

MARKET CONDUCT
EXAMINATION REPORT OF
FARMLAND MUTUAL INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2011

Des Moines, Iowa
March 21, 2013

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, a market conduct examination has been made of the records, business and marketing practices of

FARMLAND MUTUAL INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2011

at its Home Office, 1100 Locust Street, Des Moines, Iowa.

INTRODUCTION

The examination report, containing applicable comments, explanations and findings, is presented herein. In general, this is a report by exception. Comments regarding practices and procedures reviewed during the examination have been omitted from the report if no improprieties were found.

SCOPE OF EXAMINATION

Farmland Mutual Insurance Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2006. This market conduct examination covers the intervening period from January 1, 2007 to the close of business on December 31, 2011. It was conducted and performed solely for the Iowa Insurance Division by its examiners. A general review and survey was made of the Company's marketing operations and treatment of policyholders for statutory compliance during the stated period. Other supporting evidences have been examined and evaluated to the extent deemed necessary.

HISTORY

The Company was incorporated in the State of Iowa on March 22, 1909, under the name of the Farmers Cooperative Elevator Mutual Insurance Association with its Home Office located in Fort Dodge, Iowa. Originally, risks were limited to fire and wind insurance on cooperative elevators with policies on the mutual assessment plan.

In 1916, by amendment to its Articles of Incorporation, the name of the Company was changed to Farmers National Cooperative Elevator Mutual Insurance Association of Iowa. The name was changed in 1934 to Farmers Elevator Mutual Insurance Association.

In 1945, the Company was authorized to reorganize and do business under the mutual plan of insurance and change its name to Farmers Elevator Mutual Insurance Company. The Home Office was moved to Des Moines, Iowa in 1946.

Amended and substituted Articles of Incorporation were adopted on January 24, 1948 whereby the corporate existence was made perpetual and the writing of multiple lines of insurance, as enumerated in Chapter 515, Code of Iowa, was authorized.

On December 31, 1956, an affiliated company, the Farmers Elevator Mutual Casualty Company, was merged into the Company.

In 1976, the name of the Company was changed to Farmland Mutual Insurance Company.

On August 31, 1982, the Company became associated with Nationwide Mutual Insurance Company, Columbus, Ohio, by virtue of \$500,000 of funds advanced to the Company pursuant to provisions of Sections 515.19-20, Code of Iowa.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a part of the Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company Holding Company System as defined by Chapter 521A, Code of Iowa. Nationwide Mutual Insurance Company purchased, from a third party, a Guaranty Fund Certificate and Surplus Advance Certificate, issued by the Company on February 28, 1966 and August 13, 1968, respectively. Nationwide Mutual Insurance Company, as the Guaranty shareholder, shall be a member of the Company and is entitled to representation on the board of directors, not to exceed one-third of the membership of the board.

An organizational chart identifying Farmland Insurance Company and affiliated Iowa domestic companies, as they relate to the Holding Company System follows:

- Nationwide Mutual Insurance Company (NMIC) - OH
- Nationwide Agribusiness Insurance Company - IA
- ALLIED Group, Inc. - IA
- AMCO Insurance Company - IA
- 87.3% of Nationwide Advantage Mortgage Company
- Depositors Insurance Company - IA
- 4.23% of Nationwide Advantage Mortgage Company
- ALLIED Property and Casualty Insurance Company - IA
- 8.47% of Nationwide Advantage Mortgage Company
- Farmland Mutual Insurance Company - IA (via surplus note with NMIC)

COST SHARING AGREEMENT

The Company, along with multiple named affiliates including the ultimate Parent, NMIC, participates in a cost sharing agreement whereby each party desires to have each other perform certain operation and administrative services on behalf of one another. The allocation of expenses shall be based on standard allocation techniques and procedures acceptable under general cost account techniques and procedures that shall be in conformity with N.A.I.C. statutory accounting principles.

TERRITORY AND PLAN OF OPERATION

The Company operates under the Nationwide Agribusiness brand with the business focus on the needs of the American agriculture sector. The Company is currently licensed in the following jurisdictions:

| | | |
|----------------------|----------------|----------------|
| Alabama | Kansas | Oklahoma |
| Arizona | Kentucky | Oregon |
| Arkansas | Maryland | Pennsylvania |
| California | Michigan | South Carolina |
| Colorado | Minnesota | South Dakota |
| Delaware | Mississippi | Tennessee |
| District of Columbia | Missouri | Texas |
| Florida | Montana | Utah |
| Georgia | Nebraska | Virginia |
| Idaho | Nevada | Washington |
| Illinois | North Carolina | West Virginia |
| Indiana | North Dakota | Wisconsin |
| Iowa | Ohio | Wyoming |

The Company is licensed to conduct business in 39 states with premium concentration in the central and western regions. The top four states in which the Company writes direct business are Iowa, Minnesota, Nebraska, and Texas. The Company's major lines of business are commercial multiple peril, workers' compensation, and commercial auto coverage - generally related to agricultural operations.

Commercial business is produced through 19 licensed, salaried employees, approximately 161 independent producer/agencies and 21 brokers nationwide. Farm and ranch business is produced through 2,081 exclusive producers and 7,379 independent producers.

The Company participates in a one-hundred percent intercompany reinsurance pooling agreement with the ultimate parent, Nationwide Mutual Insurance Company.

COMPLAINT HANDLING

The Company has written processes, issues and best practices for complaint handling procedures. Written and/or oral complaints received by the Company are administered by the Office of Customer Advocacy. The Company maintains complaint records in accordance with Iowa Administrative Code 191-15.13 (507B).

MARKETING AND SALES

The Company's advertising materials are managed through a dedicated marketing group with compliance/legal review procedures in place. Nationwide Agribusiness utilizes various forms of marketing campaigns directed towards producers and policyholders. Nationwide Agribusiness maintains a website at: www.nationwide.com/agribusiness.

POLICYHOLDER SERVICES

The Company provides policyholder services through service representatives in account management and maintains customer call centers in Des Moines, Gainesville and San Antonio. Policyholders can also access policy, billing and claim information through a secured online account.

UNDERWRITING EXPERIENCE

Direct underwriting experience, as taken from data filed with the N.A.I.C. for each of the years, is as follows:

| <u>Classification</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|------------------------------|---------------------|---------------------|---------------------|
| Premiums earned | <u>\$85,860,839</u> | <u>\$76,631,709</u> | <u>\$76,054,562</u> |
| <u>Incurred deductions</u> | | | |
| Losses incurred | \$17,406,827 | \$53,668,583 | \$30,272,910 |
| Defense and cost containment | 507,849 | 1,997,765 | 803,758 |
| Adjusting and other expenses | 2,945,000 | 3,411,000 | 4,446,000 |
| Commission and brokerage | 8,506,294 | 7,507,048 | 7,260,830 |
| Taxes, licenses and fees | 1,619,643 | 2,061,223 | 2,244,295 |
| Other acquisition expenses | 5,854,000 | 4,129,000 | 5,660,000 |
| General expenses incurred | <u>2,719,000</u> | <u>1,877,000</u> | <u>3,711,000</u> |
| Total deductions | <u>\$39,558,613</u> | <u>\$74,651,619</u> | <u>\$54,398,793</u> |
| Underwriting gain (loss) | <u>\$46,302,226</u> | <u>\$ 1,980,090</u> | <u>\$21,655,769</u> |

| <u>Classification</u> | <u>2010</u> | <u>2011</u> | <u>Total</u> |
|------------------------------|----------------------|----------------------|----------------------|
| Premiums earned | <u>\$85,588,616</u> | <u>\$109,251,614</u> | <u>\$433,387,340</u> |
| <u>Incurred deductions</u> | | | |
| Losses incurred | \$59,928,745 | \$ 61,415,795 | \$222,692,860 |
| Defense and cost containment | 1,225,290 | 1,464,280 | 5,998,942 |
| Adjusting and other expenses | 6,596,000 | 6,536,000 | 23,934,000 |
| Commission and brokerage | 9,556,560 | 12,881,370 | 45,712,102 |
| Taxes, licenses and fees | 2,524,363 | 2,731,535 | 11,181,059 |
| Other acquisition expenses | 7,845,000 | 9,714,000 | 33,202,000 |
| General expenses incurred | <u>4,972,000</u> | <u>6,654,000</u> | <u>19,933,000</u> |
| Total deductions | <u>\$92,647,958</u> | <u>\$101,396,980</u> | <u>\$362,653,963</u> |
| Underwriting gain (loss) | <u>\$(7,059,342)</u> | <u>\$ 7,854,634</u> | <u>\$ 70,733,377</u> |

Expressed in the ratio of incurred deductions to premiums earned the percentages are:

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Average</u> |
|------------------------------|--------------|--------------|--------------|---------------|--------------|----------------|
| <u>Incurred deductions</u> | | | | | | |
| Losses incurred | 20.3% | 70.0% | 39.8% | 70.0% | 56.2% | 51.4% |
| Defense and cost containment | 0.6 | 2.6 | 1.1 | 1.4 | 1.3 | 1.4 |
| Adjusting and other expenses | 3.4 | 4.5 | 5.8 | 7.7 | 6.0 | 5.5 |
| Commission and brokerage | 9.9 | 9.8 | 9.5 | 11.2 | 11.8 | 10.5 |
| Taxes, licenses and fees | 1.9 | 2.7 | 3.0 | 2.9 | 2.5 | 2.6 |
| Other acquisition expenses | 6.8 | 5.4 | 7.4 | 9.2 | 8.9 | 7.7 |
| General expenses incurred | <u>3.2</u> | <u>2.4</u> | <u>4.9</u> | <u>5.8</u> | <u>6.1</u> | <u>4.6</u> |
| Total deductions | <u>46.1%</u> | <u>97.4%</u> | <u>71.5%</u> | <u>108.2%</u> | <u>92.8%</u> | <u>83.7%</u> |
| Underwriting gain (loss) | <u>53.9%</u> | <u>2.6%</u> | <u>28.5%</u> | <u>-8.2%</u> | <u>7.2%</u> | <u>16.3%</u> |

DIRECT UNDERWRITING EXPERIENCE BY STATE

| State | Five-Year Average Earned Premium | Five-Year Operating Ratio | 2011 Earned Premium | 2011 Operating Ratio |
|----------------------|--|---------------------------------|---------------------------|----------------------------|
| Alabama | \$ 2,072,565 | 97.8% | \$ 3,210,555 | 79.29% |
| Arizona | 290,437 | 63.7 | 434,912 | 102.15 |
| Arkansas | 1,825,059 | 92.7 | 2,218,341 | 176.9 |
| California | 652,292 | 128.3 | 1,612,386 | 113.4 |
| Colorado | 1,294,750 | 103.3 | 2,024,241 | 41.1 |
| Delaware | 5,393 | 46.8 | 12,248 | 54.8 |
| District of Columbia | 724 | 167.5 | 1,233 | 111.1 |
| Florida | 342,123 | 48.5 | 652,018 | 55.0 |
| Georgia | 2,436,441 | 51.4 | 2,669,099 | 58.9 |
| Idaho | 1,773,178 | 65.6 | 1,315,760 | 37.5 |
| Illinois | 4,682,281 | 79.7 | 5,357,505 | 85.7 |
| Indiana | 2,541,880 | 79.7 | 4,170,165 | 73.2 |
| Iowa | 9,276,519 | 128.4 | 11,938,288 | 111.0 |
| Kansas | 6,391,637 | 63.9 | 6,322,671 | 70.8 |
| Kentucky | 1,490,684 | 80.7 | 2,880,061 | 101.8 |
| Maryland | 44,263 | 94.8 | 77,160 | 50.3 |
| Michigan | 955,690 | 53.2 | 1,328,889 | 21.9 |
| Minnesota | 6,955,095 | 80.2 | 9,360,105 | 116.1 |
| Mississippi | 1,208,962 | 84.5 | 1,732,028 | 73.6 |
| Missouri | 2,981,673 | 74.3 | 3,027,639 | 89.9 |
| Montana | 1,302,203 | 69.1 | 887,515 | 14.0 |
| Nebraska | 5,659,549 | 77.8 | 8,029,878 | 79.3 |
| Nevada | 74,850 | 176.7 | 87,122 | 61.0 |
| North Carolina | 2,136,088 | 75.3 | 1,190,926 | 62.5 |
| North Dakota | 4,332,926 | 65.1 | 5,240,545 | 82.3 |
| Ohio | 2,288,188 | 70.6 | 3,560,949 | 68.6 |
| Oklahoma | 2,237,557 | 57.1 | 2,766,755 | 75.9 |
| Oregon | 846,206 | 82.8 | 623,532 | (38.4) |
| Pennsylvania | 1,182,431 | 136.5 | 3,735,420 | 105.2 |
| South Carolina | 408,895 | 195.9 | 600,864 | 533.9 |
| South Dakota | 3,240,448 | 57.8 | 3,541,193 | 72.3 |
| Tennessee | 1,646,562 | 111.8 | 2,571,315 | 108.5 |
| Texas | 6,555,148 | 83.1 | 8,458,259 | 68.9 |
| Utah | 1,070,755 | 72.5 | 1,232,290 | 79.5 |
| Virginia | 375,495 | 26.0 | 376,407 | 47.3 |
| Washington | 3,291,383 | 75.9 | 2,486,915 | 149.4 |
| West Virginia | 19,615 | 34.6 | 45,468 | 45.0 |
| Wisconsin | 1,629,924 | 138.9 | 2,449,907 | 235.1 |
| Wyoming | 1,157,602 | 74.4 | 1,021,050 | 99.4 |
| Direct Total | <u>\$86,677,471</u> | <u>83.7%</u> | <u>\$109,251,614</u> | <u>92.8%</u> |

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, Bob Wong, CFE, Randy Guzman and Alex Matovu, Examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

VIRGINIA WEST, CFE
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Insurance Division
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