Mutual Assistance Manual
Illinois Association of Mutual Insurance Companies

INTRODUCTION

This Mutual Assistance Manual is intended to provide member companies with a convenient reference for legal, operational, and best governance practices. This Manual was developed by mutual managers for mutual managers as well as other interested parties.

Disclaimer

While IAMIC has attempted to ensure that all information included herein is accurate and in compliance with applicable laws, rules, and regulations, this Manual has been developed for the purpose of presenting general information only.

This Manual does not provide legal advice. It should not be considered the only source or authority with respect to any legal, operational, or governance issue. If you have concerns, doubts, or questions about specific laws or regulations, you should consult the actual law or regulations, the Illinois Department of Insurance, or an attorney familiar with insurance law. Your liability insurer and/or reinsurer may also be able to provide guidance. Specific legal matters should be reviewed by company counsel.

Finally, **READ YOUR INSURANCE POLICY FORMS**. The terms of your policy forms will usually spell out what you can or cannot do and when, especially with regard to cancellation or non-renewal. Be sure to read any **Illinois Special Provisions** that modify the basic policy forms.

Use of Information Contained in this Manual

As an active member of IAMIC, you are hereby granted permission to extract and use any of the information contained in this Manual for the furtherance of your mutual's insurance operations. IAMIC and its member companies make no warranties or representations with regard to the information contained in this Manual. Any reliance on the information contained herein is at the user's sole risk.

When using any forms included in this Manual, it is the sole responsibility of the member mutual to edit the form to meet the needs of the member mutual. This includes changing any generic mutual names (ABC Mutual Insurance Co) or other company names to your own mutual name.

Laws and regulations do change over time. The reader is encouraged to keep abreast of changes in the laws that affect insurance companies, especially farm mutual insurance companies.

ARTICLES OF INCORPORATION AND BYLAWS

In this section:

- **Brief information defining Articles of Incorporation and Bylaws**
- **Reasons you may need or want to change Articles or Bylaws**
- **Procedures for changing Articles required by the Farm Mutual Act**

Introduction

As most farm mutual insurance companies have been in existence for more than 100 years, their Articles of Incorporation and Bylaws are well-established. Further, by law no new farm mutual insurance companies may be created in Illinois. Hence, there is no need for a detailed explanation of how to draft Articles or Bylaws. The information presented here is intended to provide a general understanding of each. Additional information is then outlined on why and how a company might alter their Articles or Bylaws.

In a Nutshell

Articles of Incorporation - The document that creates a corporation according to the general corporation laws of the state. Depending on the state statute, it is also known as "certificate of incorporation," "charter," "articles of association," or another similar name. The Articles will establish the basic structure, purpose, and manner of operations.

Bylaws - The formal rules for regulation of the organization’s (i.e. corporation) actions, such as rights and duties of officers, directors, shareholders, and members. Bylaws are adopted by an organization (i.e. corporation), usually at the first stakeholders’ meeting.

More Detailed General Information

Articles of Incorporation (Corporate Charter)—The Articles of Incorporation is a legal instrument that sets forth the name and object of the organization and whatever other information is needed for incorporating the entity under the laws of a particular state (or under federal law in the case of a few special types of organizations). Incorporation is sometimes necessary or may be advisable, depending upon the differing laws of each state, if the organization is to hold property, inherit a legacy, make legally binding contracts, hire employees, be in a position to sue or be sued as an organization, protect its officers and members from personal liability, or the like. Apart from this consideration, in general, an organization need not be incorporated unless incorporation is dictated by a law relating to the organization’s contemplated activities.

Original Articles of Incorporation should be drafted by an attorney and must then be processed in accordance with the legal procedure for incorporation in the state (or under federal law if applicable). Any later amendments (changes in the Articles of Incorporation) are subject to the requirements of law and any limitations placed in the Articles.

In an incorporated organization, the Articles of Incorporation supersede all its other rules, none of which can legally contain anything in conflict with the Articles. Nothing in the Articles can be suspended by the organization itself unless the Articles so provide. For these reasons, Articles of Incorporation generally should contain only what is necessary to form the organization, and to establish the desired status of the organization under law – leaving as much as possible to the bylaws or to lower-ranking rules.

Bylaws (Corporate Constitution)—In general, the bylaws (or corporate constitution) of an organization are the documents that contain its own basic rules relating principally to itself as an organization, rather than to the parliamentary procedure that it follows. In the ordinary case, it is now the recommended practice that all of an organization's rules of this kind be combined into a single instrument, usually called the 'bylaws' although in some cases called the 'constitution' or the 'constitution and bylaws', even when it is only one document. The term bylaws refers to this single, combination-type instrument – by whatever name the particular organization may describe it – which:

- Should have essentially the same form and content whether or not the organization is incorporated (except for the omission or inclusion of articles on the name and object as noted below);
- Defines the primary characteristics of the organization in such a way that the bylaws serve as the fundamental instrument establishing an unincorporated organization, or conform to the Articles of Incorporation (corporate charter) if there is one;
- Prescribes how the organization functions; and
- Includes all rules that the organization considers so important that they (a) cannot be changed without previous notice to the members and the vote of a specified large majority (such as a two-thirds vote), and (b) cannot be suspended with the exception of clauses that provide for their own suspension under specified conditions, or clauses in the nature of rules of order.

While the number of articles in the bylaws will be determined by the size and activities of the organization, the general nature of the subjects covered will be indicated by the following list of articles, typical of those found in the bylaws of the average unincorporated organization:

- Name of the organization
- Its objective
- Members
- Board of Directors
- Duties of Officers
- Board Meetings
- Executive Board (if needed)
- Committees
- Parliamentary authority to be used by the organization (the name of the manual of parliamentary procedure that the organization is to follow, if determined)

- Amendments (prescribing the procedure for making changes in the bylaws)

If the organization is incorporated, its name and its object are usually set forth in the Articles of Incorporation (corporate charter), in which case the first two articles listed above could be omitted from the bylaws.

The bylaws, by their nature, necessarily contain whatever limitations are placed on the powers of the assembly of the organization (that is, the members attending a particular one of its meetings) with respect to the organization as a whole. Similarly, the provisions of the bylaws have direct bearing on the rights of members within the organization, whether present or absent from the assembly. It is a good policy for every member on joining the organization to be given a copy of the bylaws, printed together with the Articles of Incorporation (corporate charter), and any special rules of order or standing rules that the organization may have adopted. A member should become familiar with the contents of these rules if he looks toward full participation in the organization's affairs.

Reasons for Changing Articles of Incorporation or Bylaws

Once Articles of Incorporation and Bylaws are established, organizations may operate for years without changing those documents. They should be reviewed periodically, however, to determine of changes are necessary in order to comply with current laws, for consistency with current business practices, or to allow the organization to expand its operations.

Articles of Incorporation—Changes to the Articles of Incorporation for farm mutual insurance companies must be approved by the Illinois Department of Insurance as described in the Farm Mutual Act of 1986. After approval by the Illinois DOI, amended Articles must also be filed with the Recorder of the mutual's domiciliary county.

Here are a few reasons a farm mutual insurance company might need to change their Articles:

- Change their operating territory, that is, to add or delete counties of operation;
- Change the number of directors on the Board; for example, the mutual may want to increase the size of the Board as part of a merger;
- Add or change a mandatory retirement age for directors.

According to the Farm Mutual Act of 1986, amended Articles of Incorporation must include the following:

- The corporate name, which must include the words "Mutual Insurance Company."
- City and county where the principal office is located.
- Period of duration, which may be perpetual.
- Kinds of insurance to be written, as provided in Section 5 of the Act.
- The number, terms of office, and manner of electing directors.
- Date, time, and place of the annual meeting of members.
- The operating territory; i.e. the counties where the mutual may write insurance.

See section **PROCEDURES TO CHANGE ARTICLES OF INCORPORATION** for more information.

Bylaws—Bylaws may need to be changed depending on how detailed they are. Again, review these periodically. Bylaws can typically be changed by the Board. Bylaws need not be approved by the Department of Insurance and are not filed with state or local authorities.

Here are a few changes that might be worth reviewing periodically:

- Change the method of doing business;
- Change the frequency of Board meetings;
- Possibly allow for urgent matters to be dealt with electronically rather than in meetings;
- Allow directors to participate in meetings by electronic means rather than in person;
- Add, delete, or change Board committees;
- Other changes to match Bylaws with current operations.

PROCEDURES TO CHANGE ARTICLES OF INCORPORATION—*See the Farm Mutual Act of 1986, Section 8.*

1. A Resolution outlining the changes must be adopted at a meeting of the Board of Directors. Prepare the Resolution to be read and approved at the meeting. You will need two copies. You may consider sending out in advance to give directors time to consider the measure.

2. Prepare a Statement of Directors. You will need two original copies signed by all Directors present. The Statement of Directors should show the at least the following:
    a. Date of meeting
    b. Article affected
    c. Summary Statement of the Resolution

3. Prepare the amended Articles of Incorporation. You will need two original copies of amended Articles of Incorporation signed by President and Secretary.

4. After the Resolution is adopted and both original copies of the Statement of Directors have been signed, apply the corporate seal on all documents.

5. Send both copies of all documents (Resolution, Statement of Directors, amended Articles) with a cover letter to the Illinois Department of Insurance Corporate Regulatory Section. This should be done within 30 days of adoption of the changes. (Keep a file copy.)

6. Once approved by Director of Insurance, the Illinois DOI will return one signed original copy of the amended Articles to the company. This could take up to 60 days.

7. After approval by the Director of Insurance, the amended Articles of Incorporation must be filed with the Domiciliary (Home) County Recorder of Deeds within 15 days of delivery to the Farm Mutual Company. There is usually a fee for filing. Call your Recorder of Deeds office to determine the fee, acceptable manner of payment, and hours of operation.

8. After the approved, amended, Articles are recorded by the Home County Recorder, notify the DOI of the filing date by sending a letter to the DOI. Include a photocopy of the page that shows the filing, typically the first page.

See the **FORMS - BOD** section for a sample **Statement of Directors**.

See the **FORMS - BOD** section for a sample **Statement of Resolution**.

BOARD OF DIRECTORS

In this section:

- **Board member qualifications**
- **Duties and responsibilities of directors**
- **Board officers and responsibilities**
- **Board meeting preparations and conducting board meetings**
- **Checklists for board meetings, annual meetings, and board organizational meetings**

Introduction

The Board of Directors (Board) of a farm mutual insurance company is essentially the body of key decision-makers. The Board typically sets overall direction, broad company policies, and hires a mutual manager to carry out the day-to-day operations of the mutual.

The basic qualifications, responsibilities, and number of directors are outlined in the Farm Mutual Act of 1986, Sections 8 and 9. Directors must be policyholders who reside in the company's authorized territory. A mutual must have at least seven (7) directors, but not more than fifteen (15). Directors are elected at the Annual Meeting of Members. Directors may not be elected for terms longer than 3 years. (They may be re-elected to subsequent terms unless prohibited by the Articles or Bylaws of the mutual.)

Board Member Qualifications

A director:

1. Must be a policyholder of the company
2. Should demonstrate that he can work well with others and support board decisions
3. Should contribute new ideas that will strengthen the company
4. Should attend all board meetings; both regular and special sessions
5. Should ask no special favors for himself, relatives, or friends
6. Should not use his position to gain advantages not enjoyed by other policyholders.
7. Should serve as an example.

Duties & Responsibilities of Directors

The company's bylaws and articles of incorporation outline the general duties and powers of directors. Here are some other important duties:

1. Know the company bylaws and articles of incorporation and conduct business in accordance with their provisions
2. Outline the objectives for the company
3. Hire a competent manager and outline the authority and duties of the person

4. Require a monthly financial statement and operating report for board meetings
5. Attend all meetings and keep the information confidential
6. Hire a qualified auditor to make an annual audit at least once a year and report to the board
7. Review the mutual's own insurance coverage annually. (See Insurance section.)
8. Take an active part in developing good policyholder and public relations
9. Develop an understanding of the relationships between our mutual and the other mutuals with which we work.
10. Do not act independently in matters that should be decided by the entire board
11. Give your mutual close attention– Is it functioning successfully under able management or is there some difficulty?
12. Directors also have a legal responsibility to the policyholders. They can be held personally liable as an individual or as a group. For this reason, Directors and Officers insurance is carried, to provide defense coverage.

Board Officers

After the Annual Meeting of Members, the Board should hold a separate meeting to select officers. A President should be selected, and at the option of the Board, a Vice-president, as well as any other officers the Board deems necessary. They should also select a Treasurer, and a Secretary. The Treasurer and Secretary offices may be filled by the same person. Officers serve for one year until their successors are elected and qualified.

Additional Responsibilities of Board Officers

President and Secretary: Sign all policies and other legal documents as required. Signatures on policies may be in facsimile form; i.e. pre-printed.

Treasurer: Present an annual statement showing the condition of the company at the Annual Meeting of Members. In practice this responsibility may be delegated to the company's accountant or auditor.

Secretary: Maintain a record all Board meeting minutes.

Vice President: To act on behalf of the president when the president is not available.

Board Meeting Overview

Board meetings are held as often as your Board of Directors deems it necessary to have them. The mutuals meet monthly, every other month, or quarterly. This should be determined at the Organizational Meeting following your Annual Meeting.

The Manager's responsibility for Board meetings varies by mutual; however, we have found that the actual setting up of the meeting place, the agenda for the meeting, etc. are often the responsibility of the Manager of the company, perhaps in coordination with the President. No matter where or when you have your meetings, there are some items you will usually need:

- Your company's latest financial statements;
- Operational reports requested by the Board;
- Investment information;
- Company minute book; and
- Any other information pertinent to the business your company has to discuss.

Please refer to the section titled **Meeting Minute Checklists** for information on what your board meeting minutes should include.

How to Conduct a Board Meeting

The President should conduct the meeting from an agenda prepared in advance in coordination with the mutual manager. It is often the responsibility of the manager to prepare and publish the agenda. Many mutuals will prepare and provide the agenda and other materials to the directors in advance of the actual meeting. This gives the directors time to consider items on the agenda and to prepare comments or questions for discussion. If you use electronic means to provide such documents, use a secure method to protect sensitive and proprietary information.

Many boards use a consent agenda for action on routine items that do not require board discussion. A consent agenda can streamline meetings by combining action on standard items (such as minutes, financial & investment and committee reports) into one motion. Many boards find that by using a Consent Agenda, they are able to accomplish more by focusing on the issues important to the company. Should you opt to use a consent agenda, the Board President should present the Consent Agenda by mentioning what is included in it and then ask, "If there is no objection, I ask for a motion to accept the Consent Agenda." If there is an objection, the item in question is removed from the Consent Agenda, and is discussed and approved separately. The remainder of the Consent Agenda can then be approved.

A suggested outline for a board meeting agenda is:

1. Call the meeting to order
2. Call for approval of the Consent Agenda (if used)
3. Presentation of Operational Reports
4. Discussion of Old Business
5. Discussion of New Business
6. Ask what items should be included on future board agendas
7. Conduct an Executive Session (if necessary)
8. Ask for motion to adjournment

Financial Statements

The ability of directors to make sound decisions affecting the business of the mutual depends to a large extent upon understanding the financial reports.

The Statement of Financial Position (Balance Sheet) shows the mutual's financial conditions at a given time. Three main items in the balance sheet are:

1. Assets - all things owned by the mutual
2. Liabilities - all unpaid obligations
3. Surplus - the equity that policyholders have in the mutual

The Operating Statement (Income Statement) determines how well the mutual is doing. This statement tells you how successful the operation is for a specific period of time in terms of income received less losses and expenses paid. The three main items of an operating statement are:

1. Income (Premiums, fees, investment income, other income)
2. Losses (Property losses paid during the period)
3. Operating Expenses (Reinsurance premiums, commissions, salaries and benefits, utilities, etc.)

Meeting Minute Checklists

The following is intended to be a general guideline for a mutual secretary to record official corporate meeting minutes. Your company's Articles of Incorporation and Bylaws may be more restrictive than these guidelines. The checklists are not intended to be all-inclusive, nor are they intended to be a legal document. Legal advice, if deemed necessary, should be addressed to the attorney of your choice.

1. Regular Board Meetings:

Board meetings are used to keep the directors informed as to the financial and operational status of the company, and to make policy decisions that impact the operations of the company.

A) Date of Meeting and place where meeting is being held.

B) Starting time.

C) Board members, employees, and all guests present. Board members absent, if any, and appointment of "Secretary" to record the minutes.

D) Review and approval of previous meeting minutes.

E) Review and acceptance of financial statements, and operational reports.

F) Approval of investment activity.

G) Descriptions of actions taken should be concise and clear.

H) Minutes should clearly indicate motions offered, seconded, and result of vote. If no second to a motion is made, the minutes should indicate the motion failed due to lack of a second motion.

I) Names of Directors making motions and seconds may be indicated if requested, however, it is not required. The same is true for who votes in favor of or against a proper motion. In fact, it is not even necessary to indicate in the minutes the number of "yes" votes and/or the number of "no" votes. The minutes may simply indicate that the motion "carried" or that the motion "failed." That is, the Board as a whole voted to accept or reject the motion. Abstentions should be announced before the vote. Directors abstaining and reason for abstaining should be noted.

Note: Some legal counsel recommends that names of directors **NOT** be recorded in the minutes, except for abstentions. If an issue becomes contentious, and leads to legal action, those persons named could become targets for depositions during the discovery process. For example, an adverse attorney may want to question why specific directors voted against a proposed motion. Not recording names also supports the concept that decisions made are by the Board acting as a whole. The Board should have a stated policy for either recording names or not recording names.

J) Secretary's name (or Secretary Pro Tem) should be manually signed for every meeting recorded, after the approval of said minutes. In the event of the death or incapacitation of the Secretary prior to the approval of said minutes, the President and/or the new secretary, noting the unusual circumstances, should sign the minutes.

K) Manual changes or corrections, if done by hand, should be initialed and acknowledged by a corporate officer, other than the Secretary, and noted in the subsequent meeting minutes where the correction was made and noted.

L) Time of adjournment.

2. Annual Meeting of Policyholders:

According to the Farm Mutual Act of 1986, annual meetings shall be held on or before May 1st and be held in the domiciliary county of the company's home office. The actual date, time, and location shall be specified in the Articles of Incorporation. This must also be printed or stamped on policies. There is no requirement in the Act to send other notices or make other announcements of the annual meeting, but some mutuals have chosen to do so.

A) Minutes should indicate regular meeting items above, except C and F.

B) Proof of legal notification may be presented. The number of members present must be recorded. Minutes should indicate number of members required for a quorum, and that a quorum is present, if so.

C) Names of policyholders making motions and seconds should be indicated if requested, however it is not required. The Board should have a policy in place to determine if names will be recorded if not requested by the policyholders making the motion and second.

D) Controversial actions, split votes etc. should record the number of members voting for (aye or yes) or against (nay or no). Ballots, or some other method should he used to determine only eligible voles are cast and counted. Contested director elections must indicate the winner(s), but need not record the actual vote. Ballots should be retained for an appropriate period of time (3 to 6 months, or longer if deemed necessary by Company Attorney).

E) Company should introduce a motion to approve and ratify Board and Employee actions for the previous year. Motion, second and approval by policyholders must be noted in Minutes.

3. Organizational Meetings:

The Farm Mutual Act of 1986 requires that immediately following the annual meeting, a separate meeting of the Board of Directors be held for the election of officers. This meeting may also be used to change or continue certain business practices, such as the appointment of an auditor, appointment of an investment manager, and to approve who has authority to sign checks or complete other business functions.

A) Review of eligibility to serve on Board, i.e. policyholders in good standing, residing in the companies authorized territory.

B) Conflict of Interest statements should be obtained from all directors and employees.

C) Clear indication of how officers are elected.

D) Naming of depositories and alternates.

E) Appointment of committees and committee members, if any.

F) Annual review of salaries, fees (director, inspector and adjuster), mileage rates (i.e. IRS Rates) etc. A committee should set salaries and fees at a date and time designated by the Board.

G) Annual review of surplus for dividends, and action taken, i.e. no dividend declared.

H) Annual review and updates of Investment Policy and Privacy Policy.

I) Set regularly scheduled Board meeting dates, for example, the first Monday of each month, and update calendar of events for the coming year.

J) Discuss any other business deemed necessary for an organizational meeting.

Board Member Appreciation

Boards may choose to acknowledge a director's years of service upon retirement from the Board, or other amicable departure. This could be in the form of a plaque, certificate, resolution, or other nominal gift of appreciation. IAMIC would love to be a part of this honor, please contact the office with details.

See the **FORMS** section for a sample **Resolution of Gratitude**.

DIRECTOR'S GUIDEBOOK OR MANUAL

In this section: (See FORMS - BOD section)

- **Outline of suggested content for a director's manual**
- **Parliamentary procedures at a glance**
- **Rules of order**
- **Code of conduct sample form**
- **Items to consider for director's manual**
- **Sample statement that manual is company property**
- **Sample confidentiality agreement**

Introduction

Farm mutual insurance companies may develop a manual or guidebook to assist incoming directors in understanding their role, to provide basic company information, and to develop expectations for participation. The following represents suggested content for such a manual or guidebook.

Preface

This guidebook is not intended to provide a comprehensive course in "How to Become an Effective Director." It is, more than anything else, a guidebook for the directors who each year take their place on the Board of Directors for the first time. It can also be a useful tool to place in the hands of a mutual's nominating committee.

Mutual Background Information

Farm mutual insurance companies in Illinois are governed by the Farm Mutual Insurance Company Act of 1986 and are regulated by the Illinois Department of Financial & Professional Regulation - Division of Insurance.

All directors should familiarize themselves with the Farm Mutual Insurance Company Act of 1986, a copy of which can be found at www.iamic.org.

ABC Mutual, organized in __________ (year), is presently authorized to insure real and personal property in the counties of:
____
____
____
____

Articles of Incorporation

This is the written document that establishes the organization. It outlines the purpose, powers, and other broad terms and conditions of the mutual. It is the document on which the charter is issued by the state. The Article will also list the company's counties of operation. Changes to the Articles must be filed and approved by the Illinois Department of Insurance.

Bylaws

These are adopted by a mutual after the Articles of Incorporation have been filed and a charter has been issued by the State of Illinois. Bylaws deal with matters of internal organizations and operations. They are usually quite detailed and more easily amended than the Articles of Incorporation.

Guidelines for Board Meeting Minutes (Sample)

The guidelines for board meeting minutes' document can be found in the **FORMS - BOD** section (both WITH a CONSENT AGENDA and without).

Parliamentary Procedures at a Glance

A **Parliamentary Procedures At a Glance** aid can be found in the **FORMS - BOD** section.

Rules of Order

The term "rules of order" refers to written rules of parliamentary procedure formally adopted by an assembly or an organization. Such rules relate to the orderly transaction of business in meetings and to the duties of officers in that connection. The object of rules of order is to facilitate the smooth functioning of the assembly and to provide a firm basis for resolving questions of procedure that may arise.

In contrast to bylaws, rules of order derive their proper substance largely from the general nature of the parliamentary process rather than from the circumstances of a particular assembly. Consequently, although the tone of application of rules of order may vary, there is little reason why most of these rules themselves should not be the same in all ordinary societies and should not closely correspond to the common parliamentary law. The usual method by which an ordinary society now provides itself with suitable rules of order is therefore to include in its bylaws a provision prescribing that the current edition of a specified and generally accepted manual of parliamentary law shall be the organization's parliamentary authority and then to adopt only such special rules of order as it is needed to supplement or modify rules contained in that manual. If a society has already adopted bylaws that do not designate a parliamentary authority, one may be adopted by the same vote as a special rule of order. Special rules of order supersede any rules in the parliamentary authority with which they may conflict.

Robert's Rules of Order is probably the most familiar to people, but there are several other references available on parliamentary procedures. Robert's Rules of Order, however, can sometimes prove to be cumbersome. In fact, some organizations enlist the services of a parliamentarian just to insure Robert's Rules are being followed. Accordingly, a mutual may want to consider alternatives or even drafting their own Rules of Order process that meets its standard practices while maintaining basic elements of Robert's Rules of Order.

Code of Conduct

"As a Company Director of ___________________________________ I Shall"

1. Maintain complete loyalty to my mutual and actively support its objectives and programs.

2. Exercise and insist upon the use of sound business principles in the conduct of my mutual.

3. Recognize and discharge my responsibility to uphold all laws and regulations relating to mutual business activities.

4. Inform myself about affairs of the mutual insurance industry and the organizations with which it interrelates.

5. Maintain the confidentiality of all matters discussed by directors and staff in the affairs of business until these matters become public knowledge.

6. Serve all members of my mutual without giving special consideration to any individual or group.

7. Issue no false or misleading statements to members of the public.

8. Not exploit or permit any exploitation of the position of director.

9. Abide by and support decisions and policies made by the majority of the board.

10. Accept my responsibility for cooperating in every reasonable and proper way with other board members.

11. Refrain from discussing personalities or activities of fellow directors or staff outside the proper business forum.

12. Maintain high standards of personal conduct.

13. Honestly assess my capability and knowledge as a director and make every effort to seek training and education to improve my performance in those areas where I feel deficient.

14. Accept my election as director a "Trust" and an "Honor" and will not hesitate to relinquish my position as director if circumstances prevent me from giving complete and full attention to my responsibilities as a director.

15. Upon my termination as a director, I shall maintain the same trust and standards of this code with my former board members and mutual, as if I was still on the board.

_________________________________ _________________________________
Signature Date

See the **FORMS – BOD** section for a printable fillable form.

Specific Items to Consider for a Director's Manual or Guidebook

- A statement outlining that the manual or guidebook is property of the company and shall be returned in similar condition upon the departure of the director from the Board. (See below)
- Confidentiality Agreement / Non-disclosure Agreement (See below)
- Copies of Articles of Incorporation and the Bylaws
- Copy of the Farm Mutual Act of 1986
- Company mission statement, vision, and values statement (If applicable)
- Goals and strategies
- Annual action plans
- Organizational chart
- Job descriptions
- List of Board members and contact information
- List of company employees and contact information
- List or calendar of future board meeting dates
- Copy of most recent financial reports; Include most recent year-end.
- Company policies, such as Investment Policy Statement, Succession Plan, Expense Reimbursement, etc.
- Copies of dec pages of corporate insurance, especially Directors and Officers Liability, Insurance Company Professional Liability, and Employment-related Practices Liability
- Map of operating territory

Sample Statement that Director's Manual is Company Property

As the Director's Manual will contain proprietary company information, it should be understood that the manual is company property and shall be returned when the Director ceases to serve on the Board. Here is a sample statement:

This manual is intended for the sole use of the person to whom it is presented while said person is active as a Director of ABC Mutual Insurance Company (Company).

This manual is property of ABC Mutual Insurance Company. Once a Director ceases to be an active Director of ABC Mutual, this manual shall be returned immediately to the Company with all contents intact, including contents added after original publication.

See **Forms – BOD** for a printable version

Confidentiality Agreement / Non-disclosure Agreement

It is doubtful any director would intentionally disclose sensitive information that could be detrimental to the company or would be considered highly proprietary. While directors will recognize the need for confidentiality in their proceedings, putting this in writing helps drive the point home. This need for confidentiality is perpetual; that is, it extends beyond the Director's service on the Board. Here is a sample agreement:

As a Director of _________________ Insurance Company, you agree to use all reasonable means to protect confidential Company information from disclosure to persons not authorized to receive such information unless and until the Board, the Company president, or the mutual manager have approved general release of such information. This agreement is in perpetuity.

Confidential Company information includes but is not limited to:

- Business Records and Plans
- Financial Reports, Financial Statements, Bank Records, or Accounting Information
- Investment Information
- Agency and Company Performance Data
- Policyholder Lists and Records
- Agency Lists and Records
- Reinsurance Agreements and Pricing Information
- Employee Data and Records
- Wage and Salary Information
- Trade Secrets
- Technical Information
- Pricing Structure, Rates, Discounts, and Coverage Forms
- Operating Expenses
- Confidential Information from Our Reinsurer and/or Liability Insurer
- Information Presented or Discussed in Board Meetings
- Any Other Proprietary Information

Except with approval of the Board, the Company president, or the mutual manager, all material contained or added to this manual should be considered strictly confidential and shall not be disclosed to anyone outside the Company who is not a current Director or current Employee of the Company.

Data, records, and information generally available to the public, to agents, or to policyholders shall not be considered confidential information.

See **FORMS – BOD** for a printable version.

EXPANSION OF OPERATING TERRITORY

In this section

- **Brief overview of requirements to expand territory**
- **Applicable provisions of the Farm Mutual Act**
- **Also see Procedures to change Articles of Incorporation**

A farm mutual can only write business in the counties so authorized by the Illinois Department of Insurance. Farm mutuals are authorized to write insurance in their domiciliary county (Home County), and the counties contiguous to the Home County. Operating counties are specified in the company's Articles of Incorporation. Hence, to add counties, you must amend your Articles of Incorporation. For details on this process, see the section on Procedures to Change Articles of Incorporation.

You may request expansion of your operating territory under the following guidelines:

1. Net Written Premium cannot exceed three (3) times Policyholder Surplus,
2. Must have at least $150,000 in Policyholder Surplus, and
3. You can add one adjoining contiguous county for each additional $50,000 in Policyholder Surplus.

The mutual must maintain a certain amount of policyholder surplus in order to operate in counties outside of the Home County. If surplus decreases below the amount needed to support your operating territory, the DOI will require you to delete counties from your operating territory by filing amended Articles of Incorporation.

Below are the applicable provisions from Farm Mutual Act of 1986.

(215 ILCS 120/6) (from Ch. 73, par. 1256)

Sec. 6. Territories. The territories of a farm mutual insurance company are limited to its domiciliary county and counties contiguous thereto. However, territories may be expanded by amendment to its articles of incorporation in accordance with Section 7 of this Act.

Territorial limitations shall not apply to reinsurance assumed from other farm mutual companies operating under this Act.

Any farm mutual insurance company which does not wish to avail itself of additional territory authorized by Sections 6 or 7 of this Act or kinds of insurance authorized by Section 5 of this Act may retain the territorial authority contained in its articles of incorporation that were in effect on the effective date of this Act.
(Source: P.A. 84-1431.)

Sec. 7. Additional Territory. Any farm mutual insurance company may amend its articles of incorporation to include other adjoining counties, provided that the company's net written premium did not exceed 3 times its policyholders' surplus as reported in its last financial statement. Subject to the approval of the Director of Insurance, any company having $150,000 policyholders' surplus may add one contiguous county to its territory, and may add one additional contiguous county for each additional $50,000 policyholders' surplus thereafter.
(Source: P.A. 84-1431.)

INSURANCE FOR YOUR MUTUAL

In this section:

- **Below is a brief description of various property, casualty, and professional liability insurance coverages your mutual may need.**
- **All coverages should be reviewed by your Board of Directors with a competent insurance agent to verify that your company's exposures are adequately covered.**

Business Automobile Coverage

All Mutuals have an auto liability exposure that needs to be addressed. If there are any company-owned autos, coverage will be needed for liability coverage as well as protection of the investment in the vehicles. These coverages are available through a Business Auto Policy.

If there is no owned auto, legal liability coverage associated with the use of non-owned and hired automobiles is necessary. This would protect the Mutual from liability exposures created when a non-owned or rented vehicle is being used in the business of the Mutual. For example, an employee drives their personal car to the post office or to the bank. While there may be some coverage under the employee's policy, the Mutual should have their own protection. As all companies have this exposure, business auto liability is needed either through a stand-alone policy or as an endorsement to the property and liability package policy.

Commercial Umbrella

Umbrella insurance refers to liability insurance that is in excess of other specified liability policies such as a commercial general liability policy and business automobile coverage.

Cyber Liability

Cyber liability is the risk posed by conducting business over the Internet, over other networks, or using electronic storage technology.

Directors and Officers Liability Insurance (D & O)

Directors and Officers Liability provides coverage for claims of alleged errors in judgment, breach of duty and wrongful acts against directors and officers of an insurance company.

Employee Dishonesty Coverage (Fidelity Bonds)

Fidelity bonding is often called honesty insurance. A form of surety, it is a means of protection for employers against financial losses due to theft, embezzlement and other dishonest or fraudulent acts by employees, officers, and/or anyone entrusted with the financial affairs of a Mutual. All Mutuals in the State of Illinois are required to carry this type of coverage.

Employment-related Practices Liability Insurance (EPLI)

The number of complaints by employees against their employers arising out of alleged discrimination, sexual harassment, and wrongful termination has exploded. This coverage will protect your company in case a complaint is filed against your company.

Fiduciary Liability Insurance

Fiduciary Liability Insurance protects plan fiduciaries from damages and defense costs resulting from allegations of mismanagement of employee benefits, pension, and retirement programs.

Insurance Company Professional Liability (ICPL)

Professional Liability Insurance provides protection for the Mutual against claims of alleged errors in judgment, breach of duty, and wrongful acts against the insurance company. This coverage may be referred to as insurance company errors & omissions coverage.

Property Coverage and General Liability Insurance

All Mutuals have some type of property (building and/or contents) and general liability exposures. Property losses would include damage by fire, theft, wind, hail, and similar exposures. General Liability includes coverage for claims arising from visitors to the premises whom might trip and fall. Most commercial insurance carriers offer package policies to provide the protection for these exposures. These policies can also be extended to provide liability coverage for the hired and non-owned auto exposure discussed earlier.

Workers Compensation & Employers Liability Insurance

This coverage is compulsory in Illinois anytime there is an employer-employee relationship in your Mutual. The primary function of workers compensation is to provide benefits to an injured worker. In general, benefits are provided for medical expenses and payment for lost wages.

Resources

NAMIC—The following coverages may be available through the NAMIC Insurance Agency and/or NAMICO.

- Cyber Liability
- Directors & Officers Liability Insurance (D & O)
- Employee Dishonesty Coverage (Fidelity Bonds)
- Employment Practices Liability Insurance (EPLI)
- Fiduciary Liability Insurance
- Insurance Company Professional Liability (ICPL)

Mutual Agents—One of your mutual's agents may be able to provide guidance or suitable markets for needed insurance coverage.

Independent Agents—You may find other agents not affiliated with the mutual who specialize in commercial insurance.

MERGERS

In this section:

- **Factor to consider when contemplating a merger**
- Also see the **Mutual Merger Comparison Worksheet** in the **FORMS** section**.**

There are many reasons why companies may decide to merge. Each company should examine their objectives regarding the merger process. Reaching a decision regarding a merger takes careful consideration by each individual company. The Board of Directors ultimate responsibility is to provide good decisions and direction for the betterment of the company and policyholders.

Below are some items that should be reviewed in making your decision to merge. These are just a few of the many items that may need to be reviewed in order for the board to make an informed decision.

1. Location of Risks / Writing Territory:

   A Farm Mutual is allowed to write in the county of the home office and all surrounding counties. Additional counties may be added with permission from the Illinois Department of Insurance. Because of this limited territory, we usually have a very heavy concentration of risk. Will the consolidated company be more concentrated or will it allow for a spread of the risk? Will an amendment to the by-laws be required to add counties? You will need to amend the Articles of Incorporation with approval of the IL DOI.

2. Types of Risk:

   The Farm Mutual Act allows for writing personal and farm property coverages. In some areas of the state, there are no longer the farms that there once were. Therefore, some companies have opted to write homeowners business. A review of perils written, lines of business, type of insurance provided, such as actual cash value policies or replacement cost policies, and insurance-to-value should be made.

3. Rate Adequacy:

   A review of rates should be made to determine how Company A's rates compare with Company B's rates. Significant differences in rates will impact the amount of business that is retained after the merger, and will impact the expected written premium as well as the expected expense ratio and expected loss ratio. A plan should be made to reconcile the differences.

4. Financial Risk:

   An evaluation of each company's financial health should be made and then the financial health of the combined company determined. Surplus to premium ratio, permitted assets, outstanding liabilities, lawsuits, outstanding claims, equipment and/or building leases, and pension obligations should be reviewed.

5. Personnel:

   The staffs of companies may be one of the major items that would affect a potential merger. In the event that one company has personnel who are retiring or relocating, timing could be everything in getting the two companies together to culminate and finalize the merger. If there are too many employees to fill the available positions, decisions will need to be made as to which employees are retained.

6. Board of Directors:

   A discussion of what board members will make of the new board will need to be had. In some cases, board members want to retire and only a few individuals want to remain on the combined board. Any changes in the number of board members will need to be made in the Articles of Incorporation and filed with the Department of Insurance.

7. Technology Systems and Workflow:

   If both companies use the same policy administration system, a merger could be somewhat easier. You should contact your system provider to see if there is technology available to help.

   If the companies use different processing systems, then a plan to consolidate should be made. You will need to determine which system to use and how to process the policies on that system. Evaluate the benefits, features, and provider support of each system. Communicate with the system providers.

   If you must manually re-enter business from one company into the successor company's system, understand the impact on personnel and expenses. You may wish to retain existing employees for a period of time, or hire temporary employees, to assist in the transfer of business.

8. Reinsurance:

   Reinsurance is a major expense for a mutual insurance company. A merger may allow the successor company to increase its reinsurance retention, along with the ability to increase the aggregate excess portion of the reinsurance contract, which could lower your overall reinsurance expense as a percentage of premium. Communicate with your reinsurance carrier early in the merger process. They may be able to give you an estimate of the impact on your reinsurance expense and provide other guidance.

9. Department of Insurance:

   State statutes require certain procedures be followed in order for policyholders to approve the merger. It is suggested that you contact the Department of Insurance and understand those procedures. You may also want to hire an attorney to provide you guidance along the way. Please contact IAMIC for the name of an attorney that provides these services.

As stated at the beginning of this document, the Board of Directors ultimate responsibility is to provide good decisions and direction for the betterment of the company and policyholders. After reviewing the information above and other relevant information for your company, the Board must ask, "Is this merger good for our member policyholders?" A merger for merger sake is not the answer. The merger must benefit both companies and also be of value to the existing policyholders. If this question cannot be answered positively, there is a good possibility that the merger may not be successful.

In the **FORMS** section, you will find a helpful **MUTUAL MERGER COMPARISON WORKSHEET**.

INVESTMENT POLICY STATEMENT

In this section:

- **Brief overview of the need for and purpose of an investment policy statement**
- **See Section 12 of the Farm Mutual Act for investment limitations and guidelines**
- **Find a sample investment policy statement in the FORMS section**

Each mutual insurance company should develop a written investment policy statement. This document should specify parameters for investing the funds of the company. This provides stated guidelines to the individual(s) or committee making the investments for the company. The investment policy statement should include a clause that the company's investments will comply with the requirements outlined in the Farm Mutual Act of 1986.

This investment policy statement should be developed by the Board in conjunction with the Treasurer. Once the policy statement is developed, it should be formally adopted by the Board of Directors and reviewed periodically.

The Treasurer should periodically make an investment report to the Board of Directors. At a minimum, this report should show for the period covered the investment purchases, those liquidated or matured, and the sum total of the portfolio. This report should be adopted by the Board at the meeting when the report is given.

All farm mutual companies in the state of Illinois are obligated to follow the Illinois Farm Mutual Insurance Company Act of 1986 (215 ILCS 120/). Investment guidelines and limitations are covered under Section 12 of the Farm Mutual Act. The limitations are usually based on a percentage of the company's admitted assets or the company's policyholder surplus. You should periodically review the most recent edition of Section 12 and make sure your investments are in compliance.

See the **FORMS** section for a sample **Investment Policy Statement**.

STRATEGIC PLANNING

In this section:

- **General discussion of strategic planning**
- **Elements of strategic planning—SWOT analysis, mission statement, core values, strategic vision, strategic plan, annual action plans**
- **Communication of the plans**
- **Monitoring, Review, Reporting, and Adjusting**
- **Planning retreat**
- **Meeting facilitator**

Introduction

Strategic planning helps businesses survive and grow in a competitive environment. It can also help a business maximize stakeholder value for policyholders, directors, employees, and agents. Basically, strategic planning provides a business with a road map to get to where the business wants to go—from point A to point B—over a given period of time.

There are numerous strategic planning models available. From a review of resources, one might conclude that developing such a model is a requirement for professors at business schools. Models often include a narrative filled with current buzz words along with supporting flowcharts, graphs, or diagrams. Everything make sense when viewed within their context, but many are designed for large, complex organizations and may not be well-suited for farm mutual insurance companies.

Even though business school strategic planning models may be unsuitable for farm mutuals, the process is no less important. Farm mutuals should plan. Most do plan in some way, but their plans often remain unwritten and un-communicated to the appropriate parties.

As with many things in life, the planning process may be as important as the actual finished product. The process provides opportunities to examine the company inside and out, encourages open sharing of ideas and concerns, and provides the company with focus and direction.

In this paper, we will proceed through one planning model that should work for most farm mutuals. The basic elements in this model include:

- A Mission Statement
- Core Values
- Strategic Vision
- Strategic Plan
- Annual Action Plans

From Randall Resources International for NAMIC Convention Management and Leadership PFMM Class

- Reasons Mutuals Fail
  - Lack of Focus
  - Lack of Direction
  - Lack of Action
- Benefits of Strategic Business Planning
  - Focus and direction
  - Company "profit"
  - Engage employees by building cohesion and create sense of "ownership"
  - Survival
  - Recognize and take advantage of opportunities
  - Resource allocation
- Top 5 Reasons Farm Mutuals Do Not Utilize Strategic Planning
  - Never had to before
  - Lack of understanding
  - Busy-ness (or laziness)
  - Fear
  - Pride
- Strategic Planning helps to assure that everyone's perception and understanding is ALIGNED.

Getting Started

Below are planning elements from several strategic planning models which seem to be fairly common. These elements can be used as a framework for developing a long-term strategic plan as well as short-term business plans.

In developing a strategic plan, you will examine various aspects of your operations and take a critical look at who you are, where you are, and most importantly, who and where you want to be in the future.

Environmental Scan (SWOT Analysis)

It is helpful to periodically complete a SWOT Analysis. This is done to help identify both internal and external factors that may impact the company. The SWOT analysis can be used to identify areas that need improvement as well as areas that could be advanced to help the company grow. An honest SWOT Analysis is a critical part of the planning process and may be as important as the final plan itself.

- **Strengths**—characteristics, qualities, resources, and capabilities that could be used to build a competitive advantage. Examples: brand name recognition; trained staff; good distribution network; reputation; history; financial stability; low cost of operations
- **Weaknesses**—lack or opposite of strengths; areas needing improvement; requires company self-examination; could also ask for external input (agents, reinsurer, customers)
- **Opportunities**—opportunities for growth; to address unmet needs or underserved customers; new technologies; ability to expand current products/services or launch new products/services
- **Threats**—environmental changes that could adversely affect the company. Examples: legislation and regulation; emergence of alternative products or distribution systems in the marketplace; shifts in consumer buying behavior; new competitors in market; current competitors launching new products or services; social and political trends; changing demographics.

See the **FORMS** section for a **SWOT Analysis Worksheet.**

Mission Statement

A mission statement is comprised of one to three written, concise, carefully crafted sentences stating the company's mission. What is the purpose of the company? It should paint a picture of why the company exists. Basically answers the who, what, why, and how questions. Not focused just on today, but should also reflect the future. Provides a basis for strategic decision-making. Should be written to be shared outside the organization. Mission statements do not change frequently.

Core Values

The core values of an organization are those values you hold which form the foundation on which you perform work and conduct yourselves. They are core priorities which help "define" the organization and its culture. May address business relationships and interactions with customers as well as working relationships within the organization. May outline the overall strategies used to fulfill our mission. Can be shared outside the organization.

Five-Year Company Vision (could also be Three-Year)

May be referred to as *"long-range planning."* A detailed short story of what the company will look like in 5 years, but set in the present tense as if you were describing it right now. Paints a picture so everyone in the organization can "see" it. Will help board, management, and staff jointly understand the direction of the organization. Should be updated and recast at least every five years. This is proprietary information and should not be shared outside the organization, unless required for business purposes. (Example: May want to share with reinsurer.)

Typical issues addressed:

1. Key financial benchmarks—written premium, surplus, loss ratios, operating expense ratio, reinsurance loading
2. Company size—policies in force, insurance in force, staff
3. Writing territory—improve spread of risk, increase market
4. Products—variety of products or lines of business offered, appearance and clarity of policy forms
5. Distribution System—number of agents, locations, profile, training
6. Market penetration—rank in agencies, market share
7. Technology—agency tools, internal processing system, consumer resources
8. How we want to be perceived in the marketplace—insurer of last resort or premier insurer?

Five-Year Strategic Business Plan (could also be Three-Year)

The company vision distilled into a master working document. Used to provide a handy, concise reference document for directors, management, and staff. Should be written in electronic format to allow for changes and updates.

Business plans focus on the "*how*" aspect of the process. Include measurable goals that are realistic and attainable as well as challenging. Emphasis is on long-term goals and strategies, rather than on annual objectives. Should address issues that will support the Company Vision.

Annual Action Plans

Specific goals to be completed within the plan year. Must support the mission, vision, and five-year strategic plan. Goals should be measurable, achievable, challenging, and time specific. Goals can later be broken down into tasks.

This is a great opportunity to involve staff. The mission statement, core values, vision, and strategic business plan should be shared with staff. Then staff can help develop the action plans and corresponding tasks. This increases staff cohesion and buy-in. Plus, they should have input into the plans they must ultimately implement!

Communications

Mission statements and core values could be shared with the public by being posted on your web site, and perhaps published in newsletters or stuffers. The remaining components above are proprietary and should be shared only with the board and staff, unless a business need warranted distribution to others. For example, a lender or reinsurer may be provided an edited version of certain plan documents for business purposes, such as negotiating a loan or reinsurance premiums.

Monitoring, Review, Reporting, and Adjusting

The Board and Management should agree on how the business plan and annual action plans will be monitored, reviewed, progress reported, and adjusted as necessary. Management and staff will be responsible for implementing and monitoring the plan. The Board must oversee the business plan and make sure you stay on track. An appropriate and effective means of reporting progress to the board should be jointly determined. Regular board meetings would seem to be the obvious forum for reporting on annual action plans.

A cautionary note: Plans need to be flexible. Goals and tasks may need to be changed during the year. Time schedules may be determined to be unrealistic. New information may require realignment of priorities. Goals may be determined to be unachievable due to external factors. Some may even be deleted if they become obsolete for some reason. Priorities may need to be adjusted if new opportunities present themselves. You do not want to miss a good opportunity because “it isn’t in the plan.” A good plan provides direction and focus without handcuffing the organization. This quote sums it up well: “Use the plan as a compass, not as an inflexible blueprint for action.”

Planning Retreat

Most resources recommend an off-site planning “retreat” for strategic planning. This allows directors and management staff to get away from the office and focus on planning by being away from daily distractions. This enhances creativity and critical thinking.

Location suggestions include: a hotel meeting room, board room of your local bank or other company, a church classroom, community building, a school or community college classroom or meeting room, etc.

While it may not be possible for all directors, allow for a full day off-site meeting, including a continental breakfast and a “working lunch.” It may not take all day or you may find the process tiring. You may not be able to complete all elements during this session, but try to get done as much as possible. Final drafting of major elements as well as action plans and tasks could be completed at a later date.

Follow-up or interim planning sessions can be done at regular Board meetings, but a retreat should be considered for your first strategic planning session, and subsequent major planning sessions.

Facilitator

This person leads the planning retreat discussion. Emphasis is on keeping the discussion focused and moving forward. The facilitator helps the group avoid getting off on tangents that can bog down the process. The mutual manager or a Board member may serve as facilitator. You could ask someone from your reinsurer to be facilitator. You might consider a local business associate or college professor. Some large organizations may even bring in outside consultants to lead all or part of the planning process.

PREPARING FOR A BUSINESS PLAN

In this section:

- **Primary considerations in developing a planning team**
- **The planning process**
- **Key characteristics of goals**
- **Developing action plans**
- **Benefits of planning**

A business plan is a vision of how to optimize the potential of the organization. It is more than a document. It is a management tool.

Key components for consideration:

1. Who is the Planning Team?
   a. Large enough for diverse perspective
   b. Small enough to manage

2. Who should be on the Planning Team?
   a. The mutual manager
   b. Selected Board members
   c. Key employees
   d. Anyone with a role in implementing the "plan"

3. Who should not be on the Planning Team?
   a. Absentee or passive board members (lack of knowledge and/or contribution.)
   b. Customers and suppliers
   c. Employees with no management responsibility

4. What is the Planning "Process"?
   a. Review the current situation (SWOT Analysis)
   b. Determine your vision for the company
   c. Assess your strengths and weaknesses
   d. Identify your opportunities
   e. Assess the threats

5. The Planning "Process" – Determine your strategic objectives
   a. Short term-completed within 12 mos. (Annual action plans)
   b. Long term-completed within 3 years.

6. Be Smart! Goals should be:
   a. Specific
   b. Measurable
   c. Attainable
   d. Relevant to strategy
   e. Time-related
7. Action Plans
   a. Draft
   b. Approval by Board
   c. Implement
   d. Monitor progress
   e. Update your plan annually
8. The benefits of Planning
   a. Priorities are focused
   b. Efforts are aligned
   c. Builds motivation, enthusiasm, and commitment throughout your organization
   d. Leaves little to chance
9. Planning is Forever
   a. Planning is not a destination; it is a journey.
   b. Planning is not once and done.
   c. Planning needs to be a constant activity, because **change is constant.**

DISASTER RECOVERY PLANNING

In this section:

- **What is disaster recovery and why is it important?**
- **Scope of plan**
- **What normal operations need to be resumed as soon as possible?**
- **Types of potential disasters and level of impact on the organization**
- **Assessment of the situation**
- **Key components of the plan**
- **Plan development and implementation**

What is disaster recovery?

Disaster recovery planning is the process of creating a document that details how a business will recover from a catastrophic event and resume normal operations. Such plans may also be referred to as business continuity plans.

The primary goal of a disaster recovery plan is to reduce the overall risk to the company. Many companies, especially small businesses, are not prepared to deal with events that may disrupt operations. Without a plan, such businesses may struggle to return to operation following a disaster. Many fail to return to operation at all.

Scope of Plan

The focus of a disaster recovery plan will be events that could disrupt normal operations for *more than 24 hours*. The event may not be over in 24 hours, but your goal is to resume normal "day-to-day" operations within 24 to 48 hours. Note that resuming normal operations does not necessarily mean that the event is over. Additional work may need to be done to repair, rebuild, or replace damaged property. Additional disruptions may occur. The goal is to be back in business and operational as quickly as possible.

Low impact or short-term events that have relatively minimal effect on normal operations can usually be dealt with under an emergency plan. Such a plan should outline what to do in an emergency, including when to evacuate and when to shelter in place. These events would normally be expected to be resolved in less than 24 hours and cause a disruption of operations for 24 hours or less.

Normal Operations

Farm mutual insurance companies must be prepared to resume normal operations as quickly as possible. Failure to do so could result in a loss of confidence in the company and could result in new and existing business flowing to other insurance companies. It is critical that you resume operations "without missing a step."

As an insurance company marketing through independent agents, you benefit from the fact that your retail operations generally do not occur on your premises. Instead, retail operations are conducted by your agents. While it is possible that some agents could be affected by the same events that could disrupt your operations, it is very unlikely that all retail operations would be disrupted.

Critical normal operations would include the following abilities:

- Handle claims—receive claim reports and assign to adjusters, investigate, negotiate settlements, produce proof of loss notices, issue and mail claim checks
- Receive and deposit premium payments
- Bill premiums
- Issue renewals
- Receive, underwrite, and issue new business policies
- Respond to agent and customer inquiries
- Communicate with agents
- Accounts payable

Your disaster recovery plan should address each of the above.

Disasters Defined

Disasters may be natural or man-made. They could occur on or off premises. They could be short-term or long-term in duration. They could be short-term or long-term in the time normal operations are disrupted. They could vary in the degree of damage to real and/or business personal property.

From a business perspective, any event that disrupts operations long enough to interfere with your normal business activities could be considered a “disaster.” While no plan can foresee all possible events, your disaster recovery plan should address a wide range of potential threats.

Below are some types of events that could adversely affect your normal operations:

- Tornado or windstorm damage to building and/or contents
- Hail damage to roof or windows
- Severe snowstorm
- Runaway fire in surrounding fields or surrounding buildings
- Lightning damage to building, phone system, internet connectivity, computers
- Earthquake or volcano
- Other natural event that makes the building uninhabitable
- Building collapse—by natural event or structural failure
- Fire or explosion damage to building or systems
- Water damage to building or systems
- Power surge damage to systems

- Loss of utilities—water, phone, internet, electricity, natural gas
- Building not accessible due to a hazardous condition in the area—chemical spill, leak of hazardous fumes, smoke, fire, nuclear incident, an auto accident, or damage to roads
- Building not accessible due to actions of legal authorities
- Criminal threat or civil disobedience to building or employees—bomb threat, person with weapons, actual shooting, riot, civil commotion. Would often be considered an emergency situation, but could be considered a disaster situation.
- Computer system failure—by equipment breakdown; sabotage; vandalism; theft; computer virus; unintentional error or damage; software failure; environmental hazards

Disaster Levels

The following levels are provided as a means to classify the extent and degree of an event.

- Level 1—Lowest Level; Minor damage to building and/or contents; Can remain in building; Could be at full operational capacity within 3-5 days.
- Level 2—Moderate Level; More than minor damage to building and/or contents; May need to relocate for 7-14 days while repairs are completed.
- Level 3—Medium Level; Significant damage to building and/or contents; Will need to relocate several weeks or months while repairs are completed.
- Level 4—Significant Level; Severe damage to building and/or contents; Will need to relocate for one to six months while repairs are completed.
- Level 5—Highest Level; Building and contents destroyed; Will need to be completely rebuilt; Will need to relocate for at least six months, or find new facilities.

These are "guidelines" and are not absolute. For example, you could have moderate damage, but with some temporary repairs be able to stay in the building. Or, there could be a relatively minor amount of damage that could take longer than 3-5 days to be back to normal operations (destruction of computer server). You may wish to develop your own system of classifying disasters. The idea is to develop some sort of classification system that will help you determine the resources you may need to overcome the situation.

Assessment

As soon as practical, an assessment of the situation and any damage should be made by management and/or a disaster recovery team, a disaster level declared, and the appropriate action steps should be implemented in accordance with the plan document. The assessment should determine what property can be used and what cannot be used. Special attention must be given to your information technology system.

Key Components of the Plan

Your disaster recovery plan should address the following:

- Disaster Analysis and Damage Assessment—What happened? How are we impacted and for how long? What is damaged? What can be used? Who will activate the disaster recovery plan?
- First Responder Notification—Contact list for police, fire department, EMS, haz mat, utility companies, etc.; Who will call?
- Secondary Notification—To employees, directors, agents, customers, accountant, your reinsurer, your property insurance carrier, vendors, especially policy administration provider, and news media; What to say and what not to say to those outside the company, especially media. Message on web site? Employee briefing?
- Special Notifications—To family of any injured or missing employee. Maintain contact list in off-site manual or other off-site resource. Who will call?
- Staffing—Who to report and where to report for duty? Flexible hours allowable to meet business needs? How will payroll be handled? Possible to direct deposit? How will expenses be handled?
- Information Technology Systems—How do to obtain a replacement server? Desktop computers? Routers? Printers? What cables are necessary to re-establish network functionality?
- Software and Data—Location, security, and quality of back-ups; replacement of critical systems and retail software; Who is responsible for back-ups? How long to obtain? Where are they?
- Inventory of Needed Equipment and Supplies—What is needed and where to obtain? How long will it take to obtain replacement equipment and supplies? What forms are necessary? Are forms backed up somewhere? Include forms in manual?
- Facilities—Finding alternative locations if necessary; Have list of short-term and long-term options—known space, local realtors, temporary/portable buildings
- Contact Lists—Addresses, phone numbers, and e-mail addresses for employees, directors, vendors, suppliers, and agents; include back-up suppliers in the event primary suppliers are also affected by the disaster
- Checklists—To facilitate successful plan implementation in the event of an actual disaster
- Procedures Manual—Copy kept off-site; include all office operations
- Building and Site Maps—To locate utility shut-offs, exits, fire extinguishers, computer server location, and employee workstations.
- Other Resources—Office Procedures Manual; Agent files; Reinsurer

- Filing Your Insurance Claim—Who will create a list of damaged and undamaged equipment? Do we have photos to help document our property? Who will oversee the claim on our behalf? What can be salvaged?
- Disaster Plan Manual—Who will have and in what format? Make sure all copies are updated when revisions are made.
- Disaster Recovery Plan Review and Testing—Schedule for periodic review of plan to be sure it still fits our operation; assign responsibility for updates; mock (tabletop) disaster plan drill.

Plan Development and Implementation

There are a variety of ways to build a disaster recovery plan. Numerous resources can be found on the internet. There are simple templates that can be used. There are off-the-shelf software programs that can be purchased ranging in cost from several hundred dollars to thousands of dollars. Large companies may have designated coordinators, managers, and staff involved in disaster recovery as part of their risk management program.

You can build a basic disaster recovery plan document internally. This should be a team effort involving all company staff. The plan should involve input from all employees as to what information and supplies would be needed for them to continue their job functions in the event of a disaster.

While staff is absolutely necessary to operate the company, the key to restoring operations is your technology. As with most other businesses in today's world, insurance companies are at the mercy of information technology (IT). In fact, the whole arena of disaster recovery plans really developed out of a need to restore IT systems. If you use an on-site server for policy processing and most other functions, re-establishing that server function is paramount to disaster recovery. Another option you might consider for the future would be to migrate to a web-based policy processing system in which all system data is maintained on the vendor's master server, with their own redundancies. In that case, you could resume operations in a matter of minutes from any computer with an internet connection.

In drafting a plan, be careful not to get bogged down in details and minutiae. No plan can address every possible situation. An overly detailed plan could become cumbersome and unusable. Instead, the plan should consist primarily of contact lists and checklists to help provide a framework for management and staff to use their experience and skills to restore normal operations.

After the plan is drafted, run through a tabletop mock disaster to test the plan. During the mock disaster, verbally work through the plan and make sure normal operations would be resumed. If the plan fails at any point, necessary modifications would be noted.

Once the plan is finalized, hard copy manuals should be distributed to appropriate staff and one or two directors. Keep at least one copy off-site in a safe, secure location, such as a bank lock box. Electronic copies should also be backed up on appropriate media, such as a CD or flash/jump drive. The location of all hard copies or electronic copies should be recorded so they can be updated in the future.

The plan should be reviewed, probably once every 2 to 3 years, to make sure it still fits the company's needs. Operations, vendors, and systems are subject to change over time. Major changes should be made immediately, while minor changes might be picked up on the periodic review. (Example of a major change might be implementing a new policy processing system.)

See the **FORMS** section for a **Disaster Recovery Plan** template.

MANAGEMENT SUCCESSION PLAN

In this section:

- **A sample Management Succession Plan. It may be used as is, or you may wish to extract ideas to craft your own MSP.**
- **Planned departure of the mutual manager**
- **Emergency or unplanned absence that is permanent in nature or duration is unknown**
- **Non-emergency, temporary absence**
- **Process of seeking a replacement manager**
- **Desirable qualifications of a mutual manager**
- **Reminders for granting temporary authority to act as manager**

Introduction

A Management Succession Plan (MSP) outlines how the mutual will respond in the event the Mutual Manager resigns, retires, becomes unable to carry out his/her duties, or is terminated by the Board of Directors. While many operations of the Company may continue temporarily without a Mutual Manager in place, the long-term success of the Company requires that a qualified Mutual Manager be in place to lead the day-to-day operations of the Company, to provide leadership, to implement the decisions of the Board of Directors, and to continue to act on behalf of the mutual members.

Choosing a new Mutual Manager should not be rushed. Accordingly, this MSP provides for the appointment of an Acting or Interim Manager while the Board searches for a permanent replacement.

Planned Departure of Mutual Manager

A Planned Departure of the Mutual Manager could occur if the Manager informs the Board that within the next 6 to 12 months he/she will be:

- Retiring.
- Otherwise voluntarily separating from the Company on good terms.
- Unable to perform the duties of Mutual Manager.
- Unable to perform the duties of Mutual Manager, but wishes to remain with the Company in a different capacity.

A candidate search should begin as soon as possible so that the Manager may participate in the selection and training of the replacement Mutual Manager for at least three months or more.

Emergency or Unplanned Absence Situations—Acting Manager

In the event of an emergency or unplanned absence situation, the President may appoint an Acting Manager. Examples of such situations would include:

- Death of the Manager.
- Manager becomes suddenly incapacitated due to illness or injury and the duration of the incapacity is uncertain.
- Manager becomes suddenly unavailable for other reasons and the duration of the unavailability is uncertain.
- Manager retires, but is unable to provide at least 6 months advance notice.
- Manager voluntarily separates from the Company with little or no advance notice.
- Manager is terminated by the Board.

The Acting Manager may be someone within the Company with adequate time and experience with the Company to oversee the day-to-day operations. The President shall immediately inform the Board that an Acting Manager has been appointed. At the next regular meeting of the full Board of Directors, the Board shall vote to approve or disapprove the appointment of the Acting Manager. If the Acting Manager is not approved, the Board shall select another person to serve as Acting Manager.

The President and/or Board shall grant the Acting Manager the authority necessary to conduct the operations of the Company. The Acting Manager shall perform the duties of the Manager until such time as the Board determines that an Interim or a new Mutual Manager is needed.

Non-emergency, Temporary Situations—Interim Manager

An Interim Manager may be appointed by the Board. This may be necessary if:

- The duration of the Mutual Manager's absence is for an extended period of time due to illness or injury, but the Mutual Manager is expected to return and resume normal duties.
- The search for a new Mutual Manager extends beyond the date of departure of the Mutual Manager.
- The Board has identified a suitable candidate to fill the Mutual Manager position, but the candidate will not be able to join the Company immediately.

The President and/or Board shall grant the Interim Manager the authority necessary to conduct the operations of the Company. The Interim Manager shall perform the duties of the Manager until such time as the Board determines that a new Mutual Manager is needed.

Process for Finding a New Mutual Manager

Once it is determined it is necessary to hire a new Mutual Manager, a Manager Search Committee will be assembled to conduct the initial search for the permanent manager. The Manager Search Committee shall be comprised of the President, Vice-president, the current Mutual Manager if available, and up to two additional Board members selected by the President and Vice-president.

The Manager Search Committee may consider seeking candidates through the Illinois Association of Mutual Insurance Companies (IAMIC), the National Association of Mutual Insurance Companies (NAMIC), online job postings, job fairs, or local advertising. As deemed appropriate, the Manager Search Committee may also seek advice and input from others outside the Company such as your reinsurer, reinsurance marketing representative, accountant, or financial advisor.

Once the Manager Search Committee has evaluated potential candidates, they shall present their leading candidate(s) to the full Board for consideration. If the full Board approves one of those candidates, that person will be hired as:

- Assistant Manager, if the current Mutual Manager remains actively employed and available so that training can begin training as soon as possible, or
- Mutual Manager, if the current Manager is not available.

If a candidate is not approved by the full Board, the process shall continue until a suitable candidate is chosen.

Desirable Qualifications for a Mutual Manager

- Bachelor's degree or equivalent work experience required.
- Minimum five to seven years of previous property/casualty insurance industry work experience in major functional areas such as underwriting, claims, marketing, education, or reinsurance.
- Previous experience in the farm mutual insurance industry highly desirable.
- Prior management experience is strongly preferred.
- Effective oral and written communication and interpersonal skills are required.
- Must possess strong analytical, strategic, decision-making, and problem-solving skills.
- Proficiency in using computers and relevant software required, including but not limited to Microsoft Outlook, Word, and Excel. Experience with Microsoft PowerPoint and Publisher a plus. Experience or expertise with similar software will also be considered.
- Continuing education in the insurance industry is preferred, such as CPCU, CIC, or PFMM.

Reminders for Acting, Interim, and New Mutual Managers

If the mutual appoints an acting, interim, or new mutual manager, be certain to provide adequate authority and notifications, such as:

- Authority to sign checks and conduct other banking.
- If the previous manager was Company secretary, you may need to issue a policy endorsement signature page.
- Notify your reinsurer, accountant, investment manager, system and software providers, other key suppliers, and IAMIC.
- Do you need a name/signature stamp for various documents?
- Secure the corporate seal.

AGENCY MANAGEMENT

In this section:

- **What is agency management?**
- **Planning, prospecting, recruiting, and appointing new agents**
- **Agency onboarding**
- **Marketing to independent agents**
- **Monitoring and rehabilitation**
- **Agency terminations**

Introduction

Management of a mutual's agency force involves several aspects. As most mutuals today work with independent agents, this section will focus on planning, prospecting, recruiting, appointing, onboarding, marketing, monitoring, rehabilitation, and terminating of independent agents. We will examine these aspects from the standpoint of appointing new agents, but many of these will apply to existing agents as well.

Independent agents represent more than one company. The have the option to place business with your company or with another company. Independent agents are independent business professionals who manage their own offices, operations, and personnel. It is important to remember, then, that when we speak of "agency management" we are not talking about actually managing the individual agency. Rather, we are talking about managing the agency-company relationship from the company's perspective.

Planning

Here are some questions to consider in planning for new appointments:

- Are you looking for growth at the moment?
- Can your staff handle more incoming business? Will you need to add to staff?
- Do you need additional agents?
- Are you seeking to expand your operating territory or looking to grow in areas where you are under-represented? What counties do you intend to target?
- How many agents do you want to add? How many new agents can your staff onboard?

Prospecting

Here are some ideas and considerations on finding new agents:

- Referrals from current agents are a great source. In doing so, however, consider the quality of the referring agent. If a new agent calls your office and was referred by one of your best agents, that is probably someone you want to talk to. If the referring agent is not held in high regard by your office, proceed with caution.

- If an agent calls you simply because they found you on the internet, proceed with caution. An agent fishing for new carriers may have lost a carrier. You'll obviously want to know that and why. May be a great agent for your mutual, but evaluate carefully.
- You may be able to find new prospects by participating in trade shows offered through agency organizations such as the Independent Farm Insurance Agents of Illinois (IFIAI) or the Independent Insurance Agents of Illinois (IIAI). The IFIAI typically holds an educational meeting in January or February and an annual meeting in early June. At both meetings, a company trade show is offered in which you can meet agents who focus on farm insurance. Likewise, the IIAI has an annual convention in October with a larger trade show attending by agents from all over Illinois.
- There are numerous online resources to find agents. You could use the internet to search for prospects in a particular area, by zip code, or by type of insurance sold.
- Cold calling is another method that could be used with caution. Cold calling occurs when a company representative drops into an insurance office while traveling through an area. Keep in mind, you do not have an appointment and must be respective of the agent's time. If the agent is not available or is with a customer, have materials to leave behind along with your business card. If they are interested, they may contact you shortly. You may also follow up by phone in a couple days.
- You could also use "drive-by" cold calling in which you do not actually go into the office, but you obtain what information and impressions you can gather from outside. If your impressions of the agency are positive, follow up with a direct mail letter.
- You could send direct mail letters out to agents in a given area.
- Adjusters and reinsurance representatives may also be resources for new agent prospects.

Recruiting

Once you have developed a list of agency prospects, you may want to narrow your focus to target agents for a formal visit:

- Use the internet to find agency websites. You can often find valuable information about the agency staff, types of insurance offered, and other carriers in the agency. This may help you refine your prospect list.
- Develop and print materials you can leave with prospective agents. You will want to highlight your products and other advantages you feel you can offer. What do you write? What is your territory? Summary of office staff. Reinsurance carrier. This material could be a formal brochure or a one-page handout. Be sure to include contact information and your web address. Agents will want to check you out online, too.
- Call prospects to set up appointments to visit with the agency principal(s). Ask the principal if they would have 15-20 minutes to visit with you. If the agent wishes to extend the meeting beyond 15-20 minutes that is fine, but let that be their choice. Be respective of their time. Leave your materials and ask if you could follow up in a few days. Then make those follow up phone calls.

- Your first intention is to get in the door to introduce yourself and your company. Also try to ascertain if the agent writes the types of business you write. Is there a niche that you can fill in the agency, or are you going to be just another plaque on the wall?
- If the agency sought you out, try to determine why. While that is not necessarily a bad thing, an agent who seems in a hurry for appointment, may be having problems with another carrier.
- Pay attention to your "gut feelings" about the agency. Observe how the agency is run. Does the staff appear to be up on technology? What is the office environment like? Is it professional? Is this an agency you would do business with as a customer? Is this an agency you would feel comfortable bringing your manager or president in for a visit?

Appointment Process

Assuming you and the prospective agent are BOTH interested in moving ahead, it is time to begin gathering information.

- If not done during the prospecting process, be prepared to discuss and outline your agent compensation program, including commissions and contingency program, if applicable.
- We recommend you develop some sort of questionnaire to capture necessary general information.
- You will also want an Agent Application for each licensed person in the agency along with a copy of their license.
- Request a current copy of the agency's E & O declaration page.
- Ask the agency to complete a W-9 form. This will provide you their tax ID number and their taxing status—sole proprietor, LLC, partnership, corporation.
- Request copies of the agent's profit and loss statements from their top 3 to 5 carriers for the past 3 to 5 years. Ask for the year-end reports. You may also want to request mid-year reports. These should be carriers that write business similar to what you write. For example, you would not want statements for carriers who exclusively write auto insurance.
- Request any other supporting materials you desire.
- Once you receive the requested data, evaluate all the information you have and decide if you want to appoint the agency. In many cases, you have already made a "gut" decision and are making sure your decisions is validated by the data.
- If you decide to appoint the agency, assign a code number and enter the agency into your policy administration system as well as any other systems required for the agency to conduct business with your company. If necessary, set up agency users with access to your online services, such as quoting, policy inquiry, online payments, etc.
- If required, submit the necessary documentation for appointment to your reinsurance carrier and/or liability carrier.

Agency Onboarding

- Prepare contract documents as well as any commission and/or contingency commission documents. You may consider sending these documents for signature by mail or electronically. If not, they could be signed at your onboarding meeting.
- You may want to prepare an agency information sheet for each agency personnel. This sheet would show company address and phone number as well as the name and contact information for company personnel. For example, the name of the underwriter, the name of the person responsible for billing questions, adjusters, etc.
- Call the agency to arrange an onboarding ("training") session for the agency staff. (Be sure to find out how many people are in the agency.) While being respectful of the agency's time, consider that such as session could take up to two hours. Allow time for questions. You may have to adjust your time and depth of training based on the knowledge of the staff and their availability. If you have a website and/or an agent portal, be sure to fit a demonstration into your onboarding session.
- Gather or make copies of any materials you will need for training—brochures, cheat sheets, personnel lists, business cards, etc.
- Be sure to take some promotional marketing materials for the agency to begin using—pens, note pads, mouse pads, mugs, etc.
- You may also want to consider bringing food or treats. Or, you may want to offer lunch as part of the process.
- If it has been some time since you last conducted new agent training, practice. Yes, practice. Run through your presentation and adjust as necessary. You want your presentation to flow logically, be effective, and efficient. You may also find additional materials are needed to support your training.
- Arrive a few minutes early, but not too early.
- Conduct your onboarding session.
- Follow up with the agency about a week later to see if any questions have arisen.

Marketing

Stay in touch with all your agents, but especially with new agents. Here are some tools to consider:

- Introductory phone calls from support personnel in your office. Example: underwriter; billing specialist; adjuster
- Periodic mass e-mail messages. Send to agents as blind copies so as not to share recipients e-mail addresses. You might consider various e-mail marketing solutions available.
- Newsletters.
- Agency visits—manager, underwriter, adjuster, etc.

- Agent meetings.
- Social functions for agents.
- Holiday cards or nominal gifts.

Monitoring

Use whatever measures your mutuals uses to monitor agency performance, such as:

- Number of new applications received. If there is little or no activity, follow up with the agency to see if additional training is needed or if there are other issues.
- Quality of business received. Talk to the underwriter. Is the agency producing good business? Are apps fully completed with required supporting materials? Is the agency responsive when additional information is needed?
- Loss ratio.
- Quote to hit ratio.
- Claims processing. Are claims reported promptly? Are claim forms completed?
- Working relationship with your support staff. Are things going smoothly? Or, is the agency considered to be "high maintenance?"

Rehabilitation

From time-to-time, you may find performance problems with individual agencies. You may wish to study and determine if there is anything that can be done to correct the problems. Here are a few potential problems and thoughts for consideration:

- Lack of Production—Is more training necessary? Is more frequent contact with the agency needed? Does the agency consider your company to be harder to do business with than other carriers? Has the agency contracted with another company that is receiving the bulk of the new business? Are your rates out of line for the territory?
- Loss Ratio—Is the loss ratio unacceptable? Does it indicate an ongoing trend or is this a blip, perhaps caused by one large loss? Is the problem only with certain classes of business?
- Poor Quality Business—Is the agency using your company as a dumping ground? Does the agency not understand your market niche? Does the agency not understand your underwriting guidelines?
- High Maintenance—Again, is more training necessary? Is the agency calling the office for answers they could find online?

Once you have identified the problem(s), you need to develop a plan or corrective action(s). A good rehabilitation plan is an agreement between you and the agency. Explain to the agency what your concerns are. Provide documentation. Work together to try to correct any problems. If possible, put the plan in writing. Set deadlines and measures of success. Here are a few things to consider as far as corrective actions:

- Additional Training—Time for a "do-over" or restart? Schedule a session.
- Implement a New Business Moratorium—Limit or withdraw authority to bind or quote? Only specific lines of business?
- Re-underwriting—Review existing business to determine whether to non-renew specific policies. Who will do the re-underwriting—the agency, the company? Will inspections be ordered? Keep in mind, if you find properties in poor condition, you may need to give the insured time to correct the problems. See the Rehabilitation section in the Summary of Key Insurance Laws for Farm Mutual Companies.
- Continue to Monitor—Your investigation may not reveal any obvious solution. That is, you know there is a problem, but the cause is not apparent. You will still want to monitor the agency's performance and be prepared to take corrective action.

Termination

Termination of an agency should be a last resort. Agency termination is not fun and it means your business relationship has failed. It may become apparent, however, that the rehab efforts made by the company and/or the agency have not turned things around. Sometimes you find that there is not sufficient time to invest in a rehab program in hopes that things *might* get better. You may simply find that your company and the agency were just not a good match. In these situations, agency termination becomes necessary.

Personal relationships may delay agency terminations. The agency principal and staff may be have become part of "the family." You must remember, however, that your primary obligations are to your policyholders and the long-term stability of the mutual. This may mean making the difficult decision on whether or not to continue an agency relationship.

In the Acts, Laws, and Statutes section you will find information on agency terminations. Here are a few key points:

- You must provide an agency 180 days' advance written notice of termination. This may be waived by a written and signed agreement providing otherwise.
- You must maintain proof of mailing of the notice to the agent. (Certified Mail—Return Receipt)
- During the 180-day period, the agent cannot bind or write any new business without specific written approval of the company.
- Once the 180-day period has expired, you must renew all policies for at least one year.
- Termination of an agency is not a valid reason to non-renew policies.
- You can use claims or other non-discriminatory reasons to non-renew. Non-renewal reasons must be able to be understood by the average person.

MUTUAL OPERATIONS

In this section:

- **Basic outline of general office procedures—phone calls, mail, and premium payments.**
- **Daily activities—Quotes, binders, daily policy administration, and claims processing.**
- **Periodic duties—paying monthly bills, filing governmental reports, and monthly policy administration.**
- **Year-end processes**

Introduction

This section of the Mutual Manager's Manual has been developed to give you basic guidelines and ideas to assist you in your mutual's operations. The following is in no way intended to be a complete list of everything that may be accomplished in your office in any given day. While each item listed may be assigned to various personnel to handle, it is your responsibility as the manager to know who is doing this work, how the work is being done, and to understand why the work is being done the way it is. Each mutual is different and the following should only be used as a reference.

Telephone Calls

1. Do you have specific procedures as to how calls are to be answered and by whom?

2. Do you keep a telephone log?

3. Are all messages pertaining to a particular file kept with that file?

4. Is there a central distribution center for messages, or are messages hand-delivered to the individual to whom it belongs?

5. Do you have a plan for telephone calls taken from angry policyholders; such as, who handles these calls, are they all forwarded to the manager? Does staff know how to handle these calls if the manager is not in the office?

Incoming Mail

Mail for the office is either picked up at the post office or delivered to your office. If it is picked up at the post office, whose job is it to do this and when is the pick-up time? Once the mail gets to your office it should be opened, date stamped, and distributed. Distribution of the mail may include pulling the corresponding file and delivering the file and the mail to the appropriate person.

Premium Payments

Checks—Payments for premium due are received in most offices every day. These payments should be entered into your computer system daily so that reports can be run showing outstanding premium and paid premium. Who enters the payments into your policy administration system? Who takes the deposit to the bank?

Credit Cards or Electronic Funds Transfer (EFT)—Who processes these payments?

Overdue Premiums

You should have an established procedure for overdue premium payments. Do you send a second notice? If so, when does that go out? When do you send the final notice? When do you send a cancellation? Are copies sent to agents?

Whatever your Company policy, it should be strictly adhered to so all policyholders are treated the same way each time premium is due. Please refer to the **Cancellation Procedures** section of this manual for proper notice to policyholders as required by state law.

Quotes

Some companies provide online quoting solutions or quoting software. Therefore, they may not calculate quotes for agents. Other mutuals do all the quoting in-house.

Quotes are given to agents when they request them. The agent may be in the process of writing a new piece of business for your mutual and want a more accurate quote than he/she feels they can do by hand, or they may require a more professional looking quote that you can print for them from your computer system.

If your mutual supplies quotes to your agents, you should ask yourself:

1. Are our quotes binding?

2. Is the price of my quote exactly what the insured will be charged?

3. What happens if you forget to put something on the quote that the agent requested?

Insurance Binders

An Insurance Binder is a temporary insurance contract that affords an insured coverage until the actually policy is written. A binder can be used with new business and may also be used if a renewal application has been received late by the company and coverage will expire on the policy before the renewal can be processed. Using binders is a specific mutual decision.

Policy Processing

When applications for insurance come into your office, whether by a new application, renewal application, or endorsement request, you will need to do some sort of policy processing. You will need to enter the information into your policy administration system in order to get the premium amounts, declaration pages, and billings. You will also need to put the actual policy together with the proper forms attached for mailing to the agent or to the insured.

New Business

New Business applications should be reviewed in a timely manner. There are state laws that will apply if you must decline that piece of business. Here are some questions to consider when reviewing the new business application:

1. Is the application complete, including signatures or initials where necessary?

2. Are all questions answered to your satisfaction?

3. Has all required documentation been received as required by your underwriting guidelines, ex. photos, replacement cost estimator, credit/loss reports, payment

4. Does the property need to be inspected before you will accept the application?

Certificates of Insurance

A Certificate of Insurance can be used to show insurance coverage that is already in force. A new mortgage company may request a Certificate of Insurance to show the coverage that is currently in force. Likewise, an insured may need a Certificate of Insurance to show they carry liability for a certain event or special project.

Endorsement Requests / Policy Changes

Endorsement requests are changes or modifications in the coverage or other provisions in the policy. Endorsements can be as simple as a mortgagee change or telephone number change. Endorsements may be more complex, such as underwriting a new exposure, (for example, the insured may be building a large machine shed).

Endorsements can occur any time during the policy period. Premium is figured on a short-term or long-term basis depending on when the insured was billed and when the endorsement is to be effective.

Each mutual will have their own way of accepting endorsement requests. Here are some questions for consideration:

1. Do you require signatures of the insured on policy change requests? All requests, or only requests reducing or restricting coverage?

2. Do you require photos of new structures?

3. Do you require new replacement cost estimators for building/dwelling changes?

4. Who can make the request? Agent? Insured? Others with an interest in the policy? Can a mortgage company call your office to say they have bought someone's mortgage and want to be added to the policy?

5. Do you accept policy changes over the telephone from insureds or agents?

6. Do you accept policy changes by e-mail or fax? Are agents able to request changes through your online system?

Cancellations

Cancellation of policies can occur for many reasons. Each type of cancellation has different rules that apply. If you are canceling the policy for the statewide carrier (reinsurer/package company) as well as yourself, be sure you are including their requirements on your form. Copies of the cancellation should also be sent to all mortgagees and/or loss payees on the policy. Please refer to the **Cancellation Procedures** section of this manual for proper notice to policyholders as required by state law.

Claims—New Loss Notice

Handling claims is one of the most important tasks of any insurance company. The process starts with notice of the loss. You should have written procedures on how loss notices are received and how they are processed through the office.

1. What is your procedure for receiving notice of new losses? Do you require the loss notice to be completed and sent by the agent? Are notices accepted via fax or e-mail? Do you have another electronic means to receive loss notices?

2. Are you staffed to accept loss notices by phone? From agents? From policyholders?

3. If you accept phone loss notices, do you require that be followed by a written notice?

4. Do you have a claim reporting process for major claims that happen outside of regular business hours?

5. What is your process for handling a loss notice for a liability claim, or any other claim not covered under your forms? How do you notify the package company?

Please refer to the Claims section of this manual (page 54) for tips and advice on claim handling.

IAMIC Educational Meeting Notices

If you receive information from IAMIC regarding meeting notices or upcoming educational seminars, be sure to forward these on to your Agents and Directors. Many times agents and directors do not receive the news from IAMIC and would gain a great deal from attending these seminars.

Periodic Tasks and Reports—Monthly—Quarterly—Annually

For most mutuals, there are tasks that must be completed on a regular basis or at specific times of the year.

MONTHLY

PAY YOUR OFFICE BILLS—Office expenses such as rent, telephone, postage, credit cards, utilities, etc. are bills that are usually due monthly. Depending how you set up your schedule to make payments, you may pay them as soon as you receive them, once a week, or on a certain day each month. If you package with wind or liability carriers, you will also need to pay the premiums you owe them for their portions of the policy (wind, liability, inland marine) each month.

PAYROLL TAXES—Whether you pay your employees once a week, bi-weekly, twice a month, or once a month, you will probably need to make deposits for your payroll taxes on a monthly basis. The federal 941 tax consists of the federal income tax, social security, and Medicare taxes. These taxes are paid quarterly by filing Form 941 Employer's Quarterly Federal Tax Return. The employer is required to match the social security and Medicare amounts. You will also need to file Form IL-941 for state income tax required to be withheld from your employees. Payment of the payroll taxes should be remitted to the federal government at www.eftps.gov and to the State of Illinois at www.mytax.illinois.gov. If you use an outside service for payroll processing, they may file the appropriate documents and pay the taxes for you.

If you have a retirement plan, check with your plan provider as to how often you must remit payment for company and/or employee contributions to the plan.

COMMISSIONS—Commissions are paid to agents who write business for your company and your package company each month. It is important that you check your monthly statements from your packaging companies to make sure that you are paying the agents the correct commission.

REINSURANCE AND/OR PACKAGE COMPANY PREMIUMS—Reinsurance premiums and package company premiums are usually due on a monthly basis. Make sure you have adequate funds on hand to make those payments. You may also want to consider using EFT for such payments to eliminate writing an actual check.

EXPIRED POLICIES—At least once a month you should run an expiration list from your computer system to make sure all policies that should have been renewed were renewed.

MONTHLY BOOKKEEPING—Once a month you will need to close out the month on your system. This will probably consist of balancing your checkbook, making sure your general ledger balances, and that all payments and deposits have been put in the proper accounts. You should also run claim reports to make sure that your claim reports equal the amount of claims paid in your general ledger and also set reserves for outstanding claims. Running a General Ledger every month to make sure everything equals out and all credits and debits were entered into the correct account is also important. If you have a mistake, now is the best time to catch it and fix it. Once the month has been closed out, mistakes are more difficult to correct. After all this is done you will need to run financial statements for yourself and your Board of Directors. The most common reports are the Balance Sheet and the Income Statement.

QUARTERLY

PAYROLL TAX REPORTS—Payroll tax reports may be due each quarter for following taxes: Federal Withholding (941) 941 For 2015: Employer's QUARTERLY Federal Tax Return - Forms may be printed from IRS Website with instructions. State Withholding (941) Form IL-941 2015 Illinois Withholding Income Tax Return – Forms may be filed electronically at www.mytax.illinois.gov. Federal Unemployment No form is required each quarter, however, you may have to deposit your FUTA tax before you file your annual return. If your FUTA tax is more than $500 for the calendar year, please review the irs.gov website for requirement deposits. State Unemployment UI Quarterly Form – May be filed electronically at www.ides.il.gov using Illinois Tax Net. Again, an outside payroll service may handle these payments for you.

COMMUNICATE / MEET WITH YOUR AGENTS—Agents produce business for your Company. Visit them regularly to see how they are feeling about your Company. Some companies try to do something special for their Agency force on a yearly basis. They may hold an agent's meeting offering continuing education credits, have a golf outing, a lunch, or anything else that lets them know how important they are to the Company

ANNUALLY

ARTICLES AND BY-LAWS—The manager should review your Articles and By-Laws on an annual basis with the board to determine if changes are needed. Articles may need to be changed to comply with the Farm Mutual Act. For example, if you want to expand into additional counties, you will need to amend your Articles. By-laws may need to be changed to reflect current business practices. (Please refer to the Section in this manual on Articles and By-Laws)

ANNUAL MEETING—Under the Farm Mutual Act, every mutual is required to hold an Annual Meeting of Members (Policyholders) on or before May 1st each year. The time and place will be stated in the Articles of Incorporation (or By-Laws). Some companies have many policyholders attend, while others have only the Board of Directors. Some companies may have a meal for their policyholders along with the meeting. Discuss with your Board as to the extent of your annual meeting as all these things will more than likely be the manager's responsibility.

RATES & COVERAGES—Review rates at least annually. You will want to review your losses by line of business to determine which lines are underperforming. Adjust rates accordingly. Your reinsurance company may be able to provide additional assistance.

BUDGET—A budget is your best estimate of the Company's expected income, losses, and operating expenses for the coming year. Review your current financial reports and make projections for premium income, losses, and expenses. You may also want to make adjustments if you have had a significant change in business operations during the year or anticipate a significant change in the coming year.

EMPLOYEE PERFORMANCE REVIEWS—Performance reviews should be completed at least annually (maybe more often if you have a new employee). Salaries and other compensation could be discussed at this time as well. Keep in mind that significant performance deficiencies should be dealt with as they arise, not a surprise during the annual review. Also, performance reviews need not be scheduled for year-end. With all of the other activities happening at year-end, performance reviews could be scheduled at other times.

END OF YEAR BOOKKEEPING—Processing and closing the end of the year is similar to processing and closing each month except the financial reports will also be provided to your accountant and/or auditor. Reports needed to be prepared for year-end are as follows:

1. State of Illinois Annual Statement (Due by January 31st. You may request an extension to February 15th, but the request must be received by the IL Department of Insurance by January 25th.)
2. Federal Unemployment Form 940 (Due by January 31st)
3. W-2 forms for Company employees, along with the W-3 for the IRS (Due by January 31st)
4. 1099-MISC forms for agents and vendors who are not incorporated, along with 1096 for the IRS. (Generally due to recipients by February 1st. Due to IRS by the end of February.)
5. 1120 Income Tax Return for both Federal and State (Due by March 15th)

Note: The above dates are generally enforced, but may be changed or extended. Check with the appropriate government agency each year to be certain. Be sure to post the most current State and Federal Law postings – refer to this website for up to date printable forms https://www.dol.gov/oasam/boc/osdbu/sbrefa/poster/matrix.htm

CLAIMS

In this section:

- **Developing a claims handling philosophy and/or strategy.**
- **Basic claims handling procedures and service standards.**
- **Avoiding "bad faith" claims against your company.**

Introduction

For farm mutual insurance companies, handling claims quickly, fairly, and equitably is part of our reason for being. Insurance was created to reduce and spread risk of financial loss when certain fortuitous events occur. Insurance reduces risk of financial loss for the individual policyholder and spreads that risk among all policyholders. In exchange for this reduction in risk, each policyholder pays a premium, which is then used to pay for covered losses that may occur.

Insurance companies were created to manage this process. The company issues policies, collects premiums, and pays out claims under the terms of the policies issued. Hence, proper handling and settlement of claims is central to our existence.

We also realize that we must be good stewards of the premiums paid by our policyholders. This is reflected in how we operate, how we maintain costs, how we invest, and how we pay claims.

Recognizing that each mutual is different, the following topics present a general overview of the claims handling process. You will also find numerous useful documents in the **FORMS** section.

Developing a Claims Handling Philosophy and/or Strategy

It is suggested that each company develop a brief statement outlining the company's general claims handling philosophy or strategy. This simply sets the tone for claims handling and may serve as guide when there are apparent conflicts or when new procedures are suggested. You can measure the proposed actions against your philosophy or strategy statement to see whether or not you should proceed. Such statements can be very complex and detailed, or they may be short and to the point. Below are two examples to get you started:

This is from a reinsurer's claims adjusting manual:

> **We believe in providing prompt and fair service. We take a positive approach to handling claims, working hard to resolve them as quickly and fairly as possible. Proper investigation of the facts and a realistic evaluation of the facts and circumstances of the claim should be foremost. Our duties will be carried out with the highest ethical and professional standards.**

Here is a simple claims strategy statement:

> **Our claims strategy is simple: *We pay what we owe.***

Basic Claims Handling Procedures

Receiving New Claims—Define your preferred method(s) for receiving new loss notices. Loss notices should provide the date and time of the loss and a description of the loss. It is also vital to have the most recent contact information for the insured. Phone numbers may change, especially as people give up land lines in favor of mobile phones.

Do you accept loss notices only from agents, or do you accept them directly from policyholders? Make sure your agents know and understand their role in the process. Loss notices may be submitted through your company website, via e-mail, or by fax. You may also decide to accept loss notices by phone, especially major losses. You may also want to develop a procedure for reporting major losses that occur outside of normal business hours.

Assign a Claim Number and Assign the Claim to an Adjuster—Do you use independent adjusters, company adjusters, or a contracted adjusting service? Use some process for logging receipt of the claim and enter the data into your claims management system.

Acknowledge the Claim—Send an initial acknowledgement of the claim to the agent and/or the insured. Some policy admin systems can generate such acknowledgement notices and send them by e-mail. The acknowledgement should provide the claim number, description of the claim, and the name and contact information of the adjuster.

Policy Confirmation—Determine that a policy was in-force at the time of the loss. Note any special line items or endorsements that might be involved.

First Contact—We all know the adage about never getting as second chance to make a first impression. The same holds true in claims handling. The first contact with the insured usually set the tone of how the claim will go. People are often skeptical of insurance companies and adjusters. They may have had a bad experience in the past. They may have heard unfounded rumors. They are likely unfamiliar with the claims process and may be apprehensive. The voice of a pleasant, confident, and understanding adjuster can often put people at ease and will pave the way for a positive experience for all involved.

The adjuster should contact the insured as soon as possible to obtain an initial assessment of the loss. This also gives the adjuster an opportunity to coach the insured on the claims process and to suggest any immediate remediation that might be necessary (contact a board-up service; turn off leaking water; contact a service to extract water; seek temporary living arrangements; etc.) At this time, you should also determine if a special investigation report is necessary. For example, you may want a special investigation to determine the cause and origin of a fire.

Investigation—For most losses, it will be necessary for the adjuster to personally observe the damage and assess the circumstances. For minor losses, this may be accomplished by examining photos from the agent or insured. The adjuster will also talk to the insured to try to determine what actually happened to cause the loss.

Coverage—Based on the investigation, is the loss covered by the policy? Is a covered peril involved? Is the damaged property covered under the policy? Is some of the damaged property not covered? Do any exclusions apply? Are there any policy limits that might affect loss settlement? What is the applicable deductible? Is the loss settlement based on replacement cost or actual cash value?

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Damages—How much will it cost to repair or replace the damaged property? Are any estimates or receipts available? Does the adjuster write an estimate, or do you rely on contractor estimates? If using a contractor estimate, is it reasonable with respect to the damages? Is extra work included on the estimate that is not really part of the claim?

Loss Settlement—The adjuster should explain the results of the claim analysis to the insured. If the claim is not covered, this should be explained and documented in writing to the insured. If the claim is covered, but less than the deductible, this should be explained and documented as well. If a loss payment is necessary, do you require that a Proof of Loss signed by the insured? Do you require the insured to complete the POL, or does the adjuster complete the POL? A Proof of Loss outlines the coverage, the basis of any settlement amount, the application of the deductible, and the amount to be paid.

Claim Payment—When the POL is signed and returned, the claim should be processed for payment as soon as possible. Make sure all parties with an insurable interest are shown as payees on the check, including mortgagees and loss payees. (For smaller claims, you may agree on a company procedure to waive the listing of a mortgagee, especially if you are fairly certain the repair work has been or will be completed.) You may agree to include a contractor or vendor on a check for work performed, provided your insured agrees.

Documentation—All activities and contacts must be recorded in the claim file. Anyone reviewing the file in the future should be able to easily determine what contacts were made with the insured, when and where the adjuster met with the insured, and how any claim payments were determined. Copies of inventory sheets, estimates, and bills should be in the file. Other items to include would be photos of the damaged property, police reports, fire department reports, signed waivers and agreements with the insured, and special investigation reports.

Closing the Claim—Have a written procedure for closing claims. The claim should be closed when the final payment has been made so that the claim is not pending on your open loss reserves report. You may want to send a closing notice to the agent.

<u>Service Standards</u>

You may want to consider developing a set of service standards that will further define your claims handling philosophy and procedures. Below is a sample to get you started.

1. Everyone we deal with shall be treated with a high degree of respect and courtesy. This includes policyholders, agents, contractors, service companies, attorneys, and others involved in the claims process.
2. Likewise, we expect to be treated with respect and courtesy by others. We will not tolerate verbal or physical abuse to company employees or those representing us.
3. Company adjusters shall carry a photo ID. Said photo ID shall be presented to policyholders, representatives, or legal authorities as necessary.
4. Except in unusual circumstances, a policyholder or their representative presenting a claim will be contacted within 24 hours of our receipt of the claim. If phone or personal contact cannot be achieved in that time frame, the adjuster should send a written

contact by mail or e-mail. In the event of a major loss, the policyholder or their representative will be contacted as soon as possible.

5. We will send a claim acknowledgement to the agency when a new claim is received. The acknowledgement will identify the claim number and the adjuster, including the adjuster's contact information.
6. When claims are closed, we will send the agency a closing notice. The notice will advise if the claim was closed without payment or with payment and the amount paid.
7. While it is ultimately the responsibility of policyholders to prove their claims, company personnel and adjusters shall provide the highest possible level of assistance and guidance to the policyholder or their representative. We recognize that while we may deal with claims every day, this experience is likely unfamiliar to the policyholder.
8. Documentation of claim files is of utmost importance. Documentation of contacts with policyholders and agents regarding claims is critical to the process. It is also critical to document why and how much is paid. Adjusters shall be responsible for making certain such documentation is in the claim file. A Claim Activity Log should be a part of every claim file. ***(If it's not in the file, it didn't happen.)***
9. Documentation of claim files will also include copies of estimates, receipts, bills, photos, special investigation reports, engineer reports, police and fire department reports, and other information to support the claim settlement.
10. Where a claim payment is made, a Proof of Loss (POL) form outlining the payment shall be part of the file. The POL should clearly indicate the coverage part, the reason for the payment, and any applicable deductible. Additional terms and information may be included. In general, POL forms shall be signed by the policyholder or representative, unless signature is unattainable or the amount paid is less than established guidelines. POLs need not be notarized unless the adjuster deems it necessary.
11. Any denial of a claim, or any part of a claim, must be documented in the file. The denial should be memorialized in writing to the policyholder or representative. Any such denial should clearly indicate why the claim or any part of a claim is not being paid, and should reference specific policy terms, if applicable.
12. Unless circumstances warrant, it is preferred that all claims be handled by company adjusters. In the event of excessive claim load, a catastrophic event, or unavailability of company adjusters, independent adjusters may be contracted. We may also use a contracted claims adjusting service.
13. Exception: Company adjusters shall not adjust the claims of any company employee, company officer, company board member, or agent, or any family member of thereof. Said claims will be referred to adjusters outside the company with oversight by the mutual manager.
14. The mutual manager should be notified immediately of any claim expected to be $50,000 or more. Notice may also be required to your reinsurer.
15. Claims reserves shall reflect our best estimate of the potential amount to be paid.

16. Except in rare situations, the Special Investigations Unit shall be contacted to investigate any fire loss, or any other loss deemed necessary by the adjuster. Engineers or other specialists may also be brought in to investigate and document cause and origin of fire or any other claim.
17. Where subrogation is a possibility or where coverage may be in question, utmost care must be taken to preserve evidence and maintain chain of custody of said evidence.
18. All claims should be settled as quickly as possible.
19. Once settlement of a claim or portion of a claim is complete, all claim payments should be processed as quickly as possible. Claim checks may be mailed or given to the adjuster for delivery. Policyholders may also come to our office to pick up a check. In those situations, Company personnel should take appropriate steps to identify the policyholder and their right to receive the check before having the person sign any documents or receive the check. This can best be accomplished by asking the person to display a photo ID. Delivery of such a check should be noted in the claim file.
20. All claims shall be handled in accordance with the Illinois Unfair Claims Settlement Practices Acts and Regulations.

Avoiding "Bad Faith" Claims

Thankfully, bad faith claims against farm mutual insurance companies are rare. This may be because we view our policyholders as "members" of the mutual and do our utmost to treat them fairly. Let's discuss briefly what "bad faith" means and then turn to ways you can reduce the potential for "bad faith" claims against your mutual.

"Bad Faith" Defined—As insurance companies, we owe a duty to treat everyone fairly and exercise good faith in all we do. When a claim occurs, our primary obligation is to investigate the claim, determine the amount of covered damages, and pay the proper value for the damaged property. If we fail to meet this primary obligation, the policyholder may sue the company for breach of contract. That is, the company failed to abide by the terms of the policy. In such lawsuits, the insured may be awarded monetary damages in excess of the terms of the policy (extra-contractual damages) as a means to punish the insurance company for its actions.

Such legal actions are typically reserved for cases in which the insurance carrier's actions are so far outside their own procedures as well as generally accepted procedures as to constitute a deliberate action to avoid paying a legitimate claim in a timely manner; that is, the company acted in "bad faith" in handling the claim. Honest mistakes or errors in judgement would not typically give rise to a claim of bad faith.

Bad faith claims may expose the company to excessive monetary damages that would not be covered by the company's own insurance. Bad faith claims may also damage the reputation of the company. Even if the company might eventually win the lawsuit, the damage to the company's reputation and standing with other policyholders or the public may already be done. Social media can spread news quickly. And unfortunately, information exonerating the company may not receive as much attention as the initial news.

Reducing the Potential for Bad Faith Claims—In today's litigious society, people may sue for just about anything, especially if they have little to lose in doing so. You could do everything right, but if an insured feels they have been mistreated, they can likely find a lawyer to bring a case against the insurance company. (Good lawyers, however, will counsel their clients to drop the case if it is without merit.)

So how can you reduce the potential for such legal actions against your mutual? There is no magic formula, but here are some tips:

- Establish written procedures for handling claims. You may want to have your procedures reviewed by your corporate attorney.
- Follow your procedures consistently. And make sure outside claims services are doing the same.
- Treat everyone with respect and understanding, even if that is not returned to you.
- Keep your policyholder informed as to what is going on, what they need to do, and what you intend to do.
- Evaluate all claims objectively. Do not allow the actions or comments of the policyholder, a contractor, or another representative of the insured to alter your normal evaluation of the claim.
- Abide by the Illinois Unfair Claims Practices Act.
- Document. Document. Document. But never put anything in writing that could be deemed to support a cause of bad faith. If you would not want to have your comments read aloud in court, don't say them and don't put them in writing.

Please see the **FORMS - Claims** section for numerous tools to help you with your Claims Handling Procedures.