

**BEFORE THE INSURANCE COMMISSIONER AND THE ATTORNEY GENERAL  
OF THE STATE OF IOWA**

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In the matter of the joint application )  
of FARMERS MUTUAL HAIL )  
INSURANCE COMPANY OF )  
IOWA and CENTRAL IOWA )  
MUTUAL INSURANCE )  
ASSOCIATION for the approval )  
of a plan to merge CENTRAL IOWA )  
MUTUAL INSURANCE )  
ASSOCIATION with and into )  
FARMERS MUTUAL HAIL )  
INSURANCE COMPANY )  
OF IOWA )

**FINDINGS OF FACT,  
CONCLUSIONS OF LAW  
AND ORDER**  
(Iowa Code sections 521.2 & 521.5)

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**I. INTRODUCTION**

Pursuant to Iowa Code sections 521.2 and 521.5 (2011), on March 3, 2011 the undersigned Commission heard an application for approval of a Plan of Merger between FARMERS MUTUAL HAIL INSURANCE COMPANY OF IOWA ("Farmers Mutual Hail") an Iowa domiciled insurance company organized under Iowa Code chapter 515 and CENTRAL IOWA MUTUAL INSURANCE ASSOCIATION ("Central Iowa Mutual"), an Iowa state mutual insurance association organized under Iowa Code chapter 518A. Both Farmers Mutual Hail and Central Iowa Mutual are licensees in good standing with the Iowa Insurance Division ("Division"), and have current financial statements on file with the Division.

If the merger is approved, Central Iowa Mutual will merge with and into Farmers Mutual Hail effective April 1, 2011. Upon completion of the merger, Farmers Mutual Hail will be the surviving corporation and continue its corporate existence under the laws of the state of Iowa under the name "Farmers Mutual Hail Insurance Company of Iowa".<sup>1</sup> On the effective date, the separate existence of Central Iowa Mutual shall cease.

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<sup>1</sup> This transaction will not result in a change of control of Farmers Mutual Hail Insurance Company of Iowa.

## II. JURISDICTION

The Commission has jurisdiction over this proceeding under Iowa Code sections 521.2, 521.3, 521.4, 521.5, and 521.8 (2011).

## III. EVIDENCE PRESENTED

In support of their joint application, the Applicants submitted the testimony of Ronald Rutledge, President and CEO of Farmers Mutual Hail and Patrick Faga, President and CEO of Central Iowa Mutual. Additionally, testimony from Ronald Kuethe, Vice President of Reinsurance for Farmers Mutual Hail and President of Farmers Union Co-Operative Insurance Company, Inc. was submitted.

Applicants also submitted a Plan of Merger, Farmers Mutual Hail's condensed statutory balance sheet, Central Iowa Mutual's condensed statutory balance sheet, the Member Information Statement, and the Affidavit of Lauren Olson, acting Secretary of Central Iowa Mutual, attesting that the members of Central Iowa Mutual approved the merger.

At the conclusion of testimony, the hearing was adjourned and the administrative record was held open for the limited purpose of submitting a confidentiality agreement from Farmers Mutual Hail. The administrative record formally closed upon receipt of the confidentiality agreement by the Division on March 3, 2011.

No one appeared at the hearing to oppose the application. All evidence was admitted without objection and is part of the record considered by the Commission in issuing the following findings, conclusions, and order.

## IV. FINDINGS OF FACT

Iowa Code section 521.8 (2011) permits the Commission to approve a merger if it is satisfied that the interests of the affected policyholders are properly protected and no reasonable objection to the plan of merger exists.

As noted above, Farmers Mutual Hail and Central Iowa Mutual are licensed and in good standing with the Division. Farmers Mutual Hail currently writes insurance business in 15 states. (*Trans.* at 16). Central Iowa Mutual writes farm property insurance exclusively in Iowa. (*Trans.* at 36). Mr. Rutledge affirmed that, following the merger, Farmers Mutual Hail will continue to satisfy all licensing requirements. (*Trans.* at 27).

Following the merger, Central Iowa Mutual will merge with and into Farmers Mutual Hail and Central Iowa Mutual will cease to exist as a separate corporation. (*Member Information Statement at 1*). The existing policies of Central Iowa Mutual will continue as policies of Farmers Mutual Hail. Farmers Mutual Hail's property and casualty department will be located in the former Central Iowa Mutual offices in Story City, Iowa and Central Iowa Mutual's present employees will be offered employment with Farmers Mutual Hail. (*Id. at 5*).

The property and casualty policies will be underwritten by Farmers Mutual Hail. (*Trans. at 34*). The property and casualty department will include operations of Farmers Union, which is a wholly owned stock subsidiary of Farmers Mutual Hail. (*Trans. at 34*). Mr. Rutledge stated that the merger will enable Farmers Mutual Hail to leverage its technology, disaster recovery, and other systems to provide efficiencies. (*Trans. at 22*).

Mr. Rutledge testified that the merger will increase rather than decrease insurance industry competition within Iowa. (*Trans. at 27*). Following the merger with Central Iowa Mutual, Farmers Mutual Hail intends to expand the property and casualty operations to all 15 states in which it presently writes insurance business. (*Trans. at 20*).

Mr. Rutledge affirmed that Farmers Mutual Hail's assumption of Central Iowa Mutual's liabilities following the merger will not jeopardize Farmers Mutual Hail's financial health. (*Trans. at 27*). The current surplus of Central Iowa Mutual is approximately \$10 million and Farmer Mutual Hail's surplus is \$335 million. (*Trans. at 20-21*). The combined property and casualty department would operate as a Farmers Mutual Hail profit center. (*Trans. at 35*).

Mr. Rutledge testified, post-merger there will not be a change to the board of directors of Farmers Mutual Hail, but two current employees of Central Iowa Mutual will become officers of Farmers Mutual Hail. (*Trans. at 19*).

Mr. Rutledge testified that the merger is not unfair to the policyholders of Farmers Mutual Hail and Central Iowa Mutual. (*Trans. at 28*).

Mr. Rutledge also testified regarding the procedures that Farmers Mutual Hail has in place to make sure information received from its reinsured mutual insurance companies is not used to compete against those reinsured mutual insurers. Mr. Rutledge shared that Farmers Mutual Hail sent statements of nondisclosure and conflict of interest to its reinsured mutual insurers. (*Trans. at 29*).

Ronald Kuethe testified that Farmers Mutual Hail has standard confidentiality procedures within its reinsurance department. Under these procedures, no information on submissions or rates is ever disclosed. Mr. Kuethe further stated that Farmers Mutual Hail is especially conscious of the need to separate staff in the reinsurance department from staff in the property and casualty department.

Mr. Kuethe shared that Farmers Mutual Hail is paperless via an ImageWrite system and that each department or division has limited security rights to access. Additionally, Mr. Kuethe stated that his staff in the property and casualty department will not have access to the reinsurance ImageWrite, and the reinsurance staff will not have access to the property and casualty records. (*Trans. at 32*).

Patrick Faga testified that the merger will expand the writing territory and lines of insurance coverage available to current Central Iowa Mutual policyholders. (*Trans. at 36*). Additionally, Mr. Faga stated that Farmers Mutual Hail's AM Best rating and surplus position is much stronger than that of Central Iowa Mutual. (*Trans. at 38*).

Under this record, the Commission finds that the interests of Farmers Mutual Hail's and Central Iowa Mutual's policyholders are properly protected under the Plan of Merger. The Commission further finds that no reasonable objection for approval of the Plan of Merger exists.

## V. CONCLUSIONS OF LAW

The legislature has vested discretion in the Commission not only to make factual findings, but also to interpret and apply the law. Iowa Code sections 521.3 and 521.8 permit the Commission to approve a Plan of Merger if it determines that the applicant demonstrates the two criteria listed within section 521.8 to the satisfaction of the Commission.

The Commission concludes, upon substantial evidence, that the Plan of Merger for Farmers Mutual Hail and Central Iowa Mutual meets the two requirements of Iowa Code section 521.8, and should be approved.

ORDER

IT IS THEREFORE ORDERED that:

The joint application is **GRANTED** and the Plan merging Farmers Mutual Hail Insurance Company of Iowa and Central Iowa Mutual Insurance Association is **APPROVED**.

Any action challenging this Order shall comply with the requirements of Iowa Code chapter 17A. Any application for rehearing shall comply with the requirements of Iowa Code chapter 17A. This Order shall be considered final agency action for the purposes of Iowa Code chapter 17A (2011).

Dated this 31<sup>st</sup> day of March, 2011.

SUSAN E. VOSS  
Iowa Insurance Commissioner

THOMAS J. MILLER  
Iowa Attorney General



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