerce and American Legion for our city summer Friendship Days Celebration.

"The best word to describe our company is 'friendly.'"

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New Congress - Legislature

Marcus Marsh, MAFMIC Government Affairs

The November election is over; We will have a new President and Democrat majorities in the U.S. House of Representatives and U.S. Senate.

"What can we expect?" you may ask. MAFMIC and NAMIC have to be extremely concerned about Congress passing legislation that would make the Community Reinvestment Act (CRA) apply to the insurance industry. Currently the CRA forces banks to use a percentage of their assets for providing services to the poor. The fear with including insurance in the CRA is the industry could end up providing free insurance or insurance based on a person's ability to pay. Odds are those who would have free or subsidized insurance would have an elevated number of claims and often be delinquent on their premiums. This, of course, will increase premiums for everyone and make it more difficult to keep our companies out of the financial abyss.

The second major concern is the possibility of having Federal Regulation of the Insurance Industry. Some large national or international insurance companies want federal regulation along with some in Congress because it gives them more power. This could make our lives very difficult and the potential impact could be disastrous for our mutuals.

We will need to be involved like never before to keep our Mutual Insurance Industry a part of the American Landscape.



*President Elect
Barack Obama*

On the Minnesota Legislative scene (at the time of this article), we are still working with the Department of Commerce on their proposed "Modernization Act," in which we hope to come to an agreement that works for all involved.

There are also other items to be concerned about. The possibility that the trial lawyers will be back to strengthen the Bad Faith Law is one of them.

We know there is a proposal to have a version of Bad Faith from the legal community, which would make it easier to bring a lawsuit on commercial policies. We will know more once that bill is introduced in the 2009 Session.

2009 Legislative Session will be the long year of the two year biennium in which the Legislature will put together a budget that will pay for all of State Government. There will be billions more dollars requested than available so it will be a tricky business for a Republican Governor and the Democrat controlled Legislature to arrive at a compromise that won't raise taxes but satisfy the wants and needs in the State Budget.

We will need everyone at MAFMIC to once again be part of the Legislative process. You can help by attending the Legislative Visit at the convention, calling, e-mailing and talking in person to your State Representative and State Senator as issues develop during the Legislative Session.



Governor Tim Pawlenty

SILENT AUCTION BASKETS

The 114th Annual Convention will also host a silent auction which features donated items and baskets from our members. Profits will be used to fund the scholarship program. Anything our members can do to help is greatly appreciated.



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Defenses For Claims By Mortgagees

Kirby Dahl, Willenbring, Dahl, Wocken & Zimmerman, PLLC

One of the recurring problems in the insurance industry resulting from the sub-prime mortgage meltdown is the number and severity of claims being asserted against member insurance companies by mortgagees. Despite assumptions to the contrary, there are potential defenses that may be used to defeat claims by mortgagees.

Water damage claims resulting from frozen plumbing systems in abandoned dwellings are typical claims that mortgagees make against member companies. Mortgagees contend that the defenses that the insured property was vacant and that the insured did not maintain heat in the premises or did not drain the plumbing or heating system of liquids do not apply to the mortgagee. One should not accept such assertions by mortgagees. Often mortgagees have third-party vendors visit and inspect these mortgaged premises on their behalf. When presented with such a claim, you should immediately request that the mortgagee provide you all inspection reports. If the inspection reports show that the mortgagee was told by its vendor that the property was vacant, unoccupied and not heated, and it is learned that even with such knowledge, the mortgagee did nothing to protect the property from loss, the defenses of vacancy, neglect, and increased risk of hazard may be available to defeat the claim.

Mortgagees do not always inspect properties being foreclosed. In instances where an insured has intentionally set fire to the insured premises or has otherwise intentionally vandalized or caused damage to the insured property and the mortgagee has foreclosed on the property (without knowledge of the damage to the property) and the time for redemption has run giving the mortgagee title to the property, you may have a defense against the mortgagee's claim. Under some methods of foreclosure, when the mortgagee satisfies the mortgage debt and allows the time for redemption to run before submitting a claim, the result is that the mortgagee has deprived the insurer of its right to pay the mortgagee, take an assignment of the

mortgage, foreclose the mortgage and proceed against the insured in a subrogation action and obtain a deficiency judgment against the insured and, therefore, the mortgagee is deemed to have violated the assignment provisions of the insurance contract. Under those circumstances, the mortgagee cannot then recover from the insurer.

Finally, one should keep in mind that whenever the company pays the mortgagee the full amount of the mortgage while having defenses against the named insured's (i.e. arson or vandalism), the company is then entitled to take an assignment of the mortgage and pursue its insured in a subrogation action in order to recover from the insured any amounts your company has paid to the mortgagee.

However, before taking an assignment of a mortgage, the company should evaluate the condition of the property and determine whether or not following foreclosure of the mortgage by your company and after the cleanup and subsequent sale of the property that the money proceeds of the sale will be more than your costs. Further, before taking an assignment of the mortgage, you should make certain that there are not hazardous wastes on the property that your company might be obligated to clean up and remediate before or after a sale. Needless to say, hazardous wastes can be of particular concern when dealing with fire debris that needs to be cleaned up and properly disposed of.

"...there are potential defenses that may be used to defeat claims..."

Prayer Breakfast Memorial

The Prayer Breakfast memorial will take place once again this year, honoring friends and family members' passing. We have received many notifications but encourage anyone to send pictures and the information necessary to include them in the memorial.

Please call MAFMIC for details.

MAFMIC Choir

Lois Ballard from Lake Park and Cuba Insurance Company will serve as this year's MAFMIC Choir director which will perform Monday, February 2 during the Prayer Breakfast. Lois takes the place of Diane Bouche from King Town Farmers Mutual.

Our sincere thanks goes to Diane and Lois for volunteering their time to lead the MAFMIC Choir.

However, the choir is still looking for members. If you are interested in joining, **please contact the MAFMIC Office.**

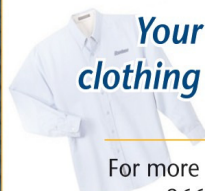
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Ask The Department

*Jaki Gardner, Assistant Commissioner,
Minnesota Dept. of Commerce*

Q. What is the Department looking for in their audits, why has the cost jumped so much and why doesn't the township mutual get a report as to the findings of the audit?

A. In our audits, the Department is basically checking for reasonable-ness and consistency in how the mutual reports on the results of their operations, valuations and types of assets - both invested and non-invested, and consistency among its peers. There is a report prepared, and it is available to the company upon request. We also prepare a document that offers recommendations for improvement or alternatives for operating procedures.

Q. Is the Department looking at bidding out audits to outside vendors, i.e. CPA Firms now or in the future and won't that drive the cost up even further to the township mutuals?

A. No, not for the mutual. It is too costly, and since the companies are single-state entities, it would not be an efficient use of external resources.

Q. Has or will the NAIC look at this issue and what impacts could this have on our mutuals?

A. The NAIC accreditation requirements include a standard for "Sufficient Qualified Staff" whereby a state is expected to have ready access to and use external resources to supplement in house staff. This requirement would not be applicable to regulation of township mutuals as they are not "multi-state" insurers.

Bear Markets

Wayne Schluchter, Schluchter Investment Advisors

Market volatility remains at historical levels. If you feel worn out by the fast paced news headlines and daily price movements of the markets you are not alone. As this admittedly difficult year begins its final month, we think some historical perspectives are in order.

First, let's look at some of the reasons investors feel worn out by this bear market and news headlines:

The S&P 500 is down 37.7% year to date, on pace to suffer its worst calendar year result since 1931 when the index fell 43.3%. In the 5 years after the 1931 loss, the S&P gained 176% or an average annual gain of +22.5%. (BTN Research).

In July 2006 the median sales price of existing homes sold nationwide peaked at \$230,000. The national median sales price has fallen to \$183,300 as of October 2008, a 20% decline. (National Association of Realtors).

22 banks have failed in the United States year to date. Over the previous 6 years 22 banks failed in the United States (source: FDIC). In a similar timeframe, during the 5 years from 1987-1991, a total of 1,901 U.S. banks and Savings and Loans either failed or required financial assistance from the government. (FDIC).

Global demand for oil will drop for the first time in 25 years signaling the breadth of the world economic down turn. (Bloomberg).

An additional point should be made when taking a longer term perspective of current events: in the one year following the low point from each of the nine bear markets since 1957 (this is the tenth bear market) the S&P 500 has experienced a double-digit return. The best of the nine was at 58.3% return; the worst produced a 23.3% return. (BTN Research).

On a final but different set of data points: oil continued its fall and broke the \$50/barrel level. Treasury bonds rallied very sharply and 10 year yields are now below 3%. Mortgage notes fell below 6%. The current expectation is for another reduction in Fed Funds to 1/2 of 1%.

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Short Course Pictures (Continued)

This year's Short Course was host to eleven speakers and about 350 attendees!

The speakers for the event were **Mike McKinley**, Alive! Alive! Associates; **Wayne Schluchter**, Schluchter Investments Advisors; **Pat Haggerty**, journalist; **Terry Wendorff**, The WRC Group; **Kirby Dahl**, Willenbring, Dahl, Wocken & Zimmerman; **Scott Jones**, Econar Energy Systems; **Paul Wocken**, Willenbring, Dahl, Wocken & Zimmerman; **Mike Reese**, WCROC; **Steve Knutson**, RAM Mutual; **Jim Barta**, Jim Barta CPA, P.A.; and **Mike Kuefler**, Michael J. Kuefler, CPA.

Thanks to the speakers, attendants and everyone involved for a great 2008 Short Course!



Short Course Audience Members



Mike Kuefler, CPA



Jim Barta, CPA

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MAFMIC 2009 CALENDAR OF EVENTS

Feb	1-3	114th Annual Convention Sheraton Bloomington Hotel
Feb	24-26	Central MN Farm Show Civic Center, St. Cloud
March	19-21	Owatonna Farm Show Steele County Fairgrounds, Owatonna
April	21-24	Spring Agents Seminar Bemidji, St. Cloud, Morton, Rochester
June	29-30	Congressional Contact Visit Washington D.C.
July	15	Manager & Director's Seminar Holiday Inn, St. Cloud
July	16	Education Scholarship Golf Outing Little Crow Country Club, Spicer

To submit an article to be published in the Mutual Link please send them to Mutual Link, PO Box 880, St. Joseph, MN 56374, or email them to info@mafmic.org.

IN SYMPATHY



Orville Kallevig passed away October 18, 2008. Orville served as the President of the Arcander & Lake Andrew Mutual

MAFMIC wishes to express its sympathy to the friends and family of Orville..

MAFMIC NEEDS YOU!

Now, more than ever, we need your involvement in the political process for our policyholder's future as well as our own.

Day at the Legislature
MAFMIC Convention - Feb. 2

Congressional Contact Visit,
Washington D.C. - June 29-30



VALUATION GUIDE

The 2008-2009 Valuation Guide is now available for your use on our website under "services"! www.mafmic.org