

EXAMINATION REPORT OF  
WESTERN AGRICULTURAL INSURANCE COMPANY  
WEST DES MOINES, IOWA  
AS OF DECEMBER 31, 2021

West Des Moines, Iowa  
April 4, 2023

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the records, business affairs and financial condition of

WESTERN AGRICULTURAL INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2021

at its Home Office, 5400 University Avenue, West Des Moines, Iowa.

INTRODUCTION

Western Agricultural Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2017. The examination reported herein was conducted as an examination of an insurance holding company group by the contracting firm, Risk & Regulatory Consulting, LLC, and examiners of the Iowa Insurance Division. The Company’s parent, Farm Bureau Property & Casualty Insurance Company (FBPCIC), and affiliates, Farm Bureau Life Insurance Company (FBLIC), Greenfields Life Insurance Company (GLIC), were also examined as part of the holding company group, with a separate examination report prepared for each entity.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2018, to the close of business on December 31, 2021, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

## HISTORY

The Company was organized and incorporated as a stock casualty insurance company under the laws of the State of Arizona on October 15, 1971.

1996 - The Company became a part of an insurance holding company system upon consolidation of Farm Bureau Life Insurance Company (domiciled in Iowa) and Western Farm Bureau Life Insurance Company (domiciled in Colorado) under FBL Financial Group, Inc. (FBL)

2005 - The stockholders approved the recommendation to change the domiciled state from Arizona to Iowa. The Articles of Incorporation were amended to reflect the re-domestication and were approved by the Iowa Insurance Commissioner on December 13, 2005.

2010 - Farm Bureau Property & Casualty Insurance Company, a stock insurance company, was created as a result of the conversion of Farm Bureau Mutual Insurance Company to a mutual holding company system. At the same time, an intermediate holding company named Farm Bureau Multi-State Services, Inc. was formed and currently owns all the outstanding shares of FBPCIC, the Company's parent.

2020 – FBPCIC purchased the minority shares of the Company, which totaled .08% of the common stock. 100% of the Company's outstanding common stock is now owned by FBPCIC.

## CAPITAL STOCK AND DIVIDENDS THEREON

The Company has Class A voting common stock. There are 3,000,000 shares of authorized voting stock, with 1,404,325 shares issued and outstanding, with a par value of \$2 per share. The Company reported common capital stock of \$2,808,650 as of December 31, 2021.

On March 29, 2021, the Company received a capital contribution of \$2.7 million from FBPCIC.

In 2020, the Board of Directors and the Iowa Insurance Division approved the payment of an extraordinary dividend by the Company to its sole shareholder, FBPCIC, in the amount of \$138.3 million paid by transfer of investments held by the Company to FBPCIC.

The Company paid the following dividends to its parent, FBPCIC, during the examination period:

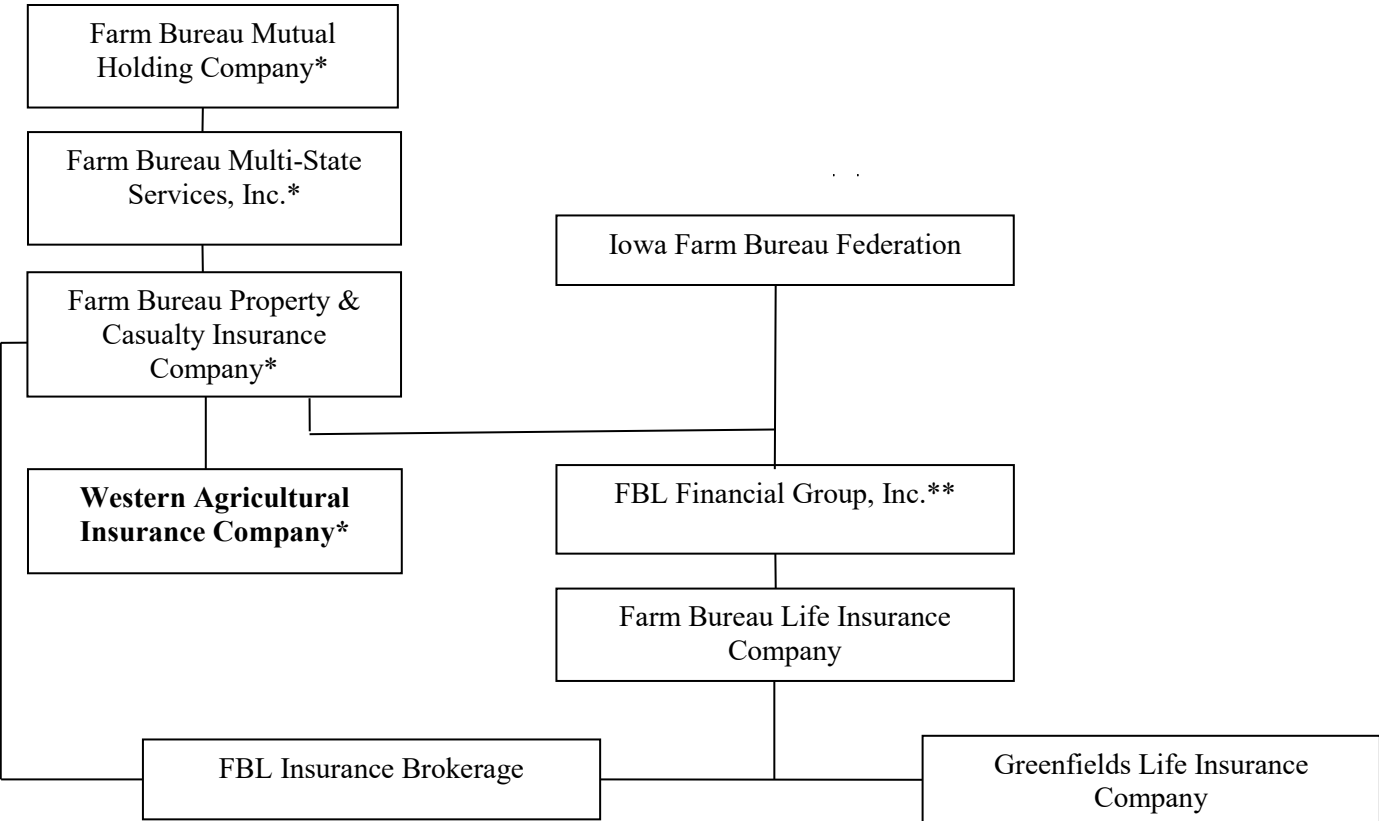
2018 - \$0  
2019 - \$0  
2020 - \$138,329,986  
2021 - \$0

## INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company and its parent, FBPCIC, are managed by FBL Financial Group, Inc., under a management services agreement.

The appropriate forms, as mandated under the Iowa Code regarding insurance company holding systems, were filed for each year under review.

An organizational chart identifying the insurance companies within the Holding Company System is as follows:



\*Managed by FBL Financial Group, Inc. through management services agreement

\*\*The Iowa Farm Bureau Federation owns seventy-two percent (72%) of the total voting interest stock of FBL Financial Group, Inc., and FBPCIC owns twenty-eight percent (28%) of the total voting interest stock of FBL Financial Group, Inc.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of the shareholders shall be held annually at the Farm Bureau Building, 5400 University Avenue, West Des Moines, Polk County, Iowa, on the second Tuesday in June at 10:00 a.m. or at such other date and time as determined by the Board of Directors. At such annual meeting, the shareholders of the Company shall elect the Board of Directors and the shareholders shall transact such other business as shall properly come before them. A majority of the shares issued and outstanding represented either in person or by proxy shall constitute a quorum for the transaction of business. Each shareholder shall be entitled to one (1) vote for each share of stock standing in his, her or its name on the books of the corporation, whether represented in person or by proxy.

Special meetings of the shareholders may be called by the Chairman and shall be called upon written request of a majority of the Board of Directors or upon written request of holders of one-fourth (1/4) of the shares. Not less than twenty (20) days' written notice all such special meetings shall be given to each member at the last known address of such shareholder.

## BOARD OF DIRECTORS

The By-Laws stipulate that the business and affairs of the Company shall be managed by a Board of Directors of not less than five (5) or more than twenty-one (21) Directors, the specific number of which to be set from time to time, by resolution, of the Board of Directors. Only individuals seated as directors of Farm Bureau Mutual Holding Company may be directors of this Company.

The regular annual meeting of the Board of Directors shall be held upon adjournment of the annual meeting of the shareholders. Other regular meetings shall be held on call of the Chairman.

Special meetings of the Board of Directors may be called by the Chairman and shall be called by the Chairman, at the request of a majority of the directors, at and on such time and date as the Chairman shall determine.

The members of the Board of Directors, as reflected on the December 31, 2021, Annual Statement, are as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term</u>
Wesley K. Austen Ankeny, IA	Retired Insurance Executive	2022
Richard W. Felts Liberty, KS	Grain and Livestock Producer	2022
Ron B. Gibson Ogden, UT	Dairy Businessman	2022
Jeffery A. Grossenbacher Bern, KS	Self Employed Farmer	2022
Joe D. Heinrich Maquoketa, IA	Farmer	2022
Donald K. Kemp Urbandale, IA	Self Employed	2022
Mark A. McHargue Marquette, NE	Farmer	2022
Craig W. Ogden Loving, NM	Farmer/Rancher	2022
James D. Sipes Manter, KS	Farmer	2022
Stefanie A. Smallhouse Benson, AZ	Farm/Rancher	2022
Scott E. VanderWal Volga, SD	Agricultural Production	2022
Sherry A. Vinton Whitman, NE	Rancher	2022

## COMMITTEES

The Board of Directors may from time to time appoint such committees, with such name or names as it may determine. The appointment of any such committee and the delegation thereto of authority shall not relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors not otherwise delegated to other committees and except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee, except such powers as shall, from time to time, have been expressly invested and delegated by the Board of Directors in other committee or committees, and except also that it shall not have the authority of the Board of Directors in reference to amending the Articles of Incorporation, adopting a plan of merger or consolidation, to appoint or remove Executive Officers, or amending the By-Laws of the Company, to authorize shareholder dividends or other distributions, to approve or propose to shareholders action that Iowa law requires to be approved by shareholders. The individual members of the Executive Committee must be either a member of the Board of Directors or an officer of this Company. All other Committees shall, when the Board of Directors is not in session, perform the duties and exercise the powers delegated to it in the resolution designating and constituting the same.

The Investment Committee shall have the duty and the power to authorize and direct the mode, manner, and time of making and calling in investments, and the sale or transfer of investments and the reinvestment of the proceeds thereof, and to examine all funds and securities as often as they deem necessary or when required to do so by the Board of Directors. The Investments Committee shall have the duty and authority from time to time and whenever necessary to authorize the execution of all contracts, deed, conveyances, and any other instruments of the Company necessary for the assignment, transfer, and sale of investments of the Company requiring corporate signature.

The Board of Directors shall appoint an Audit and Budget committee consisting of any number of members of the Board of Directors as it may designate, consistent with the Articles of Incorporation, the By-Laws, and the laws of Iowa. The Audit-Budget committee shall select and engage on behalf of the Company, and fix the compensation of, a firm of certified public accountants whose duty it shall be to audit the books and accounts of the Company and its subsidiaries of the fiscal year in which they are appointed, and who shall report to such committee. The committee shall confer with the auditors and shall determine, and from time to time shall report to the Board of Directors upon, the scope of the auditing of the books and accounts of the Company and its subsidiaries. The committee shall also be responsible for determining that the business practices and conduct of employees and other representatives of the Company and its subsidiaries comply with the policies and procedures of the Company. None of the members of the audit committee shall be officers or employees of the Company. The committee shall review the annual budget of the Company, as recommended by management, and approve with such modifications as this committee deems appropriate. The committee may additionally meet at such times as it deems appropriate to review the company's operational performance and compliance with the annual budget.

Joint Executive, Audit & Budget, Investment, and Nominating and Corporate Governance Committees were established with its parent, Farm Bureau Property & Casualty Insurance Company.

The committees and their membership as of December 31, 2021, are as follows:

Audit & Budget Committee

Scott E. VanderWal, Chair  
Ron B. Gibson  
Jeffery A. Grossenbacher  
Donald K. Kemp  
Mark A. McHargue

Investment Committee

Jeffrey A. Whitehead, Chair  
Daniel D. Pitcher  
Donald J. Seibel  
Kelli A. Eddy  
Jay W. Seiboldt

Executive Committee

Richard W. Felts, Chair  
Mark A. McHargue  
Daniel D. Pitcher

Nominating & Corporate Governance Committee

Wesley K. Austen, Chair  
Craig W. Ogden  
Stefanie A. Smallhouse  
Sherry A. Vinton

OFFICERS

The executive officers of the Company shall be a Chairman, a Vice Chairman, a Chief Executive Officer, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Any two offices may be held by the same person, except for the offices of President and Secretary. The Board of Directors may elect or appoint any other officers as it may deem necessary.

The By-Laws provide that the officers of the Company shall be elected annually by the Board of Directors at its regular annual meeting. The term of office of the Chairman, the Vice Chairman, the Chief Executive Officer, the Secretary, and the Treasurer shall be for one (1) year, or until their successors are elected and qualified. The term of office of all other elected or appointed officers shall be at the will and pleasure of the Board of Directors or until an officer has resigned or been removed in the manner hereinafter provided.

Any officer or agent may be removed, with or without cause, by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

The officers appointed and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Richard W. Felts	Chairman
Mark A. McHargue	Vice Chairman
Daniel D. Pitcher	Chief Executive Officer
Donald J. Seibel	Chief Financial Officer, Treasurer
Martin J. Schwager	Senior Vice President, Secretary
Jeffrey A. Whitehead	Chief Investment Officer
Sanjeev K. Singh	Chief Information Officer
Jay W. Seiboldt	Chief Operating Officer - Property & Casualty
Kelli A. Eddy	Vice President – Property & Casualty
Daniel M. Koster	Vice President, Marketing and Agency Services
Ronald L. Mead	Vice President, Sales and Distribution
Lori K. Gadelmann	Vice President & Assistant Secretary

The total 2021 compensation of those officers listed in the Compensation Exhibit of the Annual Statement is shown in Exhibit A to be found immediately following the signature page of this report.

## CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation of its officers or directors, which is in conflict with their official duties. The disclosures were found to be signed annually with any possible conflicts disclosed to the Company's Board of Directors.

## CORPORATE RECORDS

There Articles of Incorporation were amended July 21, 2020, to restate Section 1 of Article IV, which covers Common Stock and now state in part that the Company will have authority to issue 3,000,000 shares of common stock with a par value of \$2.

The Bylaws were amended on November 12, 2018, to restate Section 12 of Article VI. COMMITTEES, which covers the Investment Committee of the Board of Directors and now states in part that the Board of Directors shall designate a chairman among individuals appointed (to the Investment Committee).

The recorded minutes of the meetings of the Shareholders, Directors, and Committees of the Board of Directors were read and noted. The minutes appeared to be complete and were found to be properly attested.

The Examination Report prepared by the Iowa Insurance Division, as of December 31, 2017, was accepted as presented at the Audit & Budget Committee of the Board of Directors meeting held on November 18, 2019.

## INTERCOMPANY AGREEMENTS

### Management Service Agreement

The Company entered into a Management Service Agreement with FBL Financial Group, Inc. The agreement provides general business, administration, and management services to the Company. The fee is fixed amount set annually. In addition, Farm Bureau Management Corporation, a wholly owned subsidiary of the Iowa Farm Bureau Federation, provides certain management services to the Company under a separate arrangement with FBL Financial Group, Inc., which automatically renews each year on July 1, unless canceled by either party. The management contracts indicate that FBL Financial Group, Inc. provides the following services: personnel management, risk management, data processing, regulation and licensing compliance, underwriting, claims processing, legal services, actuarial services, policyholder relations, marketing, investment, financial and accounting services. These contracts are subject to such terms, conditions, and performance measures, if any, as approved annually by the Company's Board of Directors.

### Investment Advisory Services Agreement

The Company entered into an Investment Advisory Services Agreement with FBL Financial Services, Inc. a subsidiary of FBL Financial Group, Inc. The agreement provides for investment research and advice; management of the investment and reinvestment of securities, bonds and like instruments; and related accounting services. The compensation for services rendered is determined in accordance with a fee schedule based upon the assets held in the Company's portfolio. Effective January 1, 2022, FBL Financial Services, Inc. was dissolved, and investment expenses are allocated directly as provided under the management contract with FBL Financial Group, Inc.

### Consolidated Tax Allocation Agreement

The Company and FBPCIC, entered into a Consolidated Tax Allocation Agreement with Farm Bureau Mutual Holding Company and Farm Bureau Multi-State Services, Inc. The agreement provides the method of tax allocation between companies is subject to a written agreement approved by the Company's Board of Directors. Allocation is based upon separate return calculations with current credit provided for net losses utilized.



### Expense Allocation Agreement

The Company entered into an Expense Allocation Agreement with FBL Financial Group, Inc., and its affiliates. The agreement provides that the Company owns or leases certain items of personal property which are made available for use by affiliates and the Company, and its affiliates are allocated a share of expenses based on cost and time studies that are updated annually.

### Leasing Service Agreement

The Company entered into a Leasing Service Agreement with FBL Leasing Services, Inc., an indirect subsidiary of FBL Financial Group, Inc. The agreement provides leasing arrangements for equipment, including but not limited to furniture, computers, software, and communications equipment. The lessees pay FBL Leasing Services, Inc. monthly rent equal to the depreciation for software and equipment, plus a financing fee and sales tax when applicable.

### Casualty Company Service Agreement

The Company and FBPCIC entered into a Casualty Company Services Agreement with FBLIC. The agreement provides that the Company be responsible for development and management of the FBLIC's agency force for a fee based on production.

### Reciprocal Line of Credit Agreement

The Company entered into a Reciprocal Line of Credit Agreement with FBPCIC. The agreement allows for either company to borrow from the other in the form of a short-term note not to exceed \$10 million with interest equal to the three-month LIBOR. No loans were outstanding related to this agreement.

### Royalty Agreements

The Company is licensed with Farm Bureau organizations in states in its market territory to use "Farm Bureau" and "FB" designations. American Farm Bureau Federation is the owner of the Farm Bureau and FB designations and related trademarks and service marks including the "FB design" which has been registered as a service mark with the U.S. Patent and Trademark Office. Under the state membership agreements between the American Farm Bureau Federation and state Farm Bureau federations, use of such trade names and marks in each state is restricted to members of the state federation and their approved affiliates. The Company is licensed with Farm Bureau organizations to use the "Farm Bureau" and "FB" designations in the states of Iowa, Minnesota, Nebraska, Kansas, South Dakota, Utah, Arizona, and New Mexico.

## FIDELITY BOND AND OTHER INSURANCE

The Company and its affiliates are insured by umbrella liability insurance policies with aggregate limits of liability of \$50 million; private company directors and officers and employment practices insurance policies with aggregate limits of \$50 million; and fiduciary liability insurance policy with coverage limits of \$10 million, which meets the NAIC's suggested minimum amount of coverage.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

## EMPLOYEE WELFARE

FBL Financial Group, Inc. sponsors or participates in multiple benefit plans, including a multiemployer defined plan, a defined contribution plan and postretirement benefit plans. All employees are direct employees of FBL Financial Group, Inc. and related plan expenses are allocated to the Company, affiliates, and unaffiliated organization. The Company has no direct legal obligation for benefits under these plans.

The multiemployer defined benefit plan (the Plan) covers substantially all employees of the group who had attained age 21 and were employed prior to January 1, 2013. Benefits are based on years of service and employees' compensation. Those participants who had not attained age 40 and ten years of service as of January 1, 2013, no longer accrue additional years or service in the plan. Net periodic pension cost of the plan is allocated between participants generally on a basis of time incurred by the respective employees for each company.

In addition to the Plan discussed above, FBL Financial Group, Inc. also sponsors a nonqualified plan, FBL Financial Group Supplemental Retirement Plan (the Supplemental Plan) that mirrors the Plan. Benefits are based on the portion of participant compensation that exceeds the qualified plan IRS compensation limits. The Supplemental Plan is unfunded. The expense of the Supplemental Plan, similar to the Plan, is based on the allocation of FBL employees' allocation of time to the Company.

The 401(k) defined contribution plan covers substantially all employees of the group and includes matching contributions. Costs are allocated among the affiliates on basis of time incurred by the respective employees for each company. New employees and current employees who had not attained age 40 and ten years of service as of January 1, 2013, and who are employed on December 31 are eligible to receive a discretionary company contribution.

The Company and its affiliates sponsor a plan that provides group term life insurance benefits to retirees who worked full-time for ten years and attained age 55 while in service. This benefit was no longer offered effective December 31, 2016, such that no new participants will enter the plan. The Company has also established deferred compensation plans for certain key current and former employees of the group and have certain other benefit plans which provide for retirement and other benefits.

The Company and its affiliates also offer Cafeteria Plan benefit structure to employees with core benefits, cafeteria optional benefits, and other benefits.

## REINSURANCE

### INTERCOMPANY POOLING

The Company is a participant in an intercompany pooling arrangement with FBPCIC, which was amended effective January 1, 2020. The participant's pooled percentages were 100% for FBPCIC and 0% for the Company, as of December 31, 2021.

The agreement provides that the Company cede to FBPCIC all its insurance business and assumes back from FBPCIC an amount equal to its participation in the agreement. Also, losses, loss adjustment expenses, and other underwriting and administrative expenses are prorated among the participants based on their participation in the agreement. All participants are named insureds on the various property and liability reinsurance agreements maintained with non-affiliated reinsurers that cover business subject to the pooling agreement, except for the 100% crop and livestock quota share agreements with Ace American Insurance Company, which is only in the name of the Company, and crop stop loss agreements with non-affiliated reinsurers, which is only in the name of FBPCIC. Cessions to non-affiliated reinsurers occur prior to the cession of pooled business to FBPCIC, as the lead company.

The agreement also included a commutation of the Company's 8% pooled liability for 2019 and prior accident years to FBPCIC which results in the transfer of all the Company's insurance risk to FBPCIC totaling \$102.7 million, as well as transfer of the Company's assets to support the risks assumed by FBPCIC. Given FBPCIC's sole owner ownership of the Company, the transaction does not leave either company in any better position than the other, based upon risks assumed and capital maintained, in comparison to each of the company's positions prior to the transaction.

Amounts due under the reinsurance pooling agreement between the companies are settled quarterly except for those balances related to crop insurance, which are settled annually after the related annual settlement has occurred with Ace

American Insurance Company. Ceded premium from intercompany pooling reported for 2021 totaled \$180,639,000.

#### ASSUMED

The Company participates in various mandatory/voluntary pools and associations. Assumed premium from pools and associations reported for 2021 totaled \$715,000.

#### CEDED

The Company and FBPCIC are named insureds on all reinsurance treaties except for the crop hail and multi-peril crop insurance stop loss contracts. Ceded reinsurance is primarily with authorized reinsurers. Ceded unaffiliated premium reported for 2021 totaled \$193,002,000. A summary of the ceded reinsurance program is as follows:

#### Crop Hail and Multiple Peril Crop Insurance (MPCI) Quota Share Reinsurance Agreement

Premium for crop hail and multi-peril crop insurance lines of business are written by the Company and are ceded 100% to ACE American Insurance Company (ACE). Rain & Hail L.L.C., as the Managing General Agent administers all the business, which is subject to the Federal Crop Insurance Corporation Standard Reinsurance Agreement. FBPCIC assumes from ACE, a flat \$10 million of crop hail, and an amount of the nationwide MPCI net retained book premium equal to 50% of the gross premium written by the Company. Ceded premiums to ACE reported for 2021 totaled \$176,745,000.

#### Property Per Risk Excess of Loss

Covers loss or losses classified by the Company as property risks, including but not limited to those provided under the property sections of homeowners multiple peril policies, farmowners multiple peril policies, and commercial multiple peril policies, automobile physical damage, and earthquake.

#### Exhibit A - First Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$1,000,000 each risk. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$1,000,000 each risk. The limit of liability to the reinsurers will not exceed \$1,000,000 each risk, subject to a loss occurrence limitation of \$3,000,000. Should any loss involve this reinsurance, the obligation of the reinsurers will be reinstated immediately and automatically as to any subsequent loss for the full amount of reinsurance as set forth above. Notwithstanding the foregoing, prior to any recovery under this first layer during the term of this contract, the Company will first retain 100% of ultimate net loss otherwise recoverable hereunder until an annual aggregate deductible of \$2,500,000 has been satisfied.

#### Exhibit B - Second Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$2,000,000 each risk. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$2,000,000 each risk. The limit of liability to the reinsurers will not exceed \$8,000,000 each risk, subject to a loss occurrence limitation of \$16,000,000.

#### Property Per Risk Automatic Facultative Excess of Loss

Covers loss or losses classified by the Company as property risks, including but not limited to those provided under the property sections of homeowners multiple peril policies, farmowners multiple peril policies, and commercial multiple peril policies, automobile physical damage, and earthquake.

- A. No claim will be made hereunder unless the Company has first sustained a combined loss and loss adjustment expense of \$10,000,000 each risk. The reinsurer will then indemnify the Company for the amount of loss in excess

of \$10,000,000. The limit of liability to the reinsurer will not exceed the lesser of the following:

1. The amount ceded, per the bordereau prepared by or on behalf of the Company as per the provisions of the Reports and Remittances Article, plus loss adjustment expense, plus actual loss sustained for any automobile physical damage exposure up to \$1,500,000 (unless a special acceptance for any automobile physical damage exposure greater than \$1,500,000 has been granted under the Special Acceptances Article and ceded per the bordereau), each loss, each risk; or
2. \$35,000,000 each loss, each risk.

It is also understood and agreed that the limit of liability to the reinsurer will not exceed \$52,500,000 each loss occurrence. Should any loss involve this reinsurance, the obligation of the reinsurers will be reinstated immediately and automatically as to any subsequent loss for the full amount of reinsurance as set forth above.

- B. The limit of liability to the reinsurer will not exceed \$20,000,000 with respect to all losses and loss adjustment expense arising out of earthquake (as defined in the Company's policies) under this contract.

Property Catastrophe Occurrence

Covers loss or losses classified by the Company as property risks, including but not limited to those provided under the property sections of homeowners multiple peril policies, farmowners multiple peril policies, and commercial multiple peril policies, and automobile physical damage.

No claim will be made hereunder unless the Company has first sustained an ultimate net loss equal to the first amount of ultimate net loss, shown as the Company's Retention, for that excess layer, arising out of each loss occurrence. The reinsurer will then be liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's applicable retention, but the reinsurer's liability under such excess layer will not exceed the amount shown as reinsurers per occurrence limit for that excess layer, as respects any one loss occurrence. Notwithstanding the foregoing, prior to any recovery under the first excess layer during the term of this contract, the Company will first retain 100% of ultimate net loss otherwise recoverable hereunder until an annual aggregate deductible of \$5,000,000 has been satisfied.

Schedule A

	<u>Company's Retention</u>	<u>Per Occurrence Limit</u>	<u>Reinsurer's Annual Limit</u>
First Excess:	\$ 70,000,000	\$ 30,000,000	\$ 60,000,000
Second Excess:	100,000,000	60,000,000	120,000,000
Third Excess:	160,000,000	170,000,000	340,000,000
Fourth Excess	330,000,000	95,000,000	190,000,000

Property Aggregate Catastrophe Excess of Loss

Covers loss or losses classified by the Company as property risks, including but not limited to those provided under the property sections of homeowners multiple peril policies, farmowners multiple peril policies, and commercial multiple peril policies, and automobile physical damage.

No claim will be made hereunder unless the Company's aggregate catastrophe losses equal \$190,000,000 of ultimate net loss. The reinsurer will then be liable for the amount by which such aggregate catastrophe losses exceeds the Company's applicable retention, but the reinsurer's liability will not exceed \$140,000,000.

### Workers Compensation Excess of Loss

Covers loss or losses classified by the Company as workers compensation and employers liability, including but not limited to losses arising from an act of terrorism.

#### Exhibit A – First Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$1,000,000 each occurrence. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$1,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$4,000,000 each occurrence. As respects any loss arising from communicable disease that is categorized as a pandemic by the World Health Organization and/or the U.S. Centers for Disease Control and Prevention, the reinsurer's liability will not exceed \$4,000,000 as respects all occurrences during the term of this contract.

#### Exhibit B – Second Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$5,000,000 each occurrence. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$5,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$5,000,000 each occurrence. As respects any loss arising from communicable disease that is categorized as a pandemic by the World Health Organization and/or the U.S. Centers for Disease Control and Prevention, the reinsurer's liability will not exceed \$5,000,000 as respects all occurrences during the term of this contract.

#### Exhibit C – Third Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$10,000,000 each occurrence. The Reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$10,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$10,000,000 each occurrence. As respects any loss arising from Communicable Disease that is categorized as a pandemic by the World Health Organization and/or the U.S. Centers for Disease Control and Prevention, the reinsurer's liability will not exceed \$10,000,000 as respects all occurrences during the term of this contract.

#### Exhibit D – Fourth Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$20,000,000 each Occurrence. The Reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$20,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$10,000,000 each occurrence. As respects any loss arising from Communicable Disease that is categorized as a pandemic by the World Health Organization and/or the U.S. Centers for Disease Control and Prevention, the reinsurer's liability will not exceed \$10,000,000 as respects all occurrences during the term of this contract.

#### Exhibit E – Fifth Layer

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$30,000,000 each occurrence. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$30,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$10,000,000 each occurrence. Notwithstanding the foregoing, the maximum contribution to ultimate net loss as respects any one person will be \$30,000,000, from the ground up, any one occurrence.

### Minnesota - Workers Compensation Reinsurance Association (WCRA)

This agreement reinsurers the members' Minnesota workers' compensation liability during the indicated coverage period for benefits pursuant to Minn. Stat. Ch. 176 in excess of the members' retention limit for the period. The Company's stated retention was \$1,000,000.

### Nuclear, Biological, Chemical and Radioactive Terrorism Excess Reinsurance Coverage

Covers nuclear, chemical, biological, and/or radioactive terrorism which may accrue to the Company under its policies in force at the effective date hereof or issued or renewed on or after that date and classified by the Company as property and workers compensation business.

No claim will be made hereunder unless the Company has first sustained an ultimate net loss of \$1,000,000 each occurrence. The reinsurers will then indemnify the Company for the amount of ultimate net loss in excess of \$1,000,000 each occurrence. The limit of liability to the reinsurers will not exceed \$25,000,000 each occurrence.

### Pollution Liability Quota Share

The Company will cede to the reinsurers, and the reinsurers will accept, a 70.0% quota share participation for all losses under policies classified by the Company as providing limited farm/ranch pollution coverage. However, the reinsurer's liability shall not exceed 70.0% of the following limits:

1. \$2,000,000 per policy, per occurrence
2. \$4,000,000 per policy, per occurrence
3. \$4,000,000 each occurrence

The reinsurer shall be liable for its proportionate share of loss adjustment expense (payable whether or not the Company has paid or has become liable to pay any loss under its policy), extra contractual obligations and/or excess limits liability in addition to its limit of liability under this contract as set forth above.

### Liability and Umbrella Excess of Loss

The reinsurer will reimburse the Company on an excess of loss basis for its share of the amount of ultimate net loss that the Company has paid as a result of loss events for the lines of businesses or business classed by the Company:

- Class Group I(a) (primary liability) including but not limited to:
  - i. automobile, including all coverages (other than physical damage to insured vehicles) that are written in compliance with no fault laws of any state or province and in compliance with the "Motor Carrier Act of 1980."
  - ii. general liability, including farmowners multiple peril (casualty provisions only); homeowners multiple peril (casualty provisions only); commercial multiple peril (casualty provisions only); other liability (except umbrella); liquor liability, when written in conjunction with general liability policies; employers' liability, including occupational disease, when written in conjunction with farm liability or general liability policies; employee benefits liability; fellow employee coverage; professional liability on all coverages permitted by exception to the malpractice exclusion

- Class Group I(b) (umbrella) including but not limited to:
  - i. This group covers the Company’s umbrella policies and endorsements included within any one of the following class groups:
    - a) personal;
    - b) farm and ranch; and
    - c) commercial

The Company shall retain the amount of ultimate net loss arising out of each loss event that does not exceed the retention. Reinsurer shall then be liable for the amount of ultimate net loss that exceeds the retention. Reinsurer’s liability shall never exceed the applicable limit of liability, which is layered. Retentions and limits of liability are as follows:

Retention	\$1,750,000
Maximum Policy Limits:	
Per occurrence BI/PD	\$2,000,000
Employers Liability	\$2,000,000
Umbrella	\$5,000,000
Ag Spraying Pollution	\$1,000,000
Animal Waste Liability	\$1,000,000
Communicable Disease	\$2,000,000 per loss event/\$4,000,000 for all loss events combined

Umbrella Quota Share

The reinsurer will reimburse the Company on a quota share basis for reinsurer’s reinsurance percentage of the amount of ultimate net loss that the Company has paid as a result of loss events involving any in force or new or renewal umbrella Policy issued by the Reinsured to a qualified risk.

The agreement covers the Company’s Umbrella Policies and endorsements that are included within any one of the following class groups:

1. Personal;
2. Farm and Ranch;
3. Commercial; and
4. Falls within the reinsurer’s Umbrella Underwriting Authority; and
5. Are protected by Minimum Underlying Limits and/or Self-Insured Retention

Reinsurer’s maximum liability including its aggregate limit under this agreement shall correspond to the reinsurance percentage of treaty capacity for each policy limit layer included under any class group as follows:

Class Group	Policy Limit Layer	Treaty Capacity	Reinsurance Percentage	Commission Percentage
Personal*	1	\$1,000,000	0%	0%
Personal*	2	\$1,000,000	0%	0%
Personal*	3	\$1,000,000	0%	0%
Personal*	4	\$1,000,000	0%	0%
Personal*	5	\$1,000,000	0%	0%
Personal	6	\$5,000,000	100.0%	22.5%
Personal	7	\$5,000,000	100.0%	22.5%
Personal	8	\$5,000,000	100.0%	22.5%

Farm & Ranch*	1	\$1,000,000	0%	0%
Farm & Ranch*	2	\$1,000,000	0%	0%
Farm & Ranch*	3	\$1,000,000	0%	0%
Farm & Ranch*	4	\$1,000,000	0%	0%
Farm & Ranch*	5	\$1,000,000	0%	0%
Farm & Ranch	6	\$5,000,000	100.0%	22.5%
Farm & Ranch	7	\$5,000,000	100.0%	22.5%
Farm & Ranch	8	\$5,000,000	100.0%	22.5%
Commercial*	1	\$1,000,000	0%	0%
Commercial*	2	\$1,000,000	0%	0%
Commercial*	3	\$1,000,000	0%	0%
Commercial*	4	\$1,000,000	0%	0%
Commercial*	5	\$1,000,000	0%	0%
Commercial	6	\$5,000,000	100.0%	22.5%
Commercial	7	\$5,000,000	100.0%	22.5%
Commercial	8	\$5,000,000	100.0%	22.5%

\*Reinsured under the liability and umbrella excess of loss reinsurance agreement between the reinsured and American Agricultural Insurance Company.

#### Cyber Coverage Quota Share

The Company shall reinsure with the reinsurer and the reinsurer shall accept as reinsurance from the Company all cyber coverage (i) written by the Company on the cyber coverage and/or data breach coverage form provided by the reinsurer to the Company, and (ii) underwritten in accordance with the Company's cyber coverage underwriting guidelines.

The reinsurer's liability under this agreement shall attach simultaneously with that of the Company on a quota share basis for the Company's ultimate net loss for all new and renewal cyber coverage policies issued by the Company and effective on or after the commencement date.

The Company shall contract with a vendor that provides data breach services on claims under the Company's cyber coverage policies reinsured under this agreement provided that the third-party data breach services provider and the contract terms between the Company and such third-party data breach services provider are acceptable to the reinsurer.

The Company shall cede under this agreement and the reinsurer shall accept as reinsurance a 100% quota share participation of the Company's ultimate net loss under each cyber coverage policy as respects the business covered under this agreement.

The Company shall retain net for its own account, and not subject to any other reinsurance, the remaining 0% quota share participation of its ultimate net loss under each cyber coverage policy as respects the business covered under this agreement.

The maximum cyber coverage policy limit shall not be an amount greater than \$1,000,000.

#### Equipment Breakdown Quota Share

The reinsurer obligates itself to accept as reinsurance of the Company and the Company obligates itself to cede to the reinsurer 100% of the Company's net retained liability, as herein defined, under:

- A. Equipment breakdown endorsements to commercial multi-peril insurance policies and equipment breakdown coverage sections, contracts and binders issued or renewed by the Company during the period this treaty remains in force;



- B. Equipment breakdown insurance policies written on risks of the type covered under the Company's commercial multi-peril program;
- C. Equipment breakdown endorsements, equipment breakdown coverage sections, contracts and binders issued or renewed by the Company to AgMax property program policies;
- D. Equipment breakdown endorsements, equipment breakdown coverage sections, contract and binders or renewed by the Company to Farm/Ranch policies;
- E. Equipment breakdown endorsements, equipment breakdown coverage sections, contracts and binders issued or renewed by the Company to homeowners policies including farm and ranch dwellings; and
- F. Other policies agreed to in writing between the Company and the reinsurer, such agreement to form an endorsement to this treaty.

As respects commercial and farmowners business, cessions by the Company under this treaty shall not exceed a limit of liability of \$100,000,000 on any one risk without prior written agreement of the reinsurer.

As respects homeowners business, cessions by the Company under this treaty shall not exceed a limit of liability of \$100,000 per occurrence per risk without prior written agreement of the reinsurer.

#### Employment Practices Liability Reinsurance Agreement

The Company obligates itself to cede to the reinsurer and the reinsurer obligates itself to accept as reinsurance 100% of the Company's liability for loss (including defense costs), under and EPL coverage form attached to new, renewal and in-force policies on or after the effective date of this agreement.

The reinsurer's liability for loss, excluding policies issued to insureds domiciled in New Mexico, shall not exceed \$250,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed \$250,000. For policies issued to insureds domiciled in New Mexico, the reinsurer's liability for loss, shall not exceed \$500,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed \$500,000.

The reinsurer shall have a maximum limit of \$1,000,000 for each wrongful employment act, subject to the annual aggregate limit in the Policy not to exceed \$1,000,000.

#### STATUTORY DEPOSIT

The book/adjusted carrying value of securities held in a custodial account and vested in the Iowa Commissioner of Insurance for the benefit of all policyholders, totaled \$2,024,997.

As of December 31, 2021, the book/adjusted carrying value of securities that were held as special deposits in the States of Arkansas, New Mexico, and Virginia totaled \$724,831.

#### TERRITORY AND PLAN OF OPERATION

The Company operates as an Iowa stock insurer to provide various types of property and casualty insurance coverage. The Company writes commercial agricultural (farmowners), and commercial automobile primarily in Midwest and Western states. Direct written premium in 2021 totaled \$373 million.

The Company is also a direct writer of multiple peril crop insurance (and other crop related lines) through Rain & Hail, LLC. The majority of this premium is written in Kansas, Iowa and Nebraska.

The Company is authorized to write business in the following jurisdictions:

Alabama	Michigan	Oklahoma
Arizona	Minnesota	South Carolina
Arkansas	Missouri	South Dakota
Colorado	Montana	Tennessee
Idaho	Nebraska	Texas
Illinois	Nevada	Utah
Indiana	New Mexico	Virginia
Iowa	North Dakota	Wisconsin
Kansas	Ohio	Wyoming

The bulk of direct premium writings in 2021 came from three states: Kansas, Iowa, and Nebraska constituting approximately 70% of total premium written.

#### GROWTH OF COMPANY

The following information was obtained from the office copies of the annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premium Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2018	\$ 230,565,306	\$ 125,299,124	\$ 109,564,176	\$ 60,527,645	\$ 6,270,746
2019	247,361,828	135,284,439	112,447,809	69,867,493	6,803,670
2020	14,764,424	7,001,983	-	-	2,367,379
2021	15,700,254	10,043,004	-	-	53,604

#### ACCOUNTS AND RECORDS

Trial balances were prepared for all years of the examination period. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement on December 31, 2021.

#### SUBSEQUENT EVENT

No subsequent events were noted during the examination.

FINANCIAL STATEMENTS  
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2021.

## STATEMENT OF ASSETS AND LIABILITIES

### ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 4,022,170	\$ -	\$ 4,022,170
Stocks:			
Common stocks	3,038,495	-	3,038,495
Cash and short-term investments	(1,902,668)	-	(1,902,668)
Receivable for securities	1,515,000	-	1,515,000
Investment income due and accrued	15,998	-	15,998
Premiums and considerations:			
Uncollected premiums in course of collection	308,064	-	308,064
Reinsurance:			
Amounts recoverable from reinsurers	1,357,597	-	1,357,597
Funds held with reinsured companies	40,243	-	40,243
Other amounts receivable	259,684	-	259,684
Current federal and foreign income tax recoverable	6,081	-	6,081
Guaranty funds receivable	29,374	-	29,374
Receivables from parent, subsidiaries, and affiliates	<u>7,010,216</u>	<u>-</u>	<u>7,010,216</u>
 Total assets	 <u>\$15,700,254</u>	 <u>\$ -</u>	 <u>\$15,700,254</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	114,850
Loss adjustment expenses	-
Other expenses	2,266
Taxes, licenses and fees	56,276
Net deferred tax liability	1,329,816
Ceded reinsurance premiums payable	3,576,657
Funds held by company under reinsurance treaties	123,000
Remittances and items not allocated	240,681
Deferred compensation	195,704
Other liabilities	18,000
 Total liabilities	 <u>\$ 5,657,250</u>
 Common Capital Stock	 \$ 2,808,650
Gross paid in and contributed surplus	6,184,704
Unassigned funds (surplus)	<u>1,049,650</u>
 Surplus as regards policyholders	 <u>\$ 10,043,004</u>
 Total liabilities and surplus	 <u>\$ 15,700,254</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ -
<u>Deductions</u>		
Losses incurred	\$ -	
Loss adjustment expenses incurred	-	
Other underwriting expenses incurred	-	
Total underwriting deductions	<u>-</u>	\$ -
Net underwriting gain (loss)		\$ -

Investment Income

Net investment income earned	\$ 53,604	
Net realized capital gains (losses)	<u>-</u>	
Net investment gain (loss)		\$ 53,604

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ -	
Finance and service charges not included in premiums	-	
Aggregate write-ins for miscellaneous income	<u>-</u>	
Total other income		<u>\$ -</u>
Net income before dividends to policyholders		\$ 53,604
Dividends to policyholders		<u>-</u>
Net income before federal income tax		\$ 53,604
Federal and foreign income taxes incurred		<u>223,760</u>
Net loss		<u>\$ (170,156)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2020	<u>\$ 7,001,983</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ (170,156)
Change in net unrealized capital gains or (losses)	283,578
Change in net deferred income tax	209,472
Change in non-admitted assets	38,592
Surplus adjustments:	
Paid in	2,679,535
Change in surplus as regards policyholders for the year	<u>\$ 3,041,021</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 10,043,004</u>

## CASH FLOW STATEMENT

### Cash from Operations

Premiums collected net of reinsurance	\$ 1,581,015	
Net investment income	59,111	
Miscellaneous income	<u>(128,520)</u>	
Total		\$ 1,511,606
Benefit and loss related payments	\$ (1,658,180)	
Commissions, expenses paid and aggregate write-ins	(42,626)	
Dividends to policyholders	-	
Federal income taxes (paid) recovered	<u>(3,853,753)</u>	
Total		<u>\$ (5,554,559)</u>
Net cash from operations		<u>\$ 7,066,165</u>

### Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 1,750,000	
Net gains or (losses) on cash and short-term investments	<u>(1,500,000)</u>	
Total investment proceeds		\$ 250,000
Cost of investments acquired (long-term only):		
Bonds	\$ <u>2,522,726</u>	
Total investments acquired		<u>\$ 2,522,726</u>
Net cash from investments		<u>\$ (2,272,726)</u>

### Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ <u>(10,341,418)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (10,341,418)</u>

### RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ (5,547,979)
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>3,645,311</u>
End of period		<u>\$ (1,902,668)</u>

CONCLUSION

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

In addition to the undersigned, Jan Moenck, CFE, Chris Rushford, CFE, CPA, Dave Heppen, FCAS, MAAA, Andrew Chandler, ACAS, MAAA, and Adam Janney of Risk & Regulatory Consulting, LLC; and Alex Matovu, Josh Pietan, and Mick Jepson; Examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Joshua J. Johnson  
Joshua J. Johnson, CFE  
Examiner in Charge  
Risk & Regulatory Consulting, LLC  
On behalf of the Iowa Insurance Division

/s/ Amanda Theisen  
Amanda Theisen, CFE  
Supervisor and Assistant Chief Examiner  
Iowa Insurance Division