

Minnesota Association of Farm Mutual Insurance Companies

Mutual
LINK

It's The People

By Pete Hellie



It is indeed an honor and a privilege for me to be serving as your MAFMIC Chairman in the upcoming 2007-2008 year. The theme I have chosen for this year is 'It's the People.' I feel that the state association is so successful because of the efforts contributed by you, the people. The association thrives because we all work together for the common good of our MAFMIC companies. But, I see it as more than that.

Our companies were founded on the theory of neighbor helping neighbor. It was the people in our communities that came together for the common good of all. That thread runs through all our companies whether we're electing directors, hiring management and staff, or appointing agents. Good people make it work.

This has been apparent throughout my years of service on the MAFMIC Board of Directors. The quality of people I have met and worked with is unsurpassed. It is a credit to the Board of Directors of member companies for hiring good people and letting them serve MAFMIC. They have the association's best interests at heart and have made their service to MAFMIC a top priority.

I am shining the spotlight on the people and member companies of MAFMIC. They are a tremendous asset to this association. This is attributable to many things, but the common denominator is the organizing of companies and electing of board members. This process begins with your hometown people looking out for their neighbors in the best way they know how. It all begins with our customers, our policyholders, our neighbors... 'It's the People.'

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Zenke Receives Seipp Service Award



Jerry Zenke received the prestigious Robert C. Seipp Service Award at the MAFMIC 112th Annual Convention. Jerry is the Manager of Mound Prairie Mutual Insurance Company in Houston. He began his career with Mound Prairie Mutual as an agent and director in 1975 and was then appointed manager in

1990. He has been extensively involved in MAFMIC as a member of the Government Affairs and Mutual Assistance Committees as well as chairing the Building Committee. Jerry has served on the MAFMIC Board of Directors and as 2003-2004 MAFMIC Chairman. On the national level, Jerry serves as Vice Chairman of the NAMIC Farm Mutual Conference. He holds the designation of Professional Farm Mutual Manager and has received the NAMIC Merit Award. Congratulations Jerry!

The Issue of Assessments

MAFMIC Insurance Policies under Minnesota Statutes 67A.17 are assessable. If you read this statute you can see that a company can assess policyholders for a financial shortfall.

This is an issue that in recent years has been used against the Minnesota farm mutual industry by some larger companies and agents in marketing and doing quotes with potential policyholders.

MAFMIC met with officials of the Department of Commerce including Commissioner Glenn Wilson and they have stated they would not approve a policy today with the feature to assess. The Department would not object to us repealing this statute if we choose to do that. Also, we have talked to the Legal Council for the Minnesota Guaranty Association and they do not object if we repeal this statute. We have our own line in the Guaranty Association.

Continued on page 4 ...

Letter from the President

By Wes Gainey, MAFMIC President

I have been enjoying reading the evaluation summary from the MAFMIC 112th Annual Convention as well as the excellent suggestions on how we might do an even better job next year. Of those who responded to the question, "How well did the convention meet your expectations?" - 62.2% selected 'Excellent' and the rest, 37.8%, selected 'Good'. This rating is a testament to the work of fine staff and many volunteers who worked countless hours over the past year to plan and execute this event. Their contributions are greatly appreciated by the nearly 500 who were in attendance.

At the convention annual business meeting, I shared my perspective on the farm mutual insurance industry in Minnesota. Nationwide the farm mutual insurance industry, like many industries, continues to consolidate through mergers. At the same time, the strength of our industry and individual companies is at an all time high and continues to grow.

To illustrate my point, in 1995, there were 113

mutual member companies. By the end of 2005, there were 96 - a loss of 17 companies. However, during this same 10 year period:

- Total direct written premium grew from **\$45.6 million** to just over **\$83 million**;
- The average size of our companies went from **\$403,500** in annual premium to a little over **\$865,000**;
- Total policy count grew on average by about **8,000** policies per year;
- Total insurance in force went from about **\$26 billion** to over **\$48 billion**;
- Total surplus increased from **\$93.5 million** or an average of **\$827,000** per company to **\$159.4 million** or an average of **\$1.7 million** per company.

These numbers support my belief that we are participating in a strong and growing industry. I am also very aware that we face many challenges which we are more likely to overcome by working and coming together as many of us did at the recent MAFMIC Convention.

Member Profile

Young America Mutual Insurance Company

Connie Jaskowiak, Manager

When was your company founded?

Young America Mutual Insurance company was incorporated on January 1, 1869, in Young America Township in Carver County, Minnesota. The records were recorded in German until May 11, 1919. The purpose of the company was not to make profits but to be a mutual company and to serve the best interest of its members.

What lines do you write?

We write the fire peril on farm policies, homeowners and package with North Star, RAM and Spring Valley Mutuals.

How many employees do you have?

We have 2 full-time and 2 part-time employees. We have 18 agencies which gives us a total of 74 agents that are appointed to write for Young America Mutual.

What is your company's business philosophy?

We are owned by the policyholders and want to give the best insurance coverage at an affordable rate.

What are your company's five year goals?

To continue to give the best insurance coverage at an affordable rate. This was the purpose of the company in 1869 and it still holds true today. We want to continue to grow our policy count and keep our financial strength.

What is your company's biggest challenge?

The farms are becoming larger in coverage and there are fewer farms to insure. The homeowners policy is becoming larger with the cost of dwellings increasing.

How are you involved in your community?

We donate to various organizations and the board members are involved in various organizations themselves.

Describe your company in one word.

Stable.

Young America Mutual is located in Glencoe.

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Manchester

Jonathon Troe, PFMM
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Cities of the Second Class

By Jim Barta

If your company is planning on applying to write in cities of the second class there are very specific steps that need to be followed. This article is intended to be used as a guide to follow in helping you comply. Almost all of the items discussed here are available on the Minnesota Department of Commerce web site. This website, along with many helpful links, can be found on the 'Services' page of the MAFMIC website -- www.mafmic.org.

First the basics:

1. If you want to apply to write in cities of the second class you **must** meet the following requirements:
 - a. Your company must have a minimum of \$1,000,000 in surplus.
 - b. Net written premiums must not exceed 2 times policyholders' surplus.
 - c. Net income must be reported in three of the past 5 years and policyholder surplus must not have declined by more than 10% in the prior year or 15% over the prior two years.
 - d. You have to comply with notification requirements to policyholders for changes, and you have 30 days after approval by the policyholders to properly submit them to the Department of Commerce.
2. Items required to be submitted:
 - a. Restated Articles of Incorporation. Approval for cities of the second class will require that the individual cities be named in the Articles of Incorporation and the Articles must be restated.
 - b. Income statement ('unaudited') as of the end of the most recent quarter. This depends on when you file, it could be year end, or any quarter.
 - c. Reinsurance agreement effective at the time the request is submitted. You should already have this, if you don't contact your reinsurer(s).
 - d. Business plan. Department guidelines on items to be included in a company's business plan are located on the home page of MAFMIC's website. The guide-

lines consist of 47 questions which need to be included in the business plan. Questions 10 and 11 require "biographical affidavits" for specified individuals.

- e. Projected income statement. The method used must be demonstrated if incurred losses are projected to be less than the average of the prior five years. Provide the projected total direct written premiums for each year and the number of policyholders at the end of each year. Include a detailed breakdown of the company's projected operating expenses for the current year and next two fiscal years using the same categories as listed in Exhibit 8 on Page 9 of the Annual Statement. Don't forget to compute the change in unearned premiums, corporate and premium taxes into your projections, these items are very important and must be done to have realistic projections. When your projections are complete put them in the proper format for your filing. Formats are available on the home page of the MAFMIC website.

In my opinion, the **first thing** you need to do is to have your Articles and Bylaws **amended and restated**. I suggest using an attorney familiar with Minnesota Township Mutuals and applicable statutes. **The Department of Commerce policy does not address bylaws. However, I would suggest you have the attorney review them at the same time, just to make sure everything is up to date.** Restating the Articles and Bylaws can take time so try to plan ahead. If you cannot get things done in time for your Annual Meeting, have a special meeting or wait until next year's Annual Meeting.

This article is not intended to be all inclusive, if you have questions or need further clarification please contact MAFMIC or the Minnesota Department of Commerce.

Again, a link to the Department of Commerce website is available through the MAFMIC website on the 'Services' page.

Jim Barta, CPA, PA - North Mankato, MN.

Mutual Facts

- The average size of a Minnesota Township Mutual Insurance Company is \$865,000* in Gross Written Premiums.
- The 2006 Fire Fighters Surcharge Bill contains a surcharge of .65% on property insurance premiums.
- As a direct result of MAFMIC's efforts, township mutuals are exempt from this surcharge. A savings to an average size township mutual of \$5622.50 per year.

* Based on 2005 figures.

Legal

Preventing Conflicts of Interest

By Jason J. Bartlett

All companies, including township mutual fire insurance companies, are potentially susceptible to problems caused by conflicts of interest. Generally speaking, a conflict of interest occurs when a person holding a position with a company has the opportunity to advance their personal interests, or the interests of a third-party, at the expense of the best interests of the company.

While conflicts of interest can occur with regular employees, it is the conduct of the company's officers and directors that merit the most scrutiny. The company's officers and directors have positions of power and control within the company that heighten their ability to damage the company and to conceal their actions when advancing a position beneficial to them personally. Moreover, officers and directors of the company often own businesses or are employed by businesses, such as insurance agencies, that can create conflicts of interest. Special care must be taken in these situations to ensure that the best interests of the company are always being served.

As a preventative measure, every township mutual should develop and adopt a policy concerning conflicts of interest. The policy should apply to all of the company's officers, directors and employees, and should identify the various types of activities that constitute conflicts of interest. The policy should also require that the officers, directors and employees sign pledges to maintain their duty of loyalty to the company and disclose any potential conflicts of interest that they may have. MAFMIC has a "Conflict of Interest Statement" avail-

able for download on their website that is a good reference for developing a conflict of interest policy.

Some common conflict of interest situations involving officers, directors and employees that should be addressed in the company's policy are as follows: (a) acquiring financial interests or employment with a competing company; (b) entering into business transactions with the company; and (c) using the company's confidential information for personal gain. Additionally, an officer, director or employee's spouse or immediate family member can create a conflict of interest by transacting business with the company or acquiring a financial interest adverse to the company.

As a rule of thumb, any situation that even gives the appearance of a conflict of interest should be avoided. However, some types of conflicts of interest can be managed through full disclosure of the conflict of interest and the placement of limitations on the conflicted person's involvement in decisions concerning the source of the conflict. In the case of a director, the director would need to fully disclose any conflict of interest and abstain from voting on any decisions made by the company that involve the source of the conflict of interest. The company ultimately must decide whether a specific conflict of interest can be managed or not. In so deciding, the best interests of the company should always be the paramount consideration.

Jason Bartlett is an attorney with Willenbring, Dahl, Wocken & Zimmermann, PLLC, Cold Spring, MN.



The Issue of Assessments

...continued from page 1

If there was a financial problem with a company, all companies could be assessed up to 2% of their net written premium. Policyholders are protected because of the Guaranty Association.

It is our understanding that MAFMIC Companies have never used an assessment under MS 67A.17 and the Guaranty Association has never used an assessment for our farm mutuals.

The MAFMIC Government Affairs Committee and MAFMIC Board of Directors have taken a position that if the MAFMIC membership wants to repeal MS 67A.17, we will proceed to try to do that in the Minnesota Legislature. But

first, information on this issue needs to be provided to the membership and then there will be an electronic survey of company managers. Company managers will be asked to either vote yes to repeal this statute or no to keep this statute. The electronic survey will be sent to member company managers by the end of March. If a majority of the membership chooses to repeal we will proceed with appropriate legislation.

If you have any questions concerning assessments, please contact Wes or Marcus at the MAFMIC Office.

Claims

The Oakhurst Loss

By Jim Faber

In the early 1970's, a farmer-owned corporation called Oakhurst erected a large modern hog confinement facility in Manchester, MN. It was manufactured by Tasco Inc., an Iowa-based turnkey builder, and the design consisted of an octagon center hub, with seven wings extending out from it - like spokes in a wheel. The structure was made up of polystyrene and polyurethane foam-insulated wall and ceiling panels. It was arguably one of the larger hog confinements of its kind at the time, and it was insured for approximately \$510,000 including the pigs.



Before

On November 3, 1974 a devastating fire occurred, destroying the entire Oakhurst complex and nearly trapping a worker inside one of the wings. The employee witnessed a small fire that originated in a heater located at the outer end of one of the wings. Within seconds, flames ignited a polyurethane foam ventilation baffle located along the ceiling. He had to run for his life as flames quickly engulfed the entire wing and spread to the center hub area. In less than 30 minutes, the entire complex had burned to the ground, to the consternation of the owners and responding fire department personnel.

The Reinsurance Association of Minnesota (now called RAM Mutual Insurance Company) led an investigation that revealed polyurethane and polystyrene foam insulation had contributed to a very rapid flame spread and the production of heavy dense black smoke. A subrogation suit was commenced against Dow Chemical and Celotex Corporation, alleging that they misrepresented the flammability characteristics of their foam insulation products. Following a 14-week court trial, a Freeborn County jury awarded nearly \$1.4 million in damages arising out of the Oakhurst fire. The settlement included punitive damages against the manufacturers for marketing defective products and breaching express warranties relating to the flammability characteristics of the products and negligence.



After

Strict underwriting guidelines evolved requiring foam insulation products to be covered with approved thermal barriers for safety. Manufacturers were required to place warnings in their literature and on the products. Those safety and underwriting requirements are still being enforced, and are even more valid with the high-valued properties we are insuring today.

Jim Faber, AIC, CFI - Senior Vice President of Member Services with RAM Mutual Insurance Company, Esko, MN.

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Technology Corner

Cell Phone Security

By Karl Porisch



Now that almost everyone (and I mean almost everyone) has a cell phone for their business or personal use, the possibility of mobile viruses has surfaced. With the increase in use of smart phones and personal digital assistants (PDA's) the threat of someone releasing a malicious code into the network is very possible. Security experts predict that by the end of 2007 there will be a very good chance of an appearance of a worm or virus, but this will most likely happen when smart phone users make up at least 30% of the mobile market and those users readily exchange executable files in the form of emails with attachments.

More bad news is that the current generation of anti-virus software is completely ineffective as a defense against mobile viruses. Most experts agree that the best defense against the malware (malicious software) would be a network based protection system that would be able to detect the virus or worm and remove it before it spreads. But those same experts expressed the fact that that type of system was futuristic and easier said than done.

There is also the chance that if your smart phone is stolen, information can be recovered from it and used to steal your

identity in any number of ways. Recently a mobile security company based in Virginia purchased a number of smart phones on eBay and recovered over 23,000 pages of information from the phones which included bank accounts, tax information, computer passwords, sensitive product information, and corporate client records. There is some hope for those who have had a phone stolen or left it at a restaurant or bar. A British company is marketing a product that will make the phone emit an embarrassing high-pitched wail, so that it can be located quickly. If the stolen item was a smart phone, the company can issue a signal to wipe the data from a windows based system as soon as the phone is reported stolen.

As we move toward a more digital work place, we will need to be ever vigilant regarding the protection of our digital information and how it is used and disseminated throughout our work and personal lives. In 2003, identity theft caused \$7.6 billion dollars of damage to businesses throughout the United States, and will only continue to grow. Be careful!

Karl Porisch, Manager, Western Mutual, Balaton and MAFMIC Technology Committee Member.

Thank You to Our 2007 Partners!



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Convention Highlights

Annual Meeting

Pete Hellie, Manager of Norwegian Mutual Insurance Company, Cottonwood is MAFMIC's 2007-2008 Chairman. Pete was elevated during the association's Annual Business Meeting. Also, elevated to Chairman-Elect, **Doug Oachs**, Manager of Delaware Mutual Insurance Company in Herman. **Steve Knutson**, President of RAM Mutual Insurance Company in Esko was elected to serve as Vice-Chairman.

Two new directors were announced:

- **Dave Pederson** - District 5, Farmers Mutual Manchester
- **Karl Porisch** - District 6, Western Mutual

Directors continuing in service are:

- **Deb Liden** - District 1, Bray-Gentilly Mutual
- **Greg Parent** - District 2, German Farmers Mutual
- **Lori Anderson** - District 3, Oscar Parke Mutual
- **Ruth Rothstein** - District 4, Paynesville Mutual
- **Dale Krage** - District 7, Preble Farmers Mutual
- **Mike Soldan** - Statewide Director, Spring Valley Mutual

The following outgoing officers and directors were recognized:

- **Al Muehlhausen** - Past Chairman, Kelso & Shelby Farmers Mutual
- **Maureen Reineke** - District 5, Buffalo Lake New Auburn Mutual
- **Jerry Kraft** - District 6, Heartland Mutual

Photo Gallery on Website

For a look at photos from the convention, go to MAFMIC's website at www.mafmic.org and browse through the 'Photo Gallery'. Just click on the link shown on the home page.

Chairman's Reception



*At the 112th convention **Becky and Terry Timm** greeted everyone as they arrived for the Chairman's Reception, an African Safari.*

Volunteer of the Year Award

Linda Jaskowiak, Manager of Summer Mutual in Silver Lake received MAFMIC's Volunteer of the Year Award. This award goes to an individual who volunteers their time and efforts for the good of the association behind the scenes. We would like to thank Linda for all her participation and support this year.



Linda Jaskowiak receives her award from President Wes Gainey.

Auxiliary

The MAFMIC Auxiliary conducted their annual meeting during the 112th Annual Convention and announced the 2007-2008 officers. **Cherryl Knight**, Princeton, elevated to President; **Kim Oachs**, Herman, elevated to Vice-President; and **Joy Hellie**, Cottonwood, elected as Secretary. Also, recognized for his service to the Auxiliary was Immediate Past President, **Ron Goracke**. The auxiliary raised over \$2100 in funds for scholarships through raffle sales, cookbook sales and the silent auction.

Thank you to the following exhibitors for attending the MAFMIC Convention!

Steve Asmus, Buyer
All States Ag Parts, Inc.
(605) 359-2447

Terry Suttner / Scott McLaughlin
American Partners Bank
(317) 848-4700

Ann Roesler, Manager
B & P Water Works, LLC
(320) 363-8517

Mark Ellsworth
Cain Ellsworth & Co., LLP
(712) 324-4614

Anna Rozhansky, Sales Manager
Evans Garment Restoration
(952) 442-9977

Brandt Wendland, VP-Investments
Feltl and Company
(612) 492-8855

Kim Noetzel, Marketing Associate
Image Builders
(320) 259-1311

Jim Klein, Owner
Jim Klein's Wholesale Art
(763) 443-6980

Chris O'Hagan, President
Land of Lakes Claim Service, Inc.
(320) 632-2935

John Slater, Jr., Vice President
Legacy Advisors, LLC
(610) 788-2142

Mike Bateman, Sales
Lindstrom Restoration
(763) 544-8761

Jim Riggert, President
Loss Control Specialists, Inc.
(319) 354-7875

Jerri Putz, Marketing
Marco Business Products
(320) 259-3000

Nancy Grossman
MIIA
(952) 835-4180

Mary Cady-Woods
NAMIC Insurance Agency
(800) 336-2642

Mike Ling, Director of Sales
NCA Group
(800) 968-4456

Greg Sather, Executive VP
PIA
(763) 694-7070

Angela Anderson
Restoration Professionals
(651) 379-1990

Kevin Sheehan, Executive VP
Rural Computer Consultants
(320) 365-4027

Allison Keiser
SidingMatch
(574) 936-9258

Randy Green, Senior VP
UBS Financial Services, Inc.
(952) 475-9472

Keith Megeff
Wind Policy Specialist Claim Service
(800) 884-7495

Company News & Notes

John Deatsch Retires as Manager

John Deatsch announced his retirement as Manager of Bloomfield Mutual effective January 1st. John spent over 20 years with the company. He will remain on as the company Treasurer and will maintain his agency. **Larry Webb** has been named the new manager of Bloomfield Mutual.

Township Mutual Retiring Directors

At the 112th Annual Convention, MAFMIC recognized the following township mutual directors who have retired in the past year:

William Benson, Shelby Farmers Mutual; **Marvin Bergemann**, Pleasant Mound Mutual; **Mark DeWitz**, Pleasant Mound Mutual; **Larry Frank**, Shelby Farmers Mutual; **Byron Huseby**, Mower County Farmers Mutual; **Harold Jahns**, Pleasant Mound Mutual; **Morris Linbo**, Vernon Edda Mutual; **Curt Lueck**, Mid-Minnesota Mutual; **Allan Muehlhausen**, Kelso Farmers Mutual; **Lester Olson**, Lac Qui Parle Mutual; **Wayne Patten**, Mid-Minnesota Mutual; **Brian Riewe**, Pleasant Mound Mutual; **William Schultz**, Kelso Farmers Mutual; **Roger Tonn**, Pleasant Mound Mutual; and **Allen Willmsen**, Kelso Farmers Mutual.

Annual Statements

Please remember to mail a copy of your annual policyholder statement to the MAFMIC office. These statements are used to profile our industry when working with Legislators, to prepare the year-end compilation of our member's financial status and to provide information for the financial analysis program.

MAFMIC Calendar of Events

March	6-8	NAMIC Farm Underwriting Seminar <i>Sheraton Bloomington Hotel, Minneapolis</i>
	15-17	Owatonna Farm Show <i>Steele County Fairgrounds, Owatonna</i>
April	23-26	Spring Agent's Meetings <i>Mahnomen, St. Cloud, Rochester, Morton</i>
June	20-21	Congressional Visitation <i>Washington, DC</i>
July	18	Manager's & Director's Seminar <i>Holiday Inn, St. Cloud</i>
	19	Educational Scholarship Golf Outing <i>Little Crow Country Club, Spicer</i>

In Sympathy

Harvey Hadler, 79, Goodhue, passed away on January 9th. Harvey was a past manager and director for Wanamingo Mutual for more than 35 years. **Clarence L. Knopik**, 85, Little Falls passed away in January. Clarence was an agent and director with Elmdale Farmers Mutual for more than 20 years. **Tom Brinkman**, 66, Golden Valley, passed away on January 5th. Tom was a Claims Manager for Farmers Home Group. **Alphonse Schaefer**, 84, of Paynesville served as a director with Paynesville Mutual and passed away on February 7th.

MAFMIC wishes to express its sincerest condolences to the families and friends of these members who have passed away.



Please send an article for consideration to: Mutual Link, PO Box 880, St. Joseph, MN 56374, or email them to info@mafmic.org.

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