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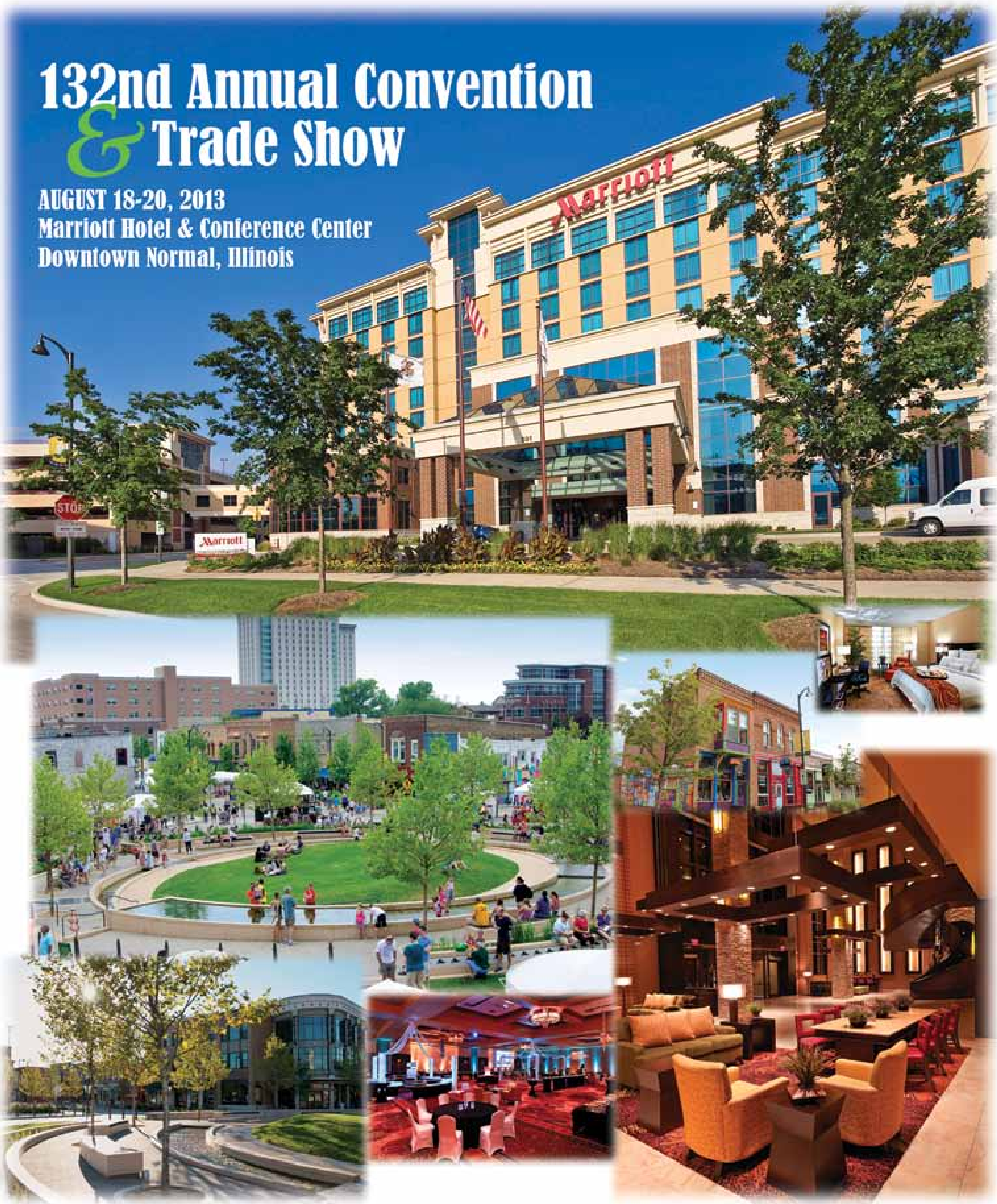

Chairman's Message

Jeff Murphy
Marshall Mutual Insurance Company

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The fact remains that there is not a "silver bullet" approach that will lower reinsurance rates.

Springtime is one of my favorite times of the year. It is a time that I also watch the weather channel for the next storm. The past year has been difficult for many in our industry. The industry is starting to see a hardening in the market and underwriting is tightening up in many companies.

I hope that you had an opportunity to attend one of the many programs IAMIC had to offer. If you did not, then you missed out on some interesting and informative subjects. Topics discussed in the regional, claims, and underwriting seminars reinforce the fact that farm mutual companies have a place in the insurance market. However, as managers, directors, and employees we have to adapt to a changing environment at a much more rapid pace than ever before. The risks we insure are increasing in size and claim expenses are rising.

Reinsurance has been an item of concern for many within our association. I can say that your IAMIC board heard your concerns and has taken steps to help address this issue. The fact remains that there is not a "silver bullet" approach that will lower reinsurance rates.

As managers and directors we have a responsibility to review our rate adequacy, tighten our underwriting criteria, and take advantage of the tools and resources available through our reinsurance "partner". I can say after talking to the major reinsurance carriers within our industry that they are committed to working with each one of you. It will take hard work and a willingness to change. There will be some farm mutual companies that will not be here in five years without change. I encourage all of you to become active in the association and take advantage of the programs offered.

Remember, spring is a time of new beginnings. I challenge each of you to take the information available back to your business and do some spring cleaning. I would like to thank the many volunteers and committee members for their dedication to the association and I look forward to seeing each of you at our annual convention in August.

Best regards,

Jeff

IAMIC Chairman

From the Executive Director's Desk

Time doesn't stand still for anyone—it will keep on moving, with or without you. Now, more than ever, is the time for the Farm Mutual Industry to develop a strong business plan, invest in your future, and do your part to help preserve the heritages that our fore fathers built so long ago!

IAMIC has been working diligently to provide the necessary tools for the industry and we offer excellent educational programs for claims, underwriting and directors training. I mentioned in my last LAUTUM article that 89% of the Mutuals that closed in the last two years did not attend educational seminars to learn the latest information regarding our industry. The only way that the Mutuals are going to be able to stay in business is if they stay informed of the industry changes and move forward with new ideas. Yet some members still do not participate in any of the valuable training that is available. I am concerned for their futures.

I was very concerned for the Farm Mutual Industry as a whole until our recent discussion with four Reinsurance executives (see the panel discussion that starts on page 12). I am now optimistic, but also realistic—some Mutuals could possibly close their doors because they will fail to move forward.

Is your Mutual doing ENOUGH? Small rate increases only work when they are consistent and agents are only valuable if they are providing you with a strong book of business. When was the last time you prepared the agent's loss ratio reviews? Did the Financial Analysis that IAMIC prepared and sent to all Mutual Managers help identify specific areas your Mutual should review? IAMIC will be bringing some crucial topics to Convention—save the date and plan to take advantage of this golden opportunity to learn and grow your business!

One of the most consistent messages we heard from the Reinsurance Companies was the importance of a Professional Manager—a strong Board of Directors and a good relationship between them. Succession planning has been discussed and yet many Mutuals still don't have a plan in place. IAMIC offers templates for business plans, disaster plans and board manuals—call me for a copy!

Our NEW website will be operational by the end of June and with it will be new management software which will help with event registrations, professional development tracking, communications and resources ease. Be sure to visit **www.iamic.org** and see what is new!

Sponsorship for convention will be mailed soon and I encourage you to take this opportunity to support the Association. We rely on sponsorship to help keep the cost of registration affordable to all the companies. If each company sponsors one event, we will be successful!

In just a few weeks, many IAMIC members will be representing our industry in Washington, DC as we participate in the Congressional Contacts Program, June 19-20. I am so thankful for the great representation that IAMIC membership always provides. Consider joining us next year.

I hope you enjoy the summer months and spend time with family and friends. Let me know if I can be of any assistance! I am here for you!

Jackie

Jackie Rakers, IOM

The only way that Mutuals are going to be able to stay in business is if they stay informed of the industry changes and move forward with new ideas. Yet some members still do not participate in any of the valuable training that is available.

Annual Convention & Trade Show
SAVE the DATE!
August 18 -20, 2013
Marriott Hotel, Normal, IL
Registration materials will be mailed in June!

2013 State Legislative Day

Participants left to right: Lyle Bruning, Jeff Murphy, Loren Wilkens, Tony Marvin, Roger Needham, Katrina Boliard, Billy Mullarkey, Bill Gorski, Jackie Rakers and Jason Svanda.

"It might be more worthwhile if we stopped wringing our hands and started ringing our congressmen."

— Author Unknown

Claims Seminar

Held Feb. 21, 2013, at the Northfield Inn in Springfield, our Claims Seminar featured speaker Jeff Decker of GSI (shown above).

Regional Meetings

Above: Speaker Dwight Shore, Marshall Mutual, presented a program on Rate Adequacy and Farm Machinery

— 2013 Regional Meetings continued on next page

(**Regional Meetings** – continued from page 5)

Below: Speaker Larry Bray, The WRC Group, presented a program on Reinsurance.

2013 Award Nominations

Lautum Award

The highest honor of our association, the Lautum Award, will be presented to someone at our Annual Banquet on Sunday, August 18.

The coveted award will be presented to a person who has earned the respect and high regard of his or her colleagues, and who has contributed greatly to the Illinois Association of Mutual Insurance Companies and their community.

If you know an IAMIC member who you feel is deserving of this distinguished award, please complete and return this form to the IAMIC office. All nominations are kept in consideration for five years. Previous award winners are not eligible.

Nomination Form for 2013 Lautum Award

Nominee's Name ____________________

Company Affiliation ____________________

Background Information ____________________

____

____

____

____

____

____

Nominated By (optional) ____________________

Company Affiliation ____________________

Please return this nomination (or submit online at www.iamic.org) by **July 15** to: IAMIC, P.O. Box 116, Ohlman, IL 62076, or fax to 888-403-0935.

Volunteer of the Year Award

Each year we recognize one of our volunteers with the Volunteer of the Year Award. This award is to recognize an individual for their tireless work on behalf of the association. IAMIC is nothing without its many volunteers. Join with us at the Annual Business Meeting when we recognize a member who has gone above and beyond for the members of IAMIC.

—continued on next page

(**2013 Award Nominations** — continued from page 7)

"In order to succeed, your desire for success should be greater than your fear of failure."

— Bill Cosby

Company Achievement Award

The 2013 Company Achievement Award will be presented during the Industry Luncheon on Monday, August 19. This award is presented annually to a company to recognize a wide, ever-changing variety of criteria. Some of these items include, but are not limited to, Director Participation, Policyholder Surplus, Economic Growth, Longevity and Stability, Educational Commitment, Mission Statement/Marketing Plan, Community Involvement, Loss Prevention, Agent Development, Innovation and Enthusiasm.

Let us know how your Mutual has worked with any of the above-mentioned items. Share with us how your company overcame its greatest challenge or obstacle. Welcome too would be pictures of the office and staff. Also, send along advertisements or a copy of your brochure, if available. All applicants will be eligible for award consideration for the year of submission plus four years. Take this opportunity to recognize your Board Members diligence and your staffs dedication and hard work.

Please send your submission for the Company Achievement Award (or submit online at www.iamic.org) by **July 15** to:

IAMIC, P.O. Box 116, Ohlman, IL 62076 or fax to 888-403-0935.

Fire Department of the Year Award

Here's a great chance for you to help recognize the efforts of your community's fire department. The IAMIC Fire Department of the Year Award will be presented at the Industry Luncheon. The award recipient will be selected through nominations submitted by you, our members. The award is designed to honor those courageous, hard-working and vital members of our communities—our fire departments. Please take a moment to write a letter listing the fire department you are nominating and the reasons they are deserving of being named the Fire Department of the Year.

Please submit your nomination for the Fire Department of the Year Award (or submit online at www.iamic.org) by **July 15** to:

IAMIC, P.O. Box 116, Ohlman, IL 62076 or fax to 888-403-0935.


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www.apps-system.com
Rod
Wes
Jessica

Mutual Milestones

Heartland Mutual →
130 Years

Terry Lohman, Heartland Mutual received recognition for providing 40 years of service to the insurance industry!

Lookingglass Mutual →
115 Years

Lewistown Mutual ↓
115 Years

If your Mutual is celebrating a five year milestone in 2013, we would love to attend one of your board meetings to present your company with an Anniversary Plaque! Please contact the IAMIC office with your next board meeting date.

2013 Convention Preview

Although it is still a couple of months away, we are getting excited about the 132nd Annual Convention & Trade Show. Registration materials will be mailed in June, so watch your mailbox! **Some CHANGES HAVE BEEN MADE in this year's schedule**, be sure to take a look at the Agenda below to make sure you don't miss your favorite events!

Sunday, August 18

10:00	*Golf Outing*
10:00	*Trap Shooting*
2:00 – 5:00	*Registration*
7:00	*Banquet*

Monday, August 19

8:30 – 10:15	*Prayer Breakfast/ General Session Combined*
10:30 – 11:30	*Education Sessions: FMDC Program General*
11:45 – 2:00	*Luncheon/ Business Meeting*
10:30 – 4:00	*Auxiliary Activities*
2:15 – 3:30	*Education Session*
4:00 – 6:00	*Trade Show Prize Drawing (must be present to win)*
6:00 – 8:00	*Scavenger Hunt Downtown/ Dinner on your own*
8:00 – 10:00	*Chairman's Reception*

Tuesday, August 20

8:45 – 11:00	*Auxiliary Activity*
8:45 – 11:45	*Education Sessions: Ethics Employment Law*
12:00 – 2:00	*General Session/ Industry Luncheon Prize Drawing (must be present to win)*

IAMIC's 2013 Annual Convention & Trade Show will be held at the Marriott in downtown Normal, Illinois. See you there!

http://www.marriott.com/hotels/travel/bmimc-bloomington-normal-marriott-hotel-and-conference-center/

Risky Business – *a Panel Discussion*

It's not rocket science to figure out how to make an insurance company more profitable. It always comes down to managing expenses, rates or coverages.

The IAMIC Board of Directors contacted each of the Reinsurance Companies and asked the following 10 questions of each company. Our GOAL of this meeting was to corroborate the Partnerships between the Reinsurance Companies and the Farm Mutuals. The Board of Directors of IAMIC recognizes the need for some of the recent changes in the Reinsurance market and while we respect those, we are hoping to bring the confidence back to these relationships.

Answers are listed below and indentified as follows:

G—**Larry Jensen**, Grinnell Mutual
R—**Joseph DeChatelets**, Rockford Mutual
FMH—**Ron Kuethe**, Farmers Mutual Hail
WRC—**Terry Wendorff**, Wisconsin Reinsurance Company

Larry Jensen's opening comments:

New changes at Grinnell = Jeff is VP of Reinsurance—Rick Tjarks as Assistant VP of IL. Our goal is to provide excellent Reinsurance in the Farm Mutual Market—Grinnell is committed to this industry—it's our history, our niche and our intention. Larry has been with Grinnell for 34 years, working on both the direct and farm mutual sides—working with Farm Mutuals in Iowa/WI. Grinnell Mutual's Board of Directors are all farm mutual managers. Grinnell Mutual has been hit hard on the reinsurance side too. The partners needs to understand the issues we are all facing—if we understand the process it makes it easier.

1. What is your company's short- and long-term philosophy regarding increased risk retention by reinsured farm mutuals? Given extremely volatile results of the last several years, is your company willing to apply credits to reinsurance contracts for farm mutuals willing to increase their risk retentions?

G—Historically set that as the attachment points raise—the lower the cost of product. Trying to evaluate the companies in more detail and working on their attachment point to the surplus will be vital in the future.

The whole way we rate reinsurance as we go—actuaries search for new ideas (2 – 3 years); sophistication to improve the pricing. We review each company and review the following items:

1) **Business Plans.** 2) **Steady Rate** plans with a 3-5 year plan not based on Reinsurance rates. 3) **Claims Practices**. 4) **Underwriting Practices**. 5) **Higher Deductibles** put into place to limit reinsurance exposure.

Curt Capper is a Northern IL field representative and is taking over all of IL. He is excited about working with the Management practices and day-to-day operations of these mutuals. From the reinsurance side, we will need to gather more information in order to help with risk—more detail of the makeup of the policy—what their rate increase history has been along with the endorsements and share more risk with policyholders.

R—Rockford always encouraging the retentions as that is one of the easiest credits toward reinsurance premium dollars.

FMH—If a company is willing to increase, we encourage it—aggregate stop loss as well. There need to be some changes in the reinsurance programs and the history speaks for itself.

A few FMH statistics:

LOSSES

In 2002—The gross loss average was $75,000 for each fire claim.

In 2011—The gross loss average $147,000 for each fire claim *(96% increase)*.

RETENTIONS

In 2002—The companies were averaging a

$43,000 retention out of the $75,000 loss *(which left $32,000 paid by reinsurance)*.

In 2011—The companies had increased their retention and averaged $58,000 of the $147,000 loss *(which now left $89,000 to be paid by reinsurance)*. Companies increased their retention by only 37% compared to the average loss increase of 96%.

Reinsurance share went up 174% during this time.

AGGREGATE

We highly encourage companies to raise their aggregate retentions when they can afford to. When companies only increase their per risk retentions, it may hurt their aggregate contracts because all of a sudden, more losses from their increased per risk retentions are now sliding over into their aggregate contracts. If a company doesn't increase its aggregate retention at the same time it increases its per risk retention, it could be trading a rate reduction from an increased per risk retention for an increase on their aggregate contract. Keep in mind that any increases in retentions must comply with State of IL requirements. Aggregate contracts are triggered by a loss ratio and as such, are very sensitive to what the company is doing on the primary side. As a result, we encourage them to have adequate rates, raise deductibles, etc. Anything a company can do to increase the prospects of profitability on the primary side will ultimately help keep the aggregate rates under control, as well as allow a company to have a higher aggregate retention. Rate studies are imperative; this will help them see where they need to develop changes.

It's not rocket science to figure out how to make an insurance company more profitable. It always comes down to managing expenses, rates or coverages. The problem always lies in the execution. Too often, the Mutuals come up with some sort of excuse to avoid putting in a change which would make them better. Avoiding those changes, places companies further and further behind until the company, ultimately, gets itself in real trouble. Sometimes, it isn't until a company is on the verge of insolvency that all of a sudden, it can make all kinds of changes in an effort to survive. The problem is that in a lot of cases, at that point, it's too late to save the company. Too often, the fear of potentially losing some business prevents a company from implanting necessary changes. Quite often, those changes would have produced enough improvement to offset the small amount of business they may lose.

WRC—Yes, all reinsurers are asking for increased retentions. For many years retentions have been relatively constant and yet the risks have increased in size. All reinsurers would like to see the retentions increased and this does provide credits on their contracts through experience.

For example, if the retention was $50,000 and the total risk was $100,000, it was a 50/50 share. Now the risk is $200,000 and the Mutual maintains the $50,000 retention; the share is now 75/25. All of the increased risk has been passed to the reinsurer. We must begin balancing the cost and retention versus the exposure.

Generally, the credits for higher retentions will be applied. The problem is the retentions have been so low and risk size has been increasing for so long the credit for a retention increase may not appear as significant as they would expect. Increasing their retention not only saves the mutual cost on reinsurance premiums, they also assume additional exposure. There may "sticker shock" on the differing retentions which may cause them to not look at these favorably. The reinsurance retentions and rates have not

Too often, the fear of potentially losing some business prevents a company from implanting necessary changes. Quite often, those changes would have produced enough improvement to offset the small amount of business they may lose.

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(**Risky Business** — continued from page 13)

progressed at the steady pace they should have been.

The theory of deductibles—for example, going from the zero deducible to the $1000 deductible which will lower a policyholder's rates—also applies to reinsurance retentions as well.

2. Many of the recent changes in Underwriting/Pricing of Reinsurance contracts are placing a burden on smaller IAMIC members. Do you foresee many small farm mutuals surviving the current hard market for reinsurance? If so, what steps would you advise companies take to improve their standing in the eyes of reinsurance companies?

G—Increased cost of operations could cause potential problems for ALL companies—big and small. It will be the individual internal actions that determine this answer. How each Mutual reacts to these changes will determine the futures of the farm mutuals. Professional Management of the individual farm mutual operations is pivotal.

R—We must keep in mind that reinsurance expenses are something that will need to be considered and could prove to be a problem for the mutuals that have a limited resourses. The smaller companies must think differently —how they react as well. Business Plans are highly encouraged. Value added services for pricing and territory relativities are being offered by RMIC to assist them. Sometimes you don't know what you don't know. *(Jeff asked if they encountered resistance when they offered advice?)* Many times they don't see the advantage of the recommended changes and are reluctant to act quickly enough. They often don't see the benefits for their mutual customers.

FMH—This is pretty tough for the small farm mutuals. What we have found is that we, as reinsurance companies, have not been charging enough for the upper layers of reinsurance covers. The 1-in-100-year storm seems to be happening every 10 years. The bulk of those losses fall on the reinsurers, and the rates have not been adequate to cover all the losses. Companies need to realize that their reinsurer has to purchase reinsurance itself in the worldwide market. There are only a few reinsurers in that market that focus on small, regional business. As a result, Grinnell, WRC, Rockford and FMH quite often end up approaching many of the same markets to purchase protection for the reinsurance they write for you. These larger reinsurers have been hit extremely hard by the farm mutuals in recent years. They expect to get paid back. Therefore, I wouldn't expect reinsurance rates to go down until those losses get paid back. This will put a lot of pressure on all farm mutuals, but especially the smaller ones who will have difficulty absorbing the increased cost of reinsurance.

Clients ask us why do reinsurers in London care about my deductible? Because they are your partner, and when you have your big event, they have a big event. One client had hit their aggregate three out of five years. If they had increased to a $1000 deductible, the company would have only hit their aggregate contract once instead of three times. That's significant.

Illinois law essentially requires reinsurers to provide an unlimited aggregate and we (reinsurance companies) cannot purchase unlimited protection from our reinsurers, which causes us to purchase very large limits —at a cost.

(Jeff asked if we should consider changing the Farm Mutual Act) Ron explained the MO situation and the difficulties they have faced after the Joplin tornado and the unlimited aggregate requirement that was put into place, thereby causing a lot of companies to struggle finding reinsurance. While they are consider-

The number of farm mutuals has decreased in some states by as much as 50%, but generally not because of reinsurance. We believe one of the biggest factors is the lack of qualified managers to replace the managers that are retiring. Many mergers take place because of a company's inability to replace the manager with a qualified person.

(**Risky Business** — continued from page 14)

ing some changes as a result of the problems the companies are now facing, this is a difficult issue.

WRC—Yes, we believe the smaller companies that are willing to make the necessary changes will survive. We believe some will have to close their doors through merger.

Things we look at are: Has the company has been historically profitable without reinsurance? Do they have a business plan? Are their rates adequate and do they inspect the property they insure? We have found many do not have a business plan—which is crucial if they want to survive.

There are examples in other states as well. The number of farm mutuals has decreased in some states by as much as 50%, but generally not because of reinsurance. We believe one of the biggest factors is the lack of qualified managers to replace the managers that are retiring. Many mergers take place because of a company's inability to replace the manager with a qualified person.

3. Within five years, what changes do you expect in your reinsurance company and in the marketplace?

G—The biggest change I see for our future is how we rate our reinsurance. Actuarial test will help us determine where to increase rates, but they will be increasing. We will be asking the companies to do the same thing we are doing. We will still be here for many years and there are no changes in our projection to change that!

R—There are going to be changes in the Reinsurance market and the reinsurers are looking for size—they want a larger book of business that is diversely spread out. They are

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(**Risky Business** — continued from page 15)

not as willing as they were in the past to take the smaller businesses, which is the benefit of working with companies such as RMIC. These challenges are being faced by everyone worldwide

FMH—Our company focus does not expect to change—we found out that we must do business with companies that have a top notch manager and a good board, both of them having a good relationship in order to move forward. We have limited our numbers to companies that we feel match that criteria. As a reinsurer, we are not solely dependent upon farm mutuals—our goal is to make sure we are working with good partners. We are trying to grow in the farm mutual market. For years, so-called experts have been predicting the end of the farm mutual industry. Through each crisis, the companies that survive are stronger and are able to adapt in order to compete in today's world. There may be fewer of them, but we do believe there will always be a need for the farm mutual.

WRC—We are going to see continued changes as we adapt to our clientele, the market place and technology. WRC continues to reinsure farm mutuals but we don't do it the same as we used to do it. The farm mutual reinsurance market place has changed as well. Not long ago there were more than 24 reinsurance companies that wrote farm mutuals and now there are only about five that write this business in more than one state! There aren't as many left to take on all those who are in need of reinsurance, not to mention that the risk size has increased as well.

Some of the farm mutual reinsurers left the business was because the direct business became so large relative to the farm mutual reinsurance. Considering the volatility of the farm mutual reinsurance side, they made the business decision to remove the farm mutual reinsurance business from their portfolio. Another reason has been the lack of profitability in the farm mutual reinsurance business. The last five years have not been good.

WRC is a stock company that is owned by the farm mutuals we reinsurance—a client owner business model. We will continue to adapt and change with the changing market. WRC is here to stay.

"In any situation, the best thing you can do is the right thing; the next best thing you can do is the wrong thing; the worst thing you can do is nothing."

— Theodore Roosevelt

4. With cutbacks being taken at the Reinsurance companies can the small mutuals still be provided training seminars for our employees?

G—Our goal at Grinnell is to continue with the level of services we offer our customer and there are no plans to remove any of benefits—hopefully we will be expanding our services. Claims services are utilized in over half of the companies we reinsure and we project the changes in the coming months will continue to need our assistance. Our BOD has recommended a 40-hour training program for new and emerging Mutual Managers, with the start date expected later this year. The Manager Meetings format has been redesigned for 2013 in an effort to improve all aspects of this meeting. Feedback is very important and we hope to hear what is on our customer's minds.

R—Rockford is providing more training as we go, we consider this an important added value to both sides of the coin.

FMH—We do plan to continue to help the farm mutuals in the same manner we always have. In addition, we hold our own schools for clients and try to help out with state and NAMIC association.

WRC—YES, it makes perfect sense from the reinsurers' standpoint. We provide education through seminars and meetings which should improve their operations and the reinsurers as well.

(**Risky Business** — continued from page 16)

Jeff Murphy asked what the greatest area of concern on training issue is for the companies WRC works with? Answer: The Underwriting side has many different areas that need attention. The key ones are: **1. Rate adequacy**; **2. Underwriting and inspecting** the business to determine what needs to be done to make the business acceptable; and **3. Are the deductibles increasing** over time. We need to work on all of these.

5. Will your Company still continue to fill a vital need in IAMIC education committees and help provide speakers at IAMIC seminars?

G—Yes, our goal is to continue our work with state associations and we have developed some fantastic programs already. If there is any program not covered but needed, we will try to get the information together! Assistant VP Rick Tjarks will be attending the meetings to meet these folks face to face and hear firsthand what are their needs.

R—Rockford has always been willing and able to provide IAMIC with speakers and support, this will continue.

FMH—As I mentioned earlier, we have always offered our knowledge and services to the various state associations and have allowed our staff to be committee members and speakers when needed. We will continue this practice.

WRC—From WRC's point of view, helping the industry improve its operations will also improve our operations. WRC and other reinsurers have skill sets that many smaller companies don't have readily available.

WRC believes in the industry and wants to help it succeed. Most companies have been around over 100 years and they are filling an important market niche. We have a great future as farm mutuals—of course, not all will survive—but there is a future for us.

Reinsurance really is a partnership. The key is developing our individual responsibilities. In the long run, we both must be profitable to be successful.

Lyle Bruning commented that the loss schools are exceptional and appreciate that WRC opens this up to other companies. Response: We agree we are all in this together and we have a responsibility to help the industry as a whole.

6. How do you see farm mutuals as a "Player" in the farm market now and in the future? Do you see your (reinsurance) company as a long term farm mutual reinsurer and service provider?

G—The agriculture needs will continue to be there and the Farm Mutual's are the major insurer—they need to stay current in products (ask Grinnell for help) and technology in order to succeed. They need to continue to find ways to compete in the larger farm markets. Facultative products will help with this, however, our cost is weighed. We are trying to find ways to make this a more price effective coverage for the FM. Working with the membership and determining the best answers and new tips for both partners is part of our projected goals.

R—The biggest challenge the Mutuals are facing is that the farm equipment is getting more expensive, corporate farms taking place making larger risk, and values are going up. The capacity for this is going to be required. Most Farm Mutuals cannot risk their assets on large value equipment. Facultive reinsurance is the only answer now, but we are working on some ideas and are hoping to provide additional solutions!

FMH—Answered in question 3.

WRC—To continue to be a player, the farm mutuals need to adapt to the changing market place. Our risks have changed drastically

"Though no one can go back and make a brand new start, anyone can start from now and make a brand new ending."

— Carl Bard

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(**Risky Business** — continued from page 13)

Our Goal is to help them become the best they can be—we succeed when they succeed.

and we need to adapt to these risk. Some companies may decide they don't want to or can't do it.

The WRC board that consists of nine mutual managers has the farm mutual reinsurance business in our business plan and we will continue to work with the farm mutual industry.

7. With Reinsurers taking a deeper look at historical and potential profitability of Individual reinsurance contracts, does your company have a rehabilitation unit or individual that can help a mutual improve their Underwriting/Pricing/Risk Management?

G—We encourage our Mutuals to ask for help, we rely on them to express their needs and we will try to assist them. We want to let them lead their companies but are willing to help guide them when requested—it truly is a partnership.

R—We are willing and able to help rehab them if they need it and we have been successful with this process but it is a true partnership and commitment is necessary for this to work. *(Jeff asked: Can Rockford provide resources to help the FM?)* Yes and no—it's sometimes a timing issue, we have tried to provide some resources but timing is very important. Something that could be very successful if utilized isn't put into place if the managers are not ready. We suggest that IAMIC pool the data of the IL Mutuals together and perhaps come up with some solid rates and territorial underwriting within the state. This could be very affordable if enough participate. We need credibility in our figures that we provide our reinsurers on these farm mutuals, and individually they can't afford to do this.

FMH—We do provide this to our clients and have for years. We can, and do, offer our services, but ultimately, it's the Mutual that has to take control of its own destiny and implement the necessary changes.

WRC—Yes, in the past we did this on an "as needed" basis. We have now we developed a Client Support Department with Larry Bray, Jeff Blevins and Bobbie Stocky to specifically address this need. We provide resources to farm mutuals that are having problems and need help, or those doing well but want to do even better. We gather the information from all of our clients and share what works and what doesn't.

8. How many years of historical data does your Reinsurance company use to determine historical profit/loss of an individual farm mutual's reinsurance agreement?

G—Currently we use 1995 forward to look at history—a snapshot of how much premium income vs how much pay out to that company. The more information the better. If we don't have the information, we can't place them in the most cost-effective programs—we rely on them to provide accurate information. Profit/Loss of a company isn't as critical as is the Mutual's reactions to the obstacles they face. (Rate increases/inspections/insurance to values, etc.)

R—There's not cookie-cutter approach, we look at 20-year / 10-year / 3-year, and 1-year history. We also look at regional trends. Who is in management—along with their willingness to work with us—are key factors that determine if we can help them be successful. Willingness to make difficult changes is weighed when looking at potential partners.

FMH—There isn't one answer for this. Some contracts, such as lower-layer per risk contracts, the time period could be as low as 4 or 5 years. As you move up to higher layers, it may be 10 years. The upper layers can go out as far as 20 to 30 years, or even longer. The

(**Risky Business** — continued from page 14)

historical experience is only a part of it, especially on the upper layers. On those contracts, you have to prefund a loss that may not have occurred yet or may not occur for 50 years.

WRC—Generally we begin with five years, but we vary this by individual reinsurance contract from four to eight years.

When looking at the companies, we have found looking at their last five years will reveal if they are moving forward or not, by considering the changes they have made.

9. Besides Ratio of Reinsurance premium paid to Reinsurance recovered, what other factors does your company use to determine long term profit potential of a farm mutual reinsurance agreement?

G—Scorecard development to evaluate the partners with Grinnell is in the process. We will be taking the customer's data and showing them where they stand along with how to improve their operations. Developing best practice operational goals for them will be our focus. Our Goal is to help them become the best they can be—we succeed when they succeed.

R—As I mentioned before, the relationship will determine what it takes to turn things around. Anyone can make mistakes and have bad luck—not everyone is willing to admit it or make the changes to remedy the problem.

FMH—Premium to surplus ration is the first item to look at—making sure they can pay us back if they do have to hit it. Ideally, no less than 1:1 as problems to meet other regulations can occur. Management—a good manager and good board with a good working relationship. Do they have a good sense of

—*continued on next page*

(**Risky Business** — continued from page 19)

Does it make sense for a company that writes $1 million in premiums to insure a $10 million farm? Probably not. It violates one of the basic principles of the insurance business. Insurance companies will have more problems insuring the exceptions rather than the common risks.

what is going on at their mutual? This is very important.

WRC—Clearly this ratio is a primary indication but the secondary indications we consider are if they are moving forward financially and what steps they have taken to improve their operations. Some companies have not taken any steps in the last five years and they may not be around in the next five years because of this choice.

(Jeff Murphy talked about the cost of the reinsurance and the limits of the farm mutual act. The unlimited aggregate—would it help if we work with the state dept to change this?)

Response: WRC and several other reinsurers have built this into our business models. I feel that based on the experience with other insurance departments, you would have a difficult time changing this with Illinois.

The reinsurers need to assist the farm mutuals through education and seminars. An example of one problem is: does it make sense for a company that writes $1 million in premiums to insure a $10 million farm? Probably not. It violates one of the basic principles of the insurance business. Insurance companies will have more problems insuring the exceptions rather than the common risks. Do the companies have adequate rates to accept these? In addition, many times the companies don't have the skill sets or expertise to write these. Do your underwriter and inspector know what to look for in a huge dairy farm?

WRC does as much underwriting on the management of a company as we do their financials. Numbers serve as a qualifier, but sound management is probably the most important.

10. As a reinsurer, do you see any possibility or benefit of several smaller mutuals pooling some of their resources to reinsure some of their risk? Perhaps pooling their surplus and combining their risks—would the reinsurance companies be willing to reinsure a percentage of risk with multiple contracts?

G—Is there additional risk that will be gained is the question—what are the advantages they are looking for by doing this? Cost? There is more to consider.

(Jeff Murphy explained, higher attachment points, the pooling arrangements have a huge variety; operating efficiently would make this a possibility.) Larry Jansen commented, "ANYTHING is possible, but there are rules that would need to be determined. We will consider some options and bring them back to the table." One concern Larry had was the role of the Dept of Insurance.

R—I personally love this idea but having the numbers to back it is the challenge. How are you going to get the numbers together on a common platform, and is there a willingness to share data? Who oversees every company's involvement and information? There are many areas to be considered. I would like to share the aggregate form if they don't know who is looking at it, so the relationship would need to be in place. Also, we need to be proactive and facilitate these changes in advance. We are far enough ahead of it, but we need to act quickly to determine what's best for each mutual involved.

FMH— I am not personally a fan of pools. Past experience indicates that the better companies don't want or need to be in the pool, leaving the higher risk companies pooling together. When the loss happens, it seems common that the risk was cancelled, or rejected, by one of the pooled companies but picked up by one of the others and now they all suffer the loss. Now we have a BIG issue and all the companies suffer.

(Jeff asked about quota share on farm blankets, i.e., have 30 mutuals reinsured by more than one reinsurance company.) We realize that

(**Risky Business** — continued from page 20)

the growth in the size of farm blankets is posing some issues. We have actually considered some sort of quota share on blankets, but there are some issues that would need to be considered first.

A typical problem with quota shares is that the farm mutuals tend to have higher expense ratios, and the reinsurers can't pay a high enough ceding commission to the mutuals. Therefore, it ends up losing money on every dollar it cedes to the reinsurer.

WRC—The simple answer is no. Pooling experiences in other states in the past have failed. The reason is that no one was assigned to be responsible to watch what goes into the pool. Everyone agreed to just be nice, and some bad risks ended up in the pool. Then good companies pulled out and all that was left was the bad risks for the remaining companies. Jeff Murphy asked if there was a governing board would that make a difference? Response: No.

An example would be if eight companies would be involved and each one had one person on the board. Who is ultimately responsible for the underwriting and pricing of the business being submitted? Usually the answer is no one and that is where problems are created.

Insurance departments are usually not in favor of this type of approach as they have regulations on what constitutes an acceptable reinsurance agreement. The departments also are concerned about the management of the risk exposures and how the reinsurance will ultimately respond if a claim occurs. If a severe wind or hail storm comes through and affects all companies, one additional problem will be how the 'pooling' create a larger problem with the risks pooled.

Jeff Murphy asked if the pools that failed were just pooling property business? Yes. I am not aware of a 'pooling' arrangement among farm mutuals that pooled liability business.

CLOSING COMMENTS: On surplus to premium ratio—clearly the higher the better. The smaller the premium volume a company has, the higher ratio that is needed. However the higher premium volume companies can handle a little more risk. Most states feel the minimum should be 1:1, although a small mutual should consider 2:1 or 3:1 as a minimum.

What can IAMIC do to help?

G—BIGGEST HELP: Spread the message that Grinnell Mutual is here to stay with the Farm Mutuals. We are looking into the year 2020 for our reinsurance goals and hope each one of the companies continue with us.

R— ROCKFORD Mutual is committed to the farm mutuals, but I am up at night worrying that their own resistance will prevent them from succeeding. Sometimes we can see things happening really quickly and, without action, it changes the outlook for an individual mutual quickly.

WHAT DO WE DO? Where do we start? It would be great to have someone from a rating agency or a company that crunches numbers to give a presentation to determine options available without violating any statutes —Joseph will make a contact on our behalf and will try to set something up for this.

WRC— The last five years in the Midwest have been very difficult for many companies as well as for the reinsurers. 2011 was one of the worst years for storms in the Midwest.

The last few years and many of the changes required are difficult, but if we make the changes necessary and have a positive business plan, we can succeed!

IAMIC Anti-Trust Statement

The purpose of IAMIC is to promote the best interests of the mutual insurance community, and particularly the best interests of policyholders of mutual insurance companies. To this end, IAMIC programs and activities are planned and implemented with the objective that policy holders will benefit from the best products and services.

It is not the intention of IAMIC to provide a forum for standardizing products or rates, dividing markets, fixing profit levels, or categorizing customers to whom insurance products may be sold.

If you have any concerns about the prohibited activities in connection with any IAMIC activities, please contact the president or any IAMIC Board member immediately.

Mutual News

Jackie Rakers presents the Etta Mae Credi Memorial Scholarship to Lauren Pearse.

Special thanks to the participating members:
Brown Hay & Stephens
Black Hawk Mutual
Central Illinois Mutual
Farmers Pioneer Mutual
Forreston Mutual
Frontier Mutual
Grinnell Mutual
IAMIC
Marshall Mutual
Mt. Carroll Mutual
LaPrairie Mutual
Lousiville Clay Co
Peru Waltham Mutual
Vandalia Mutual
Watseka Mutual

Memorials

- Our industry lost an icon this year in the passing of **Etta Mae Credi**, Deputy Director of the Department of Insurance. Etta Mae was a true champion of the Farm Mutual Industry and helped many of our Mutuals succeed. In her honor, several Mutuals and Associate Members pooled together and established a scholarship. We worked together with the Credi family to pick a recipient that demonstrated the same characteristics as Etta Mae.

  Lauren Pearse, a Taylorville High School senior, was selected as the recipient of the Etta Mae Credi Memorial Scholarship (pictured at left).

- **John E. H. Cassens**, longtime director of **PLN Mutual Insurance Company** of Dixon, IL, passed away in February. Jack served as President of the company from 1983 until his retirement in 2012, and led the company through a difficult and then a successful period in its history. He is survived by two children in the Sterling-Rock Falls area, Gary and Laurie.

More Scholarships Awarded

- **ROBERT MEIER Scholarship** recipient is Lucas McVey, Casey, IL. Lucas attends ***Katie School of Insurance and Financial Services*** at Illinois State University Pictured below is Jackie Rakers presenting Lucas McVey with his scholarship.

- **JOE REID Capitol Contact Scholarship** winners for 2013:
  Linda Wares, Mt. Carroll Mutual
  Tony Koehler, Camp Point Mutual
- To support the Advocacy of the Mutual Industry, **Forreston Mutual** provided a Scholarship to attended the upcoming DC trip. This year's winner:
  Nicolette Lalor, Belvidere Mutual

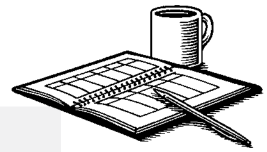
Watch for our remodeled WEBSITE coming soon!

IAMIC is redesigning our website and upgrading our association management software to improve communication with our members. Among several new features, the upgrades will make registrations easier and the Manager of each mutual can now register multiple members for events with ONE login!

Watch for an announcement when we go LIVE in June! ***www.iamic.org***

Above, proof positive that IAMIC is revving up for an exciting year with Executive Director Jackie Rakers behind the wheel and Chairman Jeff Murphy riding shotgun!

IAMIC 2013 – 2014 Calendar of Events



June	19-20	CCP (Congressional Contacts Program) — Washington, D.C.
	TBA	IAMIC Board Meeting — TBA
August	18 - 20	Annual Convention — Marriott Hotel/Conference Center, Normal, IL
September	22 - 25	NAMIC Convention — Seattle, WA
October	14	IAMIC Board Meeting — Raymond, IL
	15 - 16	Manager's Retreat — Magnuson Hotel, Raymond, IL
February 2014	26	Claims Seminar — Northfield Inn, Springfield, IL
March 2014	TBA	Southern Regional — Location TBA
	TBA	Northern Regional — Location TBA
April 2014	17	Underwriting Seminar — Doubletree Hotel, Bloomington, IL

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