

LAWRENCE G. WASDEN  
Attorney General

DAVID M. FARNEY, ISB No. 8926  
Deputy Attorney General  
Idaho Department of Insurance  
700 W. State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Telephone No. (208) 334-4219  
Facsimile No. (208) 334-4298  
[david.farney@doi.idaho.gov](mailto:david.farney@doi.idaho.gov)

**FILED**  
**JUN 28 2017**  
Department of Insurance  
State of Idaho

*Attorneys for the Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
OF THE STATE OF IDAHO**

In the Matter of:

FARM BUREAU MUTUAL INSURANCE  
COMPANY OF IDAHO

Certificate of Authority No. 531  
NAIC No. 13765

Docket No. 18-3336-17

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2015**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of Farm Bureau Mutual Insurance Company of Idaho (Farm Bureau), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Farm Bureau Mutual Insurance Company of Idaho as of December 31, 2015 (Report), as filed.

**FINDINGS OF FACT**

1. Farm Bureau is an Idaho-domiciled insurance company licensed to transact casualty insurance, including workers' compensation; disability insurance, excluding managed

care; marine and transportation insurance; property insurance; and surety insurance in Idaho under Certificate of Authority No. 531.

2. The Department completed an examination of Farm Bureau pursuant to Idaho Code § 41-219(1) on or about May 24, 2017. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on May 24, 2017, and a copy of such verified Report was transmitted to Farm Bureau on May 25, 2017. A copy of the verified Report is attached hereto as Exhibit "A."

4. On or about June 13, 2017, the Department received a Waiver signed by Jason Williams, Treasurer of Farm Bureau. By execution of such Waiver, a copy of which is attached hereto as Exhibit "B," Farm Bureau consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from Farm Bureau.

#### **CONCLUSIONS OF LAW**

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that Farm Bureau meets the minimum basic and additional surplus requirements set forth in Idaho Code § 41-313(1).

**ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Farm Bureau Mutual Insurance Company of Idaho as of December 31, 2015, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall be exempt from the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Farm Bureau shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

**IT IS SO ORDERED.**

DATED this 27 day of June, 2017.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
\_\_\_\_\_  
DEAN L. CAMERON  
Director

### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 28<sup>th</sup> day of June, 2017, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2015 to be served upon the following by the designated means:

Farm Bureau Mutual Insurance Company of Idaho  
Attn: Paul Brent Roberts, Exec. Vice President & CEO  
275 Terra Vista Drive  
Pocatello, ID 83201  
[proberts@idfbins.com](mailto:proberts@idfbins.com)

☐ first class mail  
☒ certified mail  
☐ hand delivery  
☒ email

Farm Bureau Mutual Insurance Company of Idaho  
Attn: Jason Williams, Treasurer  
275 Terra Vista Drive  
Pocatello, ID 83201  
[jwilliams@idfbins.com](mailto:jwilliams@idfbins.com)

☐ first class mail  
☐ certified mail  
☐ hand delivery  
☒ email

Hermoliva Abejar  
Chief Deputy Examiner  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
Boise, ID 83720-0043  
[hermoliva.abejar@doi.idaho.gov](mailto:hermoliva.abejar@doi.idaho.gov)

☐ first class mail  
☐ certified mail  
☐ hand delivery  
☒ email

David M. Farney  
Deputy Attorney General  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
P.O. Box 83720  
Boise, ID 83720-0043

☐ first class mail  
☐ certified mail  
☒ hand delivery  
☐ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO

(NAIC Company Code: 13765)

as of

December 31, 2015



## Table of Contents

SALUTATIONS.....	3
SCOPE OF EXAMINATION.....	5
<i>Period Covered</i> .....	5
<i>Examination Procedures Employed</i> .....	5
<i>Status of Prior Examination Findings</i> .....	6
SUMMARY OF SIGNIFICANT FINDINGS .....	6
SUBSEQUENT EVENTS .....	6
COMPANY HISTORY .....	6
<i>General</i> .....	6
<i>Dividends and Capital Contributions</i> .....	7
<i>Mergers and acquisitions</i> .....	7
<i>Surplus Debentures</i> .....	7
CORPORATE RECORDS .....	7
MANAGEMENT AND CORPORATE GOVERNANCE.....	7
<i>Directors</i> .....	8
<i>Officers</i> .....	9
<i>Committees</i> .....	9
<i>Holding Company System</i> .....	10
<i>Contracts and Agreements</i> .....	10
<i>Management Agreements</i> .....	11
<i>Service Agreements</i> .....	11
<i>Consolidated Income Tax Allocation Agreement</i> .....	11
FIDELITY BONDS AND OTHER INSURANCE .....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....	12
TERRITORY AND PLAN OF OPERATION .....	13
GROWTH OF THE COMPANY .....	13
LOSS EXPERIENCE .....	14
REINSURANCE.....	14
<i>Assumed</i> .....	14

<i>Ceded</i> .....	15
ACCOUNTS AND RECORDS .....	15
<i>Independent Auditors</i> .....	15
STATUTORY DEPOSITS .....	16
FINANCIAL STATEMENTS .....	17
Balance Sheet.....	17
Statement of Income .....	19
Reconciliation of Capital and Surplus .....	20
NOTES TO FINANCIAL STATEMENTS.....	21
SUMMARY OF RECOMMENDATIONS .....	21
ACKNOWLEDGEMENT .....	22

Pocatello, Idaho  
May 23, 2017

The Honorable Dean L. Cameron  
Director of Insurance  
State of Idaho  
700 West State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219 (1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of:

Farm Bureau Mutual Insurance Company of Idaho  
275 Tierra Vista Drive  
Pocatello, Idaho 83201

Hereinafter referred to as the "Company", at its offices in Pocatello, Idaho. The following report of examination is respectfully submitted.



## SCOPE OF EXAMINATION

### *Period Covered*

We have performed our single-state examination of Farm Bureau Mutual Insurance Company. The last examination was completed as of December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2015.

### *Examination Procedures Employed*

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). 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. The 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 (SSAPs) and NAIC Annual Statement Instructions as governed and prescribed by Idaho law.

The Company retained the services of a certified public accounting firm, Deaton and Company, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's corporate governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A risk-focused approach was determined appropriate.

The examination determined the risks associated with identified key functional areas of the Company's operation and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment.

The examination relied on the findings of the actuarial firm contracted by the Department to verify pricing and reserves.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report due to materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

#### *Status of Prior Examination Findings*

Our examination included a review to determine the current status of the one exception condition commented upon in our preceding Report of Examination, dated February 15, 2013 which covered the period from January 1, 2008 to December 31, 2011. We determined that the Company had satisfactorily addressed all of those exception conditions.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

### **SUBSEQUENT EVENTS**

Frank Steven Priestley retired as President and Chairman of the Board subsequent to December 31, 2015. Bryan Lloyd Searle was elected President of Western Community Insurance Company and Chairman of the Board of both companies subsequent to December 31, 2015.

### **COMPANY HISTORY**

#### *General*

The Company was incorporated as a domestic stock insurance company on April 27, 1947 under the name of Idaho Farm Insurance Company, Inc., and commenced operations on May 1, 1947. On December 30, 1955, the Articles of Incorporation were amended, whereby the Company converted to a mutual insurance company. On January 25, 1991, the Articles of Incorporation and By-laws were amended, whereby the Company's name was changed to Farm Bureau Mutual Insurance Company of Idaho.

The company operated under the provisions of Chapter 28, Title 41 of the Idaho Code, and provided coverage for the following lines of business: Farmowners and Homeowners multiple peril, Private passenger auto liability, Auto physical damage, Inland marine, Allied lines, Other liability – occurrence, and Fire. It is also the parent company in a holding company system, and assumes all business written from its indirect subsidiary, Western Community Insurance Company

(WCIC), via a quota share reinsurance agreement, which includes Commercial multiple peril and Commercial auto liability.

#### *Dividends and Capital Contributions*

The Company did not declare or pay out any dividends during the examination period, nor receive any capital contributions.

#### *Mergers and acquisitions*

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the examination period.

#### *Surplus Debentures*

The Company had no surplus debentures during the examination period.

## **CORPORATE RECORDS**

The meetings of the Board of Directors (Board) were conducted on a quarterly basis for all the years under examination. A review of the meeting minutes of the Board for the examination period, and subsequent thereto, indicated compliance with the bylaws and Articles of Incorporation with respect to the election of the Directors and Officers. The review of the minutes also indicated that a quorum was present at all Board meetings held during the examination period. Furthermore, the minutes reflected discussion of relevant operational performance, review and approval of independent auditors' reports, the prior Department statutory examination report and investment transactions.

The Board had an Audit Committee consisting of six members. The Audit Committee was responsible for reviewing and approving all audit services performed by the external auditors. Review of Audit Committee meeting minutes indicated compliance with the Audit Committee Charter and reflected discussions relevant to its responsibilities.

The Prior Examination Report as of December 31, 2011, was distributed to the Board and reviewed at the Board of Directors meeting on April 16, 2013, in accordance with Idaho Code §41-227 (6) (a).

## **MANAGEMENT AND CORPORATE GOVERNANCE**

### *Directors*

The bylaws of the Company indicated the number of directors may be between eleven and fifteen, all of whom must be members of the Idaho Farm Bureau Federation.

The following persons served as directors of the Company as of December 31, 2015:

<u>Name and Location</u>	<u>Position</u>
Richard Thomas Brune Hazelton, Idaho	Farmer
Cody Robert Chandler Weiser, Idaho	Rancher
Christopher Ralph Dalley Pingree, Idaho	Rancher
Thomas Michael Daniel Bonners Ferry, Idaho	Farmer
Danny Gene Ferguson Rigby, Idaho	Farmer/Rancher
Marjorie Ann French Princeton, Idaho	Farmer/Rancher
Mark Robert Harris Springs, Idaho	Rancher
Gerald Lyle Marchant Oakley, Idaho	Farmer/Rancher
Ricky William Pearson Buhl, Idaho	Farmer
Frank Steven Priestley* Franklin, Idaho	President and Chairman of the Board Farmer/Rancher
Dean Edwin Schwendiman Newdale, Idaho	Farmer/Rancher
Bryan Lloyd Searle** Shelley, Idaho	Farmer/Rancher
Howard Scott Steele Idaho Falls, Idaho	Farmer

Mark Dennis Trupp  
Driggs, Idaho

Audit Committee Chair  
Farmer/Rancher

Tracy Walton  
Emmett, Idaho

Farmer

\* Frank Steven Priestley retired as President and Chairman of the Board subsequent to December 31, 2015

\*\* Bryan Lloyd Searle was elected President of Western Community Insurance Company and Chairman of the Board subsequent to December 31, 2015

All of Directors noted above were policyholders of the Company in compliance with Section 41-2835(3), Idaho Code.

### *Officers*

The Company's bylaws provide for principal officers to consist of an executive vice-president, a secretary, and a treasurer. The following persons served as officers of the Company as of December 31, 2015:

<u>Name</u>	<u>Position</u>
Paul Brent Roberts	CEO & Executive Vice President
Rick Dwain Keller	Secretary
Jason Todd Williams	Treasurer
David Jon Acevedo	Vice President of Operations
Richard Stephen Burgoyne	Vice President of Claims
Ronald Boyd Levitt	Vice President of Sales
Thomas Jason Lyons	Vice President of Legal Affairs
Timothy Summers Stronks	Vice President of Personal Lines
Ellen Van Hees	Vice President of Commercial Lines

### *Committees*

The Company's bylaws authorize the Board of Directors to establish one or more committees. The establishment of a committee and appointment of members to the committee must be approved by the greater of a majority of all directors in office or those required by section 4.9 of the bylaws or the Articles of Incorporation to take action. As of December 31, 2015, the Company's board of directors had authorized the following committee and members to serve:

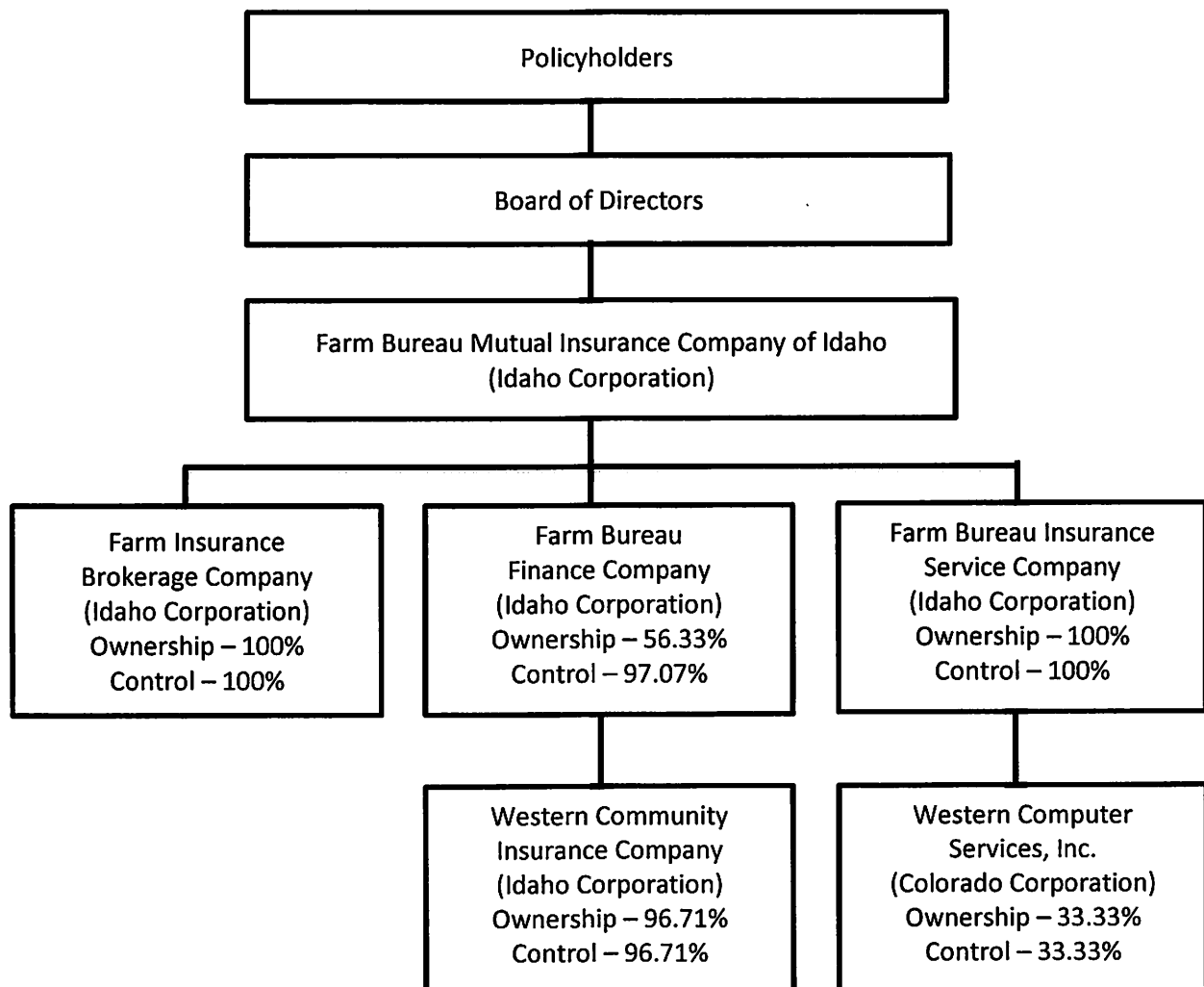
Audit Committee

Frank Steven Priestley, Chairman  
Mark Dennis Trupp, Vice Chairman  
Richard Thomas Brune  
Cody Robert Chandler

Christopher Ralph Dalley  
Thomas Michael Daniel  
Danny Gene Ferguson

### *Holding Company System*

The Company was a member of an insurance holding company system, as defined in Section 41-3801, Idaho Code. The Company was the designated “Ultimate Controlling Person” in the holding company system. An organizational chart of the holding company system is as follows:



### *Contracts and Agreements*

The Company had the following agreements in force with its affiliates as of December 31, 2015:

### *Management Agreements*

The Company was party to management service agreements, effective January 1, 2015, with its affiliates WCIC, Farm Insurance Brokerage Company, Farm Bureau Finance Company and Farm Bureau Insurance Services Company. The services provided under the various agreements included management, marketing, underwriting, processing, travel, home office rent, employee related expenses, personnel, data processing, equipment, actuarial, secretarial, accounting, collection of premiums, and adjusting and payment of claims. For these services, The Company was paid management fees in accordance with the respective agreement terms.

The agreement with WCIC also included a provision for WCIC to pay an additional 2 percent of its direct written premium for use of the Company's county office facilities. In this provision, the Company paid, and was reimbursed, for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis. Furthermore, the agreement provided for the Company to arrange for excess reinsurance coverage facilities and to provide reinsurance reporting services for WCIC on the business subject to this agreement. The Company and WCIC shared the reinsurance costs in proportion to the respective retentions on the business.

### *Service Agreements*

The Company and various other affiliates were party to a service agreement with Western Computer Services, Inc., effective January 1, 2004, whereby Western Computer Services, Inc. provided and maintained data processing services as requested by the Company and affiliates to provide adequate and appropriate data for Company operations. The Company reimbursed Western Computer Services 100 percent of the administrative, programming and computer expenses related to services provided.

### *Consolidated Income Tax Allocation Agreement*

The Company was party to a consolidated income tax allocation agreement with members of the holding company system, effective April 20, 2009, whereby the parties to the agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group had filed or would file a consolidated income tax return by applying the liability method to each member of the group as if it were a separate taxpayer.

The parties made estimated tax payments based on their allocation of federal taxes for the previous year. Settlements of balances due or refunds receivable were determined by subtracting the estimated payments made for the year from the federal tax allocated to each party for that year.

## **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than

\$1,000,000. As of December 31, 2016, the Company had sufficient fidelity bond coverage subject to a loss limit of \$2,000,000.

The Company was a named insured on a number of other insurance coverages related to commercial property, commercial crime, commercial general liability, professional liability, Director & Officer and employment practices liability, commercial automobile, commercial occurrence excess (umbrella) policy and workers' compensation.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had a defined benefit pension plan covering substantially all of its employees. Benefits were based on years of service, and the employee's highest average annual compensation during any five of the last ten calendar years. The Company's funding and accounting policies were to contribute annually the maximum amount that could be deducted for Federal Income Tax purposes and to charge such contributions to expenses in the year paid. The total pension contribution for 2015 was \$6,000,000. The amount of pension expense for the year was funded by quarterly contributions to the pension plan. Effective January 1, 2013, the Company adopted SSAP No. 102, which requires that any underfunded defined benefit pension obligation, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability. The total pension liability for 2015 was \$25,692,431.

The Company had an optional 401(k) plan providing for both employer and employee contributions. The maximum company contribution was \$390 per participant per year. The Company's expense for 2015 was \$78,510.

An employee thrift plan with no Company participation was available to all employees on an elective basis.

The Company had established a postretirement life and medical insurance plan for its retirees. Employees who had reached the age of 55 and had at least 10 years of service and were covered by the Company's health insurance plan on the date of retirement were eligible for participation in the plan. The Company would pay a certain percentage of the cost of health insurance premiums based on the number of years of service for the period from the date of retirement to the date the retiree is eligible for Medicare benefits. After the retiree becomes eligible for Medicare, the Company would reimburse up to a maximum amount of \$100 the cost of obtaining a replacement Medicare supplement. The amount reimbursed would depend on the number of years of service at retirement.



The Company provided a health care benefit plan for permanent, full-time employees who work more than 30 hours a week. The benefits provided under the plan were self-funded by the Company up to \$25,000. An insurance policy covering benefits in excess of the \$25,000 limit was established with Blue Cross of Idaho, who also provided administrative services for the plan.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2015, the Company was licensed in the State of Idaho to transact the business of Farmowners and Homeowners multiple peril, Private passenger auto liability, Auto physical damage, Inland Marine, Allied lines, Other liability – occurrence, and Fire. It also assumes all business written from WCIC, via a quota share reinsurance agreement, which includes Commercial multiple peril and Commercial auto liability.

Insurance products were marketed through a captive agency force working from fifty-one county offices overseen by eight district managers.

Operations of the Company were conducted from its main administrative office located in Pocatello, Idaho.

## **GROWTH OF THE COMPANY**

The following represents the Company's Premium Activity and its relationship to surplus over the period of our examination:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Premiums and annuity considerations	\$ 37,592,555	\$ 37,912,390	\$ 36,077,725	\$ 31,142,694
Net gain from operations before dividends to policyholders and before federal income taxes	(16,133,328)	(5,502,979)	(6,960,936)	(22,084,236)
Net investment income	12,097,765	11,480,202	11,924,894	10,195,319
Net income	(2,907,949)	4,761,190	5,430,143	(8,910,060)
 Total admitted assets	 \$447,800,060	 \$440,281,887	 \$418,020,345	 \$396,576,707
Total liabilities	209,338,899	198,737,428	184,897,566	175,847,949
Surplus	238,461,161	241,544,459	233,122,778	220,728,758

The Company experienced net losses for 2012 and 2015 due mainly to wildfires in Idaho. The losses were just under the catastrophe reinsurance threshold. Assets increased steadily over the examination period due to positive net investment income. Liabilities also increased over the examination period, mainly due to an increase in unpaid loss and loss adjustment expenses, as well as the costs associated with the Company's conversion from legacy systems to newer technology. Capital and Surplus decreased in 2015 due to the net loss experienced related to the wildfires.

## **LOSS EXPERIENCE**

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Losses Paid</u>	<u>Underwriting Expenses</u>	<u>Ratio of Benefits and Expenses to Written Premium</u>
2012	\$ 137,379,884	\$ 94,572,933	\$ 40,059,329	98.00%
2013	151,664,769	99,532,398	35,718,701	89.18%
2014	162,381,565	105,424,018	40,616,314	89.94%
2015	168,961,675	114,924,726	45,774,256	95.11%

## **REINSURANCE**

### *Assumed*

The Company entered into a reinsurance agreement with WCIC, effective April 1, 2010, whereby the Company assumed 100 percent of WCIC's premium on all direct and assumed lines of business and class groups. In exchange, the Company agreed to pay WCIC a ceding commission of 33 percent of the direct premium.

American Agricultural Insurance Company (AAIC), an Indiana Company with its administrative office located in Shaumburg, Illinois, was the Company's only assumed reinsurer. AAIC formed various reinsurance pools by combining business ceded to it by the Company, other Farm Bureau companies and other insurance entities. AAIC then retroceded part of the pools to the Company. In addition, AAIC formed other reinsurance pools that did not include business from the Farm Bureau companies. FMBIC participated in two of those pools.

### *Ceded*

The Company ceded its business, including the assumed business from WCIC, through various reinsurance agreements with AAIC. These agreements included an Umbrella liability quota share agreement, Property aggregate excess agreements, Crop hail aggregate excess agreements, Property catastrophe agreements and a Livestock quota share agreement.

All of the ceded reinsurance agreements contained the clauses and termination provisions suggested in the *Handbook*. The reinsurance agreements also carried adequate transfer of risk and were in compliance with SSAP No. 62R.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational office in Pocatello, Idaho.

The Company used On Line Information Executive (OLIE) as an interactive system on its mainframe computer using PCs connected to its Local Area Network (LAN) and Wide Area Network (WAN). OLIE was used to capture data for policy management, claims management, accounts payable and accounts receivable, etc. Claims data was received from the Guidewire Claims Center application and integrated with the other policy information residing on OLIE. All of this information was then integrated with the SunGard iWorks EAS general ledger system.

During the examination period, the Company had converted its business owners policies (BOP) lines to its policy administration system, Guidewire. Commercial package policies (CPP) and personal lines policies were projected to be on Guidewire by spring 2017.

The Company prepared its annual statements utilizing the SunGard iWorks statutory software package. The investment portfolio was maintained on SunGard's iWorks Investment Systems. The Company's independent auditors maintained the fixed assets records.

### *Independent Auditors*

The annual independent audits of the Company for the years under examination were performed by Deaton & Company, Chartered, Pocatello, Idaho.

Deaton & Company's workpapers were made available for the examination. The financial statements of each audit report were on a statutory basis. There was some reliance on the 2015 audit report and workpapers in this examination of the Company.

## STATUTORY DEPOSITS

Pursuant to Section 41-316A, Idaho Code, the Company was required to maintain a deposit in an amount equal to the minimum capital for a stock insurer and basic surplus of a mutual or reciprocal insurer as required in Section 41-313, Idaho Code. The Company's minimum capital requirement was \$1,000,000 at December 31, 2015. The examination confirmed the Company maintained a statutory deposit with the State of Idaho consisting of four securities with a total par value of \$1,500,000, which was adequate to cover the required deposit.

The special deposits maintained by or through regulatory agencies on the policyholder's behalf as of December 31, 2015, were as follows:

<b>Description</b>	<b>Par Value</b>	<b>Statement Value</b>	<b>Fair Value</b>
MacOmb Cnty Mi Ltd, 4.416% Due 11/01/2035	\$ 500,000	\$ 513,870	\$ 502,060
Cedar Park Tx Ref Impt, 4.125% Due 02/15/2016	275,000	274,292	276,304
Cedar Park Tx Ref Impt, 4.125% Due 02/15/2022	225,000	224,421	225,999
Pierce Cnty Wa Sch Dist No 083, 5.00% Due 12/01/2025	<u>500,000</u>	<u>536,590</u>	<u>548,200</u>
<b>Total</b>	<u>\$ 1,500,000</u>	<u>\$ 1,549,173</u>	<u>\$ 1,552,563</u>

In addition, the following securities were held by and confirmed with the custodial bank, US Bank, in escrow for the excess reinsurance agreement with American Agricultural Insurance Company:

<b>Description</b>	<b>Par Value</b>	<b>Statement Value</b>	<b>Fair Value</b>
MacOmb Cnty Mi Ltd, 4.00% Due 09/01/2033	<u>\$ 1,000,000</u>	<u>\$ 978,520</u>	<u>\$ 1,064,070</u>
<b>Total</b>	<u>\$ 1,000,000</u>	<u>\$ 978,520</u>	<u>\$ 1,064,070</u>

# FINANCIAL STATEMENTS

## Balance Sheet as of December 31, 2015

### ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 249,134,333		\$ 249,134,333
Stocks:			
Preferred stocks	167,000		167,000
Common stocks	99,537,612		99,537,612
Real estate:			
Properties occupied by the company	11,158,083		11,158,083
Properties held for the production of income	1,004,002		1,004,002
Cash, cash equivalents and short-term investments	5,922,717		5,922,717
Other invested assets	16,651,941		16,651,941
Investment income due and accrued	3,204,312		3,204,312
Premiums and consideration:			
Uncollected premiums and agents' balances in the course of collection	5,085,620	103,841	4,981,779
Deferred premiums, agents' balances and installments booked but deferred and not yet due	32,610,776		32,610,776
Amounts recoverable from reinsurers	161,855		161,855
Current federal and foreign income tax and interest thereon	1,741,654		1,741,654
Net deferred tax asset	14,571,378		14,571,378
Electronic data processing equipment and software	728,302		728,302
Furniture and equipment, including health care delivery assets	15,425,259	10,991,658	4,433,601
Receivables from parent, subsidiaries and affiliates	1,424,282		1,424,282
Aggregate write-ins for other than invested assets:			
Other receivables	677,657	311,223	366,434
Prepaid pension asset	1,930,581	1,930,581	
Rounding	(1)		(1)
	<u>\$ 461,137,363</u>	<u>\$ 13,337,303</u>	<u>\$ 447,800,060</u>

## LIABILITIES, CAPITAL AND SURPLUS

Losses (Note 1)	\$ 61,112,112
Reinsurance payable on paid losses and loss adjustment expenses	25,126
Loss adjustment expenses (Note 1)	17,844,000
Commissions payable, contingent commissions and other similar charges	12,274,313
Other expenses	8,487,096
Taxes, licenses and fees	411,104
Unearned premiums	80,543,880
Ceded reinsurance premiums payable	2,506,925
Funds held by company under reinsurance treaties	112,457
Amounts withheld or retained by company for account of others	43,090
Drafts outstanding	144,016
Payable to parent, subsidiaries and affiliates	8,213
Aggregate write-ins for liabilities:	
Miscellaneous payables	134,137
Pension liability	25,692,431
Total liabilities	<u>209,338,899</u>
Unassigned funds (surplus)	<u>238,461,161</u>
Surplus as regards policyholders (Note 2)	238,461,161
Total liabilities, capital and surplus	<u><u>\$ 447,800,060</u></u>

Statement of Income  
as of December 31, 2015

	Per Company and Per Examination
Premiums earned	\$ 166,389,562
Losses incurred	120,481,819
Loss adjustment expenses incurred	16,152,355
Other underwriting expenses incurred	45,888,716
Total Underwriting Deductions	182,522,890
Net underwriting gain or (loss)	(16,133,328)
Net investment income earned	11,229,706
Net realized capital gains (losses) less capital gains tax	868,059
Net investment gain or (loss)	12,097,765
Net gain or (loss) from agents' or premium balances charged off	(61,465)
Finance and service charges not included in premiums	249,448
Aggregate write-ins for miscellaneous income	74,617
Total Other Income	262,600
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(3,772,964)
Federal and foreign income taxes incurred	(865,015)
Net Income	\$ (2,907,949)

Reconciliation of Capital and Surplus  
as of December 31, 2015

December 31, 2012 through December 31, 2015

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus				
December 31, previous year	<u>\$ 224,373,908</u>	<u>\$220,728,758</u>	<u>\$233,122,778</u>	<u>\$ 241,544,459</u>
Net income	\$ (8,910,060)	\$ 5,430,143	\$ 4,761,190	\$ (2,907,949)
Change in net unrealized capital gains	1,717,428	8,542,021	9,253,541	3,022,320
Change in net deferred income tax	1,814,243	321,118	3,788,947	21,675
Change in nonadmitted assets	4,715,689	(3,324,317)	(1,460,133)	(2,433,333)
Change in excess pension liability	<u>(2,982,450)</u>	<u>1,425,055</u>	<u>(7,921,863)</u>	<u>(786,012)</u>
Change in surplus as regards policyholders for the year	<u>\$ (3,645,150)</u>	<u>\$ 12,394,020</u>	<u>\$ 8,421,682</u>	<u>\$ (3,083,299)</u>
Surplus as regards policyholders, December 31	<u><u>\$ 220,728,758</u></u>	<u><u>\$233,122,778</u></u>	<u><u>\$241,544,460</u></u>	<u><u>\$238,461,160</u></u>

Analysis of Changes in Financial Statements Resulting From Examination

There were not adjustments to surplus resulting from the examination.



## NOTES TO FINANCIAL STATEMENTS

### Note 1

Losses	\$61,112,112
Loss adjustment expenses	17,844,000

Brent M. Sallay, FCAS, MAAA and Solomon L. Frazier, FSA, ACAS, MAAA of Taylor-Walker and Associates, Inc. were retained by the Department to perform the actuarial portion of the examination. The scope of Taylor-Walker's risk-focused examination addressed all actuarial areas assigned by the Department.

Taylor-Walker concluded that the ranges of loss and loss adjustment expense reserves estimated by the opining actuary were reasonable. Since the reserves booked by the Company fell within the opining actuary's range, Taylor-Walker also concluded that the reserves booked by the Company were reasonable. Therefore, no adjustments to the reserves reported in the 2015 Annual Statement were recommended.

### Note 2

Surplus as regards policyholders	\$238,461,161
----------------------------------	---------------

The Company's total surplus as regards policyholders as of December 31, 2015 was \$238,461,161, which exceeded the \$2,000,000 minimum prescribed by Section 41,313, Idaho Code.

## SUMMARY OF RECOMMENDATIONS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus or required any recommendations.

## ACKNOWLEDGEMENT

Brent M. Sallay, FCAS, MAAA and Solomon L. Frazier, FSA, ACAS, MAAA of Taylor-Walker & Associates, Inc. performed the actuarial phases of the examination. Jenny L. Jeffers, CISA, AES and Joanna J. Latham, CPA, CFE, CISA, CRISC of Jennan Enterprises, LLC performed the Information Systems review. In addition to the undersigned, Shawn L. Hernandez, CFE of Risk & Regulatory Consulting, LLC, participated in the examination representing the Idaho Department of Insurance. Hermoliva Abejar, CFE, Deputy Chief Examiner of Idaho Department of Insurance supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



Alea P. Talbert-Pence, CFE, CIA  
Examiner-in-Charge  
Representing the Idaho Department of Insurance



Hermoliva B. Abejar, CFE  
Supervising Examiner  
Idaho Department of Insurance

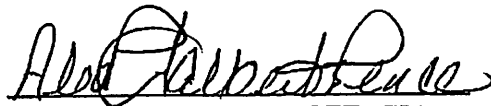
## AFFIDAVIT OF EXAMINER

Idaho  
Bannock County

Alea P. Talbert-Pence, being duly sworn, deposes and states as follows:

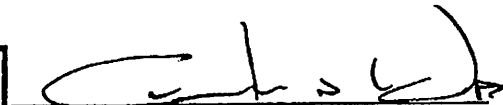
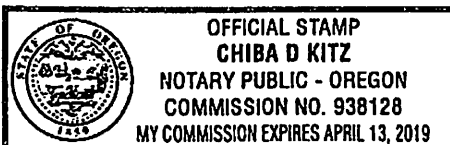
- 1.) I am a duly appointed Examiner for the Department of Insurance of the State of Idaho
- 2.) The Idaho Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
- 3.) I have made an examination of the affairs and financial condition of Farm Bureau Mutual Insurance Company of Idaho for the period from January 1, 2012 through December 31, 2015.
- 4.) The examination was performed in a manner consistent with the standards and procedures required by the Financial Condition Examiners' Handbook, the laws and regulations of the State of Idaho, and the Idaho Department of Insurance specific policies and procedures.
- 5.) The information contained in the report is true and correct to the best of my knowledge and belief; and that any conclusions and recommendations contained in the report are based on the facts disclosed during the course of the examination.

Affiant says nothing further.



Alea P. Talbert-Pence, CFE, CIA  
Risk & Regulatory Consulting, LLC  
On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 24<sup>th</sup> day of May, 2017, at PORTLAND, OR  
City State

  
Notary Public

My Commission Expires: 4/13/19

C.L. "BUTCH" OTTER  
Governor

*State of Idaho*  
**DEPARTMENT OF INSURANCE**

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
Fax (208)334-4398  
Website: <http://www.doi.idaho.gov>

DEAN L. CAMERON  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2015, of the:

**FARM BUREAU MUTUAL INSURANCE COMPANY (FBMIC)**  
**275 Tierra Vista Drive**  
**Pocatello, ID 83205-4848**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 24th day of May 2017, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 13 day of June, 2017

**FARM BUREAU MUTUAL INSURANCE  
COMPANY**

Jason Williams

- Name (print)

Jason Williams

Name (signature)

Treasurer

Title

**EXHIBIT**

B