



# Farm Mutuals Examinations and Financial Management



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# Farm Mutuals Examinations and Financial Management

## *Every Company is Unique!*

Although your companies may have common goals and philosophies, operationally every company is unique.

There is no single formula for success, but by reviewing common practices we can see what seems to work most often.



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# Farm Mutuals Examinations and Financial Management

## *Today's Goal*

Financial Data and Examination Results  
How does your company compare to others?

Annual Statement Preparation

Mergers, Ceasing Operations and Returning Surplus  
Presented by: Cindy Donovan



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# Operating Costs Comparison

*Commissions*  
*Salaries*  
*Advertising*  
*Association Dues*  
*Insurance*  
*Rent*  
*Utilities*  
*Taxes*  
*Other Expenses*



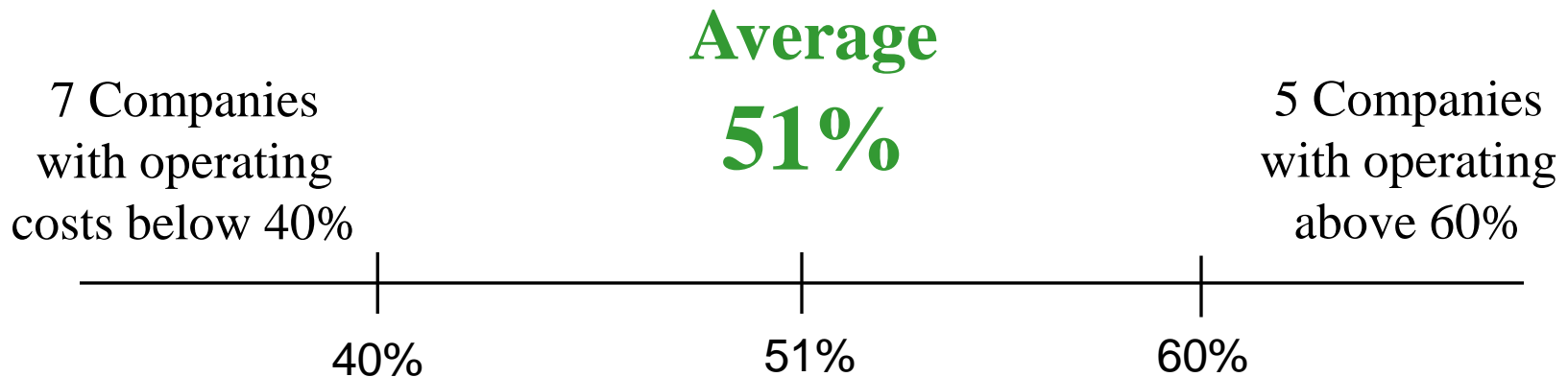
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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

## Operating Costs – Percentage of Net Premiums



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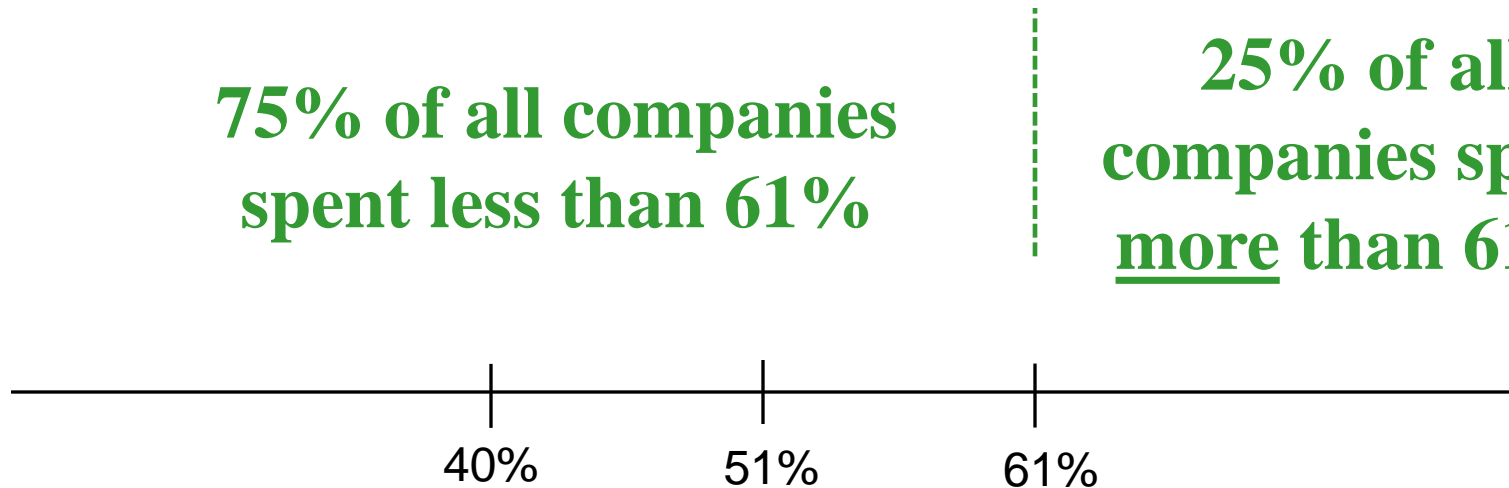
# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

## Operating Costs – Percentage of Net Premiums

**75% of all companies  
spent less than 61%**

**25% of all  
companies spent  
more than 61%**



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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

## OPERATING COST PERCENTAGE

*Operating costs – Annual Statement, Page 3, Line 34*

*Divided by*

*Net Premiums – Annual Statement, Page 2, Line 9*



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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

Why are my operating costs higher than average?



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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

Why are my operating costs higher than average?

*When was the last time our Company  
had a premium increase?*

Almost all farm mutuals have had premium increases in  
the past 5 years.



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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

Why are my operating costs higher than average?

*Has revenue been steadily declining for years, but overhead has stayed the same or increased?*



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# Operating Costs Comparison

*Sample size - 21 Farm Mutuals*

Why are my operating costs higher than average?

*How do our Salaries and Commissions compare to our peers?*



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# Advisors and Consultants

CPA Firms\*

Lawyers\*

Investment Advisors\*

Software Advisors\*

Adjusters

Agents

Reinsurance Representatives

Associations

*\*(consider insurance experience)*



# Advisors and Consultants

*“Know what you don’t know!”*



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# Advisors and Consultants

*A successful businessman was being interviewed by a reporter. At one point in the interview, the reporter referred to him as a business genius. The individual quickly responded that he did not consider himself a genius at all. He was just smart enough to surround himself with geniuses.*



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# Advisors and Consultants

Automation

Staff Training

Analyzing financial performance

Designing more efficient office processes

Developing a business plan

Designing practical checks and balances



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# Oversight

## *Checks and Balances*

*Reports provided to the Board*

*Budgeting and budget to actual comparisons*

*Review of bank statements*

*Individuals signatory on bank accounts and investments*

*Review of related party claims*

*Operational transparency*



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# Farm Mutuals – Examination Questions

## Oversight – Checks and Balances

### How often does the Board meet?

33% of Boards meet Monthly

50% of Boards meet Quarterly

17% of Boards meet Semi-Annually or Less



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# Oversight

## Teamwork Transparency



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## Oversight – Checks and Balances

*One of the Companies examined met just twice a year. The Board President was not signatory on any accounts. All bank and investment statements were mailed to the President of the Board, which gave him the opportunity to review them prior to dropping them off at the office.*



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# Oversight – Checks and Balances

What does the board receive from management at their meetings?

*Financial Statements*

*Budget comparison*

*Previous year comparison*

*Claims Report*

*Anticipated claims that may be significant*

*Legal considerations*

*Personnel Issues*

*Detail list of disbursements(smaller companies)*

*Copies of Bank Statements (smaller companies)*



# Oversight – Checks and Balances

How often does the Manager have contact with Board Members?

*Response: The majority of managers said that they talk to members of the board weekly.*

Who is signatory on the bank and investment accounts?

*Response: The Board President, Treasurer and Manager are signatory with most companies*



# Annual Board Meetings

*“Our Annual Meeting is one of the big social events of the year, for this area!”*

Annual Meeting participation varied widely between farm mutuals. Companies need to find at least adequate participation, in order to perpetuate the farm mutual.



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# Automation and Software

Automation can create efficiencies in

*Cash and Investment Management*

*Budgeting and Comparative Analysis*

*Preparing Monthly Financials*

*Preparing monthly bank reconciliations*

*Invoicing*

*Policyholder Administration*

*Reinsurance management*



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# Associations and Networking

*“You do not have to reinvent the wheel!”*

Automation  
Financial Reporting  
Operations

If your company is dealing with a specific challenge, it is likely that there are others that have experienced the same issue and they may found a viable resolution to the issue.



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# Claims Deductibles

*Know your marketplace  
Research Industry Standards*

Several companies noted minimal negative responses from policyholders and a positive impact on net income



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# Reinsurance

Aggregate Excess of Loss Reinsurance  
Supplemental Aggregate Excess of Loss  
Property Facultative Pro Rata Reinsurance  
Indiana Statutory Limits

*Major focus of Indiana Department of Insurance Examinations*



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# Reinsurance

Gain an understanding of what you are  
buying!

Reinsurance should never be so complex that  
it cannot be understood or explained to a  
reasonable person.



# Annual Statements – Most common errors

Unpaid Premiums not reported

Unpaid Claims not reported

Unearned Premiums not reported

Incomplete supporting schedules

Math errors



# Most Common Examination Findings

No signed Oath of Office Statements  
No signed Conflict of Interest Statements  
Annual Statements errors and omissions

Inadequate Fidelity Bond  
Risk retention in excess of Indiana Statutory Compliance  
Inappropriate use of funds  
Prospective Risks



# Farm Mutuals

## Why Companies Succeed

1. An involved Board
2. A Team Atmosphere
3. Good communication
4. Transparency
5. Involved Advisors
6. Good Service
7. Valued Service
8. A Good Game Plan



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# Farm Mutuals Examinations and Financial Management

## QUESTIONS



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