

LAUTUM *news*



2006 Convention Highlights



Also **INSIDE**

- Award Recipients
- State of the Industry Report
- "Duty to Defend" Cases

Chairman's Message

Harry Fehrenbacher, Heartland Mutual Insurance Co.

CONTENTS

Chairman's Message	2
Lautum Award Winner	3
Chairman-Elect's Message	4
Memorial Report	6
Fire Department of the Year Award Winner	7
Company Achievement Award Winner	8
Volunteer of the Year Award Winner	9
2006-2007 Board of Directors & Committee Members	10
Recent Illinois "Duty to Defend" Cases	12
Convention Highlights	14-15
State of the Industry Task Force Report	16
Board in Review	24
Thanks to Volunteers	25
Bylaws Amended	25
Mutual News	25
IAMIC Calendar of Events	26
President's Message	27



There is a cool north breeze blowing as I write this, reminding me that the summer growing season is coming to an end and fall is approaching. The IAMIC fiscal year end is also rapidly approaching. With the convention over, work is progressing on the budget and priorities for next year. With this changing season, my term as chairman is also coming to an end.

I have enjoyed the opportunity to chair this organization during its 125th year and have especially enjoyed the chance to communicate with all of you in this venue each quarter. I am pleased to report to you that the state of our association is very healthy. We have fiscally sound programs that pay for themselves and contribute to the general overhead. We have a very active membership that makes this organization vibrant. We have educational programs that are a model for many others in this industry. And, we have a government advocacy

It is up to each of us to examine our company's financial and business health and design ways to move it forward.

program that is focused on building long-term relationships with key policy makers. I think you can be proud of your association and can rest assured that your efforts and the efforts of those whom you have elected to govern IAMIC have been effective.

The state of our mutual insurance industry in Illinois is less robust. As a part of the IAMIC board of director strategic planning effort this year, the board commissioned a task force to assess the state of the farm mutual industry in Illinois. The report from this task force was not available in time to be included as a part of our convention, but it is printed in this issue of the *LAUTUM News* (see page 16). I encourage you to take

the time to read it and think about its implications for your mutual company.

The conclusions of this report are that while we have a successful and proud history, the farm mutual insurance industry today operates from a weak capital base. The increased values of the property we insure and the inconsistent profitability, especially underwriting profitability, have accelerated the decline in our capacity. The report also concludes that with our size, lack of accountability to our owners, and lack of profitability, the level of professionalism of our managers and boards of directors is not on a par with our competition. These issues, together with limitations on the products we offer and relatively undeveloped underwriting and operating procedures, make it very difficult to attract the next generation of quality leaders with the drive and entrepreneurial spirit to move the industry forward.

The task force is aware of the dangers of making observations about the industry as a whole. While these conclusions are sobering, many member companies have made strategic decisions to counteract these trends

and to differentiate themselves in the marketplace. The purpose of this task force was to point out that the strategies that were appropriate and successful during the past century are not all working well today. It is up to each of us to examine our company's financial and business health and design ways to move it forward.

I hope you find this report useful and thought-provoking. The mission of IAMIC is to help mutual members be more successful. Identifying weaknesses and obstacles to that success is a first step. Our overall strategy of working together for our mutual benefit can be a strong tool in identifying the next step to accomplish that mission. ♦

Bev Fick, PFMM Receives Lautum Award

The Lautum Award is the highest honor that we bestow on one of our members. Created in 1972 as a means to recognize outstanding individual contributions to their community, the association and the mutual insurance industry, the Lautum Award is presented to the person who has earned the respect and esteem of their colleagues.

Our 2006 recipient, Bev Fick, PFMM, has worked in the mutual insurance industry for 32 years, fourteen of which as manager of Bradford Victor-Adams Mutual Insurance Company.

She has served on numerous IAMIC and NAMIC committees, attends all IAMIC seminars and conventions and has been recognized with the Professional Farm Mutual Manager designation for her commitment to the industry.

Bev is a member of the IAMIC Impact Society, a member of the NAMICO Board of Directors and a former IAMIC Chairman.



She was also honored in 1997-1998 with the Businesswoman of the Year for her hometown.

Bev's enthusiasm, dedication and commitment to this industry have earned her the respect and esteem of her colleagues.

Congratulations to Bev Fick, PFMM for being named the 2006 recipient of the Lautum Award! ❖

Annual Convention Strategic Partners

We would like to express our appreciation to the following companies for so generously donating funds to help sponsor our 125th Annual Convention.

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Chairman'-Elects Message

David Campbell
Magnolia Evans Mutual Insurance Company



Although there may be challenges and changes ahead, some things will not change. IAMIC will continue to be a great source for education opportunities for the members and will continue to strengthen our relationships with the Division of Insurance and legislators on the state and federal level.

The 125th anniversary of IAMIC was celebrated at the recent convention where I accepted the chairmanship. On November 1st, I will assume the responsibilities as Chairman of

IAMIC and I look forward to addressing the challenges that lie ahead. I also look forward to working with the Board of Directors and Committees to bring the services, programs, and products that you as an IAMIC member value.

To ensure that you are receiving a good value for the membership dues that you pay, we will review the practices, policies and operations of the Association and make any necessary revisions or changes.

As challenges can sometimes bring necessary changes to any organization, challenges can also provide opportunities

that may not otherwise have been possible. With these newfound opportunities, innovative ideas can be implemented to bring progress and prosperity to our organization.

Although there may be challenges and changes ahead, some things will not change. IAMIC will continue to be a great source for education opportunities for the members and will continue to strengthen our relationships with the Division of Insurance and legislators on the state and federal level.

IAMIC will continue to be successful because of the dedicated volunteers who donate their time and talent.

I thank everyone who is sacrificing their time to serve on committees. I look forward to working with the members.

IAMIC exists to serve you, so that your company will prosper and arrive at its desired destination. As a collective body, IAMIC is your partner and by working together we will be able to continue a tradition of success. ❖

2006-07 Committee Chairpersons:

- Budget Roger Needham, *Forreston Mutual*
- Convention David Campbell, *Magnolia Evans Mutual*
- Education Malcolm Rowland, *Rockford Mutual*
- Government Relations Joe Reid, *Hamlet Mutual*
- Audit Cindy Theis, *Kane County Mutual*
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Mutual News

Obituaries

■ **Larry Bush**, board member for **Forreton Mutual Insurance Company**, recently passed away. Larry devoted years of service to Mt. Pleasant Mutual and then Forreton Mutual when the two companies merged.

Announcements

■ **Forreton Mutual Insurance Company** and **UML Mutual Insurance Company** announced that the two companies merged effective September 1, 2006. The merged company headquarters will be in Forreton, IL and the company will operate under the name Forreton Mutual Insurance Company.

■ **Frontier Mutual Insurance Company** has announced that **Larry Cook** of Lincoln, IL has been named Executive Vice President. Larry has worked closely with independent insurance agents for 20 years, starting with Economy Fire & Casualty as an underwriter in 1986 and then in various marketing management positions with large national carriers. ♦

Memorial Report

The Illinois Association of Mutual Insurance Companies wishes to express its sincerest condolences to the families and friends of the following IAMIC members who have passed away over the course of the last year. Each individual was recognized during the Annual Convention Prayer Breakfast.

Larry Bush

Forreton Mutual Insurance Company

Bob Curtis

Carthage Mutual Insurance Company

Walt Darling

Rockford Mutual Insurance Company

Norma Krenz

Mendota, Rockford, and Bradford Mutual Insurance Companies

Robert Ketzle

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A POLICY OF WORKING TOGETHER

Erie Fire Department Named IAMIC Fire Department of the Year

This year marks the seventh that IAMIC has recognized an Illinois Fire Department for their contributions to their communities. The award was established in 2000 because of the importance of fire departments in preserving life and property in our local communities.

The 2006 recipient of the Fire Department of the Year award embodies all that we value in our fire departments – courageousness, determination and dedication. It is with great pleasure therefore that we presented the 2006 Fire Department of the Year award to the Erie Fire Department.

Erie Fire Department is one of the largest volunteer Fire Departments in the state—covering 120 square county miles. Currently there are 25 volunteers who continually receive the proper training on equipment and procedures in order that fire protection at the volunteer level is always maintained at the standards of today’s professional units.

The department has been very active both nationally and locally in service to their fellow man. Most recently, four firefighters and the main line pumper responded to the New Orleans area as part of the first call from the Illinois Emergency Management Agency deployment. These volunteers served a two-week tour of duty helping clean debris, standby duty, and door-to-door rescue and recovery in St. Bernard Parrish.

Other notable activities of the fire

department are presenting “Operation It’s Your Choice”, a hard-hitting program about the importance of seatbelt usage and refraining from drinking and driving, as well as “Operation Child Find” —a program to fingerprint and identify children

in local schools. The department has also provided annual educational programs to their local schools.

To help raise money for equipment, the department hosts a breakfast fundraiser and sponsors both a fishing tournament and golf outing for surrounding departments.

As active as they are brave and committed, Erie Fire Department is a model for the many volunteer fire departments in our state.

The dedication and determination that this department has diligently put toward the betterment and safety of their community earns them badges of honor with every service call. We are proud to recognize the Erie Fire Department with the Fire Department of the Year Award and offer them our congratulations and sincere thanks for the work they do. ❖



As active as they are brave and committed, Erie Fire Department is a model for the many volunteer fire departments in our state.

Get a Piece of History

Remember those beautiful panoramic photos of the conventions of 25, 50 and 75 years ago? It’s great to look back and see our mutual member’s enthusiasm for the industry and the association.

That enthusiasm was recaptured at the 125th Annual Convention and the photos are

now available for ordering.

At just \$50 per photo you will have a lasting memory of our shared IAMIC history. Contact the IAMIC office at leadership@iamic.org or 800-694-2642 to order your photo. ❖

Town & Country Mutual Insurance Company Recognized With Company Achievement Award

The association annually recognizes a company who has demonstrated an ability to improve their company and service to policyholders. It is with great pleasure that we recognize Town & Country Mutual Insurance Company as the 2006 recipient of the Company Achievement Award.

Town & Country Mutual, like most other mutual companies, has seen many changes over its 111-year history and has adapted to continuously meet the many needs of their consumers.

turn things around. Today, the company has been successful in increasing their surplus by over 20% in just 6 years. Implementation of an insurance to value program, stricter underwriting, claim free discount program, and a basic dwelling policy have allowed the company to improve their current standing and future prospects.

With a staff of experienced, customer-minded employees, every day the mutual lives up to its mission statement, "To provide quality insurance products to residents of



Implementation of an insurance to value program, stricter underwriting, claim free discount program, and a basic dwelling policy have allowed the company to improve their current standing and future prospects.

Though recent years have proven very challenging, their board of directors has shown a willingness and ability to adapt to an ever-changing market allowing it to continue to serve its policyholders. The company has rebounded from a bad situation in the 1990's to a position of strength today.

Town & Country Mutual has been proactive, making their way through their road to recovery. With dwindling surplus in the 1990's, the company worked diligently to

rural communities". Described as hard working, eager, bright and energetic, and a wealth of knowledge, the employees of Town & Country Mutual are capable, determined and committed to seeing the company thrive.

Town & Country Mutual has worked hard to overcome the challenges it faced in the 1990s. The company has worked with determination, weathered these challenges and has become stronger because of them. It is because of their demonstrated ability to improve their company and provide exceptional service to their policyholders that Town & Country Mutual Insurance Company was named the 2006 recipient of the Company Achievement Award.

Congratulations to the directors, staff and agents of Town & Country Mutual Insurance Company. ❖

Becky Deters Named IAMIC Volunteer of the Year

IAMIC is blessed with an immense corps of volunteers. They give their time and energy enthusiastically and unselfishly to the association. With such a small staff, we rely heavily on their dedication to the association, calling on them to plan, implement, coordinate and lead many programs, events and seminars.

Where would we be without them? Our convention could not happen; neither could any other education programs. This newsletter would be rather bare and our lobbying efforts greatly diminished.

Volunteers are the lifeblood of IAMIC.

The Volunteer of the Year Award was designed to recognize one of the many individuals that step forward to serve.

This year's award winner, Becky Deters

of Home Farmers Mutual Insurance Company, is a great volunteer. She is always willing to step forward and lend her expertise, time and effort to whatever is asked of her. She has spent innumerable hours working on IAMIC projects and events.

She has served on a number of committees; a partial term on the IAMIC Board of Directors, and at the Annual Convention was elected to serve another term on the Board.

Becky Deters of Home Farmers Mutual Insurance Company is an amazing volunteer and a great asset for the association. Congratulations Becky on being selected Volunteer of the Year and thank you so much for all that you have done and continue to do on our behalf. ❖



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Becky Deters, *Home Farmers Mutual*

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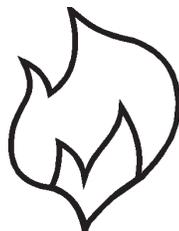
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Mike Davis, *Forreston Mutual*
Becky Deters, *Home Farmers Mutual*
Bev Fick, *Bradford Victor-Adams Mutual*
Rob Martin, *Farmers Mutual Hail*
Ronette Payne, *Frontier Mutual*
Bill Peck, *Horse Prairie Mutual*
Jim Polish, *Farmers Mutual Hail*
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The purpose of IAMIC is to promote the best interests of the mutual insurance community, and particularly the best interests of policyholders of mutual insurance companies. To this end, IAMIC programs and activities are planned and implemented with the objective that policy holders will benefit from the best products and services.

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

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

Rick Etheridge, *United Mutual*
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Harold Read, *Berlin Mutual*
David Fozard, *Prairieland Mutual*

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Marian Keifer, *Jefferson County Mutual*
Milissa Weber, *Heartland Mutual*

Recent Illinois “Duty to Defend” Cases

By Megan G. Heeg
Ehrmann Gehlbach Badger & Lee

Although only one of these recent Illinois court cases ruled in favor of the insurer, the holdings from each of these cases provide guidance to all Illinois mutual insurance companies faced with duty to defend cases in the future.

Separately, an Illinois appellate court and the Illinois Supreme Court recently rendered “duty to defend” decisions that may be of interest to mutual insurance companies doing business in the State of Illinois.

In the first case, an Illinois appellate court affirmed a lower court’s ruling that Illinois Farmer’s Insurance Company (“Farmers”) had a duty to defend homeowners who had been sued for negligently failing to control their son and for providing him with a motor vehicle the son used to travel to plaintiff’s home where he allegedly engaged in intentional conduct, causing severe injuries (the homeowner’s son executed a “pile-driver” wrestling maneuver on plaintiff, causing plaintiff to be paralyzed from the neck down.)

After the injury, plaintiff sued the homeowners for negligence and sued the homeowners’ son (another insured) for negligence and intentional conduct. After the lawsuit was filed, Farmers filed a declaratory judgment action, asserting that it had no duty to defend the homeowners because:

- There was no coverage under the terms of the policy because the homeowner’s policy covered occurrences, the policy defined an “occurrence” as an accident, and the injury did not result from an accident; and in the alternative,
- If the incident was an “occurrence” within the policy’s coverage, it was excluded because the conduct of the homeowners’ son was intentional.

Ruling against Farmers, the court held:

A. Duty to Defend:

Under the terms of the insurance policy, Farmers had a duty to defend the homeowners. A duty to defend is determined by the factual allegations of the complaint—if the complaint’s allegations fall within or potentially within the coverage, a duty to defend arises. Further, whether an occurrence has occurred is determined from the

insured’s standpoint. Therefore, wrote the court, notwithstanding that the complaint alleges that plaintiff was injured because of the intentional conduct of the homeowners’ son, viewing the incident from only the homeowners’ point of view, the complaint alleges they were negligent, and a duty to defend arises.

B. Whether the Intentional Act Exclusion Applies:

As to the second argument advanced by Farmers, the court held the policy’s intentional act exclusion did not apply to the homeowners. Even if the trial court found that the son’s acts were intentional, wrote the court, as to the homeowners, the complaint did not allege the homeowners intended or even expected that as a result of their alleged negligence, their son would injure plaintiff, nor did the complaint allege that plaintiff’s injuries were reasonably foreseeable because of the homeowners’ allegedly negligent act. Therefore, looking at the homeowner’s view point, the Court ruled, the intentional act exclusion did not apply to the homeowners.

In the second case, the Illinois Supreme Court recently ruled that an insurer may lawfully refuse to defend an insured who fails to give the insurer timely notice of a claim, whether or not the insurer was prejudiced by the late notice.

In this case, Country Mutual Insurance (“Country Mutual”) insured two separate companies under commercial general liability insurance policies. After a falling out, the two companies sued each other, alleging various trademark violations. Although the first suit was filed in December of 1999, neither party informed Country Mutual of the lawsuits until August 2001—more than 20 months after the first lawsuit was filed. Once notified, Country Mutual filed a declaratory judgment action, asserting that it had no duty to defend or indemnify, given the untimely notice. (The National Associa-

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tion of Mutual Insurance Companies and others filed *amicus curiae* briefs in support of Country Mutual.)

Under the terms of the policies at issue, each insured was to notify Country Mutual of a claim or suit "as soon as practicable." The parties stipulated that the insurer was not notified until at least 20 months after litigation was started. In addition, the lower court found that neither insured offered evidence to justify or excuse the delayed notice, however, under the facts, Country Mutual could not prove it was prejudiced by the late notice. Given these facts, questioned the Illinois Supreme Court, did Country Mutual have to prove prejudice?

In upholding the lower court's ruling in favor of Country Mutual, the Illinois Supreme Court held that, given the facts, Country Mutual did not have to prove prejudice in order to deny coverage:

(3) An insurer's failure to prove prejudice is a factor to consider when determining

whether the insured's notice was unreasonably and inexcusably late;

(2) Once it is determined that the insured's notice was unreasonably and inexcusably late, the failure of the insurer to prove it suffered prejudice is irrelevant.

Interestingly, the Illinois Supreme Court acknowledged that a 1998 appellate court decision seemed to require that an insurer prove prejudice in all cases before coverage could be denied, and stated that, to the extent that the 1998 appellate court decision (and its progeny) required the insurer to prove prejudice in all cases, those cases were overruled.

Although only one of these recent Illinois court cases ruled in favor of the insurer, the holdings from each of these cases provide guidance to all Illinois mutual insurance companies faced with duty to defend cases in the future. ❖



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2006 IAMIC Convention Highlights



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State of the Industry Task Force Report

Purpose:

As the IAMIC board of directors met in strategic planning session during this 125th anniversary year of IAMIC, one of the goals it took upon itself was to “increase information for our members to help them to be profitable, competitive and more professional.” The first step in this undertaking was to do an analysis of the state of the mutual industry in Illinois. The purpose of the analysis was to determine that state of the industry today and to identify major threats to that industry and major opportunities for future success. The objective was that with this information, decision-makers at local farm mutual insurance companies would be better able to choose strategies that add to profitability, competitiveness and professionalism.

The objective was that with this information, decision-makers at local farm mutual insurance companies would be better able to choose strategies that add to profitability, competitiveness and professionalism.

Procedures:

A task force was appointed to perform the analysis. Members of the task force were chosen based upon their experience in the mutual industry. Care was taken to include representatives from small, midsize and large farm mutual companies. Care was also taken to include managers, directors and agents, and particular care was taken to include individuals with successful business experience outside the mutual industry.

The task force met for one full day. It reviewed historical financial data available from Division of Insurance Annual Reports to the Governor and it reviewed financial analyses provided by the MAP committee of IAMIC. It then did a qualitative analysis of the state of the industry by reaching consensus in identifying the major strengths and weakness of the industry in Illinois today. Based on those identified strengths and weaknesses, it then identified the major threats that could seriously harm the industry and the opportunities that could lead to future success.

A draft report was prepared and reviewed and the analysis was refined. This

report was then presented to the IAMIC Board of Directors for its review.

Financial Analysis:

Highlights from the review of the Division of Insurance Annual Reports (Appendix A)

1. The number of farm mutual companies has decreased by 35% since 1992. This is a trend with a long history that continues on today as smaller and weaker companies exit.
2. While the number of companies has decreased, total company assets held by farm mutual companies have increased 37% during the same time period, reflecting the growth of the surviving companies.
3. During the time that assets increased by 37%, policyholder surplus increased by 22%. While this increase shows a growth in net worth of the farm mutual industry in Illinois, compared to asset growth, it indicates a relative decrease in company capacity.
4. While the surplus grew by 22%, gross premiums collected by the farm mutual industry grew by 72%. This is a cause for concern. If a company does not grow its capacity at a pace with its revenue, it will be forced to rely more heavily on reinsurance to level out its loss experience.
5. While the state report does not provide information on operating expenses, reinsurance expenses or gross losses, it does report net premiums and net losses. During that time period when gross premiums grew by 72%, net premiums increased by 62% and net losses increased by 78%. This would suggest that the industry is spending a larger percentage of its premium dollar on reinsurance. There is little change in the percentage of losses reimbursed by reinsurance.

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Highlights from the IAMIC Financial Analysis (Appendix B)

The IAMIC Financial Analysis for 2005 divides the farm mutual companies into three groups, those with premiums up to \$500,000, those with premiums from \$500,001 to \$1,100,000 and those with premiums over \$1,100,000. There is approximately the same number of companies in each category. For the year 2005, the small companies represented 10% of the state premium, the mid size companies represented 22% of the premium and the large companies represented 68% of the premium.

1. The smaller companies had the largest gross loss ratio of 54% while the mid size and large companies had ratios of 42%.
2. The small companies paid 41% of their premium for reinsurance while the mid size companies paid 36% and the large companies paid 27%.
3. The small companies had an underwriting loss of 14% of gross premium, the mid size companies a loss of 6% and the large companies a loss of 2%.
4. Operating expenses as a percent of premium were roughly equivalent among the companies.
5. As a measure of capacity, the small companies had a premium to surplus ratio of 46%, the mid size companies a ratio of 105% and the large companies 114%.

SWOT Analysis of the Farm Mutual Industry

Strengths: The members of the farm mutual industry have strengths that have served them well over the 125 plus years.

1. **Longevity and stability:** Having been in business for well over a century, the farm mutual companies are known by their customers and competitors as long-term players. Because they don't have other markets or business to turn to, farm mutual companies are committed to the business they are in.
2. **Flexibility in rating and underwriting:** The farm mutual act and Division of Insurance regulation give the farm mutual companies great latitude in setting rates and providing coverages. Used properly, this flexibility can give the farm mutual the competitive advantage in meeting specific customer needs.
3. **Knowledge of local markets and localized products:** Farm mutual employees and directors live in the communities they serve. This first hand knowledge of the community and its insurance needs provides the information to tailor make an insurance program.
4. **Personal Service:** All insurance companies tout personal service, but the farm mutual is local, small, and flexible. While competitors may be more efficient, none have the opportunity to provide personal service like the farm mutual.
5. **Local Accountability:** With local employees and a local board of directors and with

STRENGTHS

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over a century of presence in the community, the farm mutual finds it very difficult to even give the appearance of short changing the community. Erring on the side of going the extra mile to make things right with the consumer can be a very powerful marketing tool.

WEAKNESSES

Weaknesses: Designed by its founders during the latter half of the 19th century, the farm mutual business model and some of its practices are off target today.

- 1. Product limitation:** Property insurance protection for farm and home property only is a narrow slice of the insurance pie. Other, more lucrative, business is not available to the farm mutual company in Illinois. Not only do the mutuals give up revenue, but also consumers and insurance agents often want the advantage of “one stop shopping” not available at the farm mutual companies.
- 2. Weak Capital Base:** While no hard and fast standard exists for a sound premium to surplus ratio for small companies, it is generally agreed that a ratio of greater than 1 puts small companies in the danger zone. The ratio for Illinois companies has steadily increased over the last decade to over 1 in 2004. The economics of running small companies and lack of attention to profitability have weakened the system. A competitive marketplace and limited product lines make climbing out of this hole very difficult.
- 3. Leadership Succession:** The farm mutual industry was founded and run for over a century on volunteerism or semi-volunteerism. The level of leadership in management and on the board of directors needed to compete in today’s environment requires that the industry attract and pay for the best and the brightest. Many farm mutual companies are not in a financial position to attract that level of leadership.
- 4. Lack of Board and Management Professionalism:** Because the owners of the farm mutual companies (the policy-

holders) have no reach to the profits or surplus of the company, they have not required that management and the board account to them for the fiscal success of the company. As a result, a lack of professionalism has crept into the management of many companies as evidenced by weak or non-existent financial standards and by deteriorating results. The potential for conflict of interest is strong on some boards made up primarily of director/agents.

- 5. Underwriting Procedures:** Many companies have weak or non-existent underwriting procedures that make them vulnerable. Farm mutual companies in many areas have been known as the company that will take on any property or property owner. In many cases this reputation has been earned and has added to the poor financial performance.
- 6. Concentration of Risk:** Farm mutual companies operate in a relatively small geographical area that makes them vulnerable to catastrophic events like storms. In addition to geographical concentration of risk, the concentration of business around two personal lines products (home and farm coverage) also provides very limited spread of risk.

OPPORTUNITIES

Opportunities: Given the strengths and weaknesses of the industry, certain opportunities do exist for farm mutual companies.

- 1. Market the Farm Mutual Strengths:** Farm mutual companies could do a better job of reminding the consumer of the role they have played in the industry and the value they continue to bring to the market. The IAMIC marketing plan is a beginning in this area. Individual companies could refine and hone that message.
- 2. Broaden the Product lines:** The Farm Mutual Act limits what products and Illinois Farm Mutual Company can offer. Amending the act could broaden that authority. Absent that, farm mutual companies could partner with non-mutual

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(State of the Industry Report—continued from page 18)

companies to offer a wider range of products. This second strategy could capitalize on the farm mutual knowledge of local markets and could circumvent some of its lack of financial capital.

- 3. Niche markets:** Farm Mutual companies currently operate in a large niche market — the farm market. Other niche markets could be developed by individual companies that would capitalize on the industry's flexibility and could limit the negative effect of a mono-line product. Examples include non-standard dwellings, crop insurance, animal mortality insurance and equine insurance.
- 4. Joint Ventures:** Three reasons exist to consider joint ventures with other companies. A joint venture could spread cost and reduce operating expense. An example would be to share the cost of an information system. A joint venture could give a company access to expertise not currently available within the company. An example of this would be to "buy into" the services of a neighboring company's inspector/adjustor. Joint

ventures could also be used to share risk. An example would be cooperating with other mutual companies to divide up a very large farm risk that no one company wanted to take on.

- 5. Mergers:** Like joint ventures, mergers can get a company access to capacity and expertise and can reduce operating expense. While mergers have a negative connotation, if the goal of company decision makers is to provide insurance protection to policyholders in the most efficient and effective way, mergers are an option that could accomplish this goal.
- 6. Technology:** The adoption of information technology to better serve agents and consumers could greatly improve the image of the farm mutual company and could improve its efficiency and effectiveness.

THREATS

Threats: In addition to opportunities for the industry, there are threats. While good management practices suggest that decision makers not dwell on the threats, they must

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*The final chapter
in the history of the Illinois
Farm Mutual industry is
far from being written.*

be aware of them and take steps to lessen their impact if they occur.

1. **Legislation:** Obviously, adverse changes to the Farm Mutual Act could have a serious impact on the farm mutual companies. While this task force is unaware of any current plans to modify that enabling legislation, many companies would be unable to adjust if significant restrictions were to be imposed.
2. **Change in Lien holder requirements:** Some mortgage companies require an AM Best rating of the insurance company protecting property that they hold as collateral. The farm mutual companies have been able to use the ratings of their reinsurance companies to meet that requirement. Changes in this procedure could put farm mutual companies at a severe disadvantage.
3. **Reinsurance Availability:** Farm mutual companies in Illinois need to purchase reinsurance to meet the requirements of the Farm Mutual Act. They also need that reinsurance company to provide direct coverage for lines such as liability and earthquake insurance. This requirement of direct lines coverage limits the number of reinsurers willing to do business with the farm mutuals. Any further retraction in the number of reinsurance companies available to Illinois mutuals would seriously impair their ability to continue. Tightening of requirements of current reinsurance providers would also limit the ability of many mutual companies to move forward.
4. **Increasing property values:** Property values and construction costs have increased significantly in recent years. These values and the increase in premiums collected to cover these values have outstripped the growth in surplus of the farm mutual industry. A continuation of this trend would highlight the limited capacity of the farm mutuals and put them at a serious disadvantage.
5. **Assessability:** Because farm mutual companies do not participate in the state guarantee fund, they have to rely on issuing an assessable policy to meet state requirements and to protect the con-

sumer. Special assessments have been seldom used in recent history, although agents of competing providers often remind consumers of the possibility of a special assessment. A high profile special assessment or multiple special assessments by farm mutual companies could turn this quiet little anachronism into a major issue for all farm mutual companies.

Conclusions:

The final chapter in the history of the Illinois Farm Mutual industry is far from being written. The industry was founded in the late 19th century in response to a market failure in rural Illinois. Competitive coverage was not available. The mutual industry was created by a grass roots effort by rural communities to take care of their own. It has done that well for over a century and a quarter.

Today, however, the industry as a whole finds itself in a financially weakened position. As companies have grown to gain the operating economies of scale and to tap the professionalism and expertise needed to compete, surplus has not grown at the same pace. Many companies have abandoned the goal of an underwriting profit as unattainable and have relied on investment income to build surplus. The result has been a slippage in financial strength.

Turning this trend around will be difficult. The farm mutual company is limited to personal lines farm and homeowner products. Competition is tough. With limited spread of risk and with limited size and muscle in the marketplace, most mutual companies can only offer incremental improvements. The farm mutual industry in general lacks the marketing and underwriting expertise needed to successfully sell new, more profitable products, and the industry struggles to attract new leaders capable of taking it to the next level.

To add to the difficulty, growth in size and geography tends to weaken some of the mutual company's traditional strength associated with its being local. Larger

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(State of the Industry Report—continued from page 20)

companies tend to give up some of the flexibility in rating and underwriting that have been a traditional strength of our industry as they rely on systems to assure that good underwriting decisions are being made. Accountability to local communities, knowledge of local markets and personal service are more difficult for a company doing business in 50 counties that it is for a company focused on 5 counties.

Within this difficult business climate, models of success do exist. While some companies have given up and others have chosen to ignore the economic realities around them, some boards and management have put together strategies for long-term success.

Some companies have chosen the path of growth and economies of scale. They have put together a business plan of controlled growth with heavy emphasis on inspections and underwriting to control future losses. This program has allowed them to reduce the portion of their premium dollar spent on reinsurance. Their size has reduced the portion of premium dollar spent on salaries and overhead. They have automated their offices and are using technology to better serve their agents and their policyholders. And, they have relied on partnerships with selected independent agents to find the markets that they can best serve. These companies can best be characterized as having management with an entrepreneurial spirit and board members seriously committed to their fiscal responsibility.

Other companies have chosen to focus on their local community, staying close to the business practices that have historically given them success. They understand that

past success does not guarantee them future success, but they have chosen to build their companies on the traditional strengths of flexibility, knowledge of the local community, personal service and local accountability. They have tied these strengths to good business practices, using personal knowledge of the community as an underwriting tool, building a rapport within the community to implement loss control, and slow growth to keep well within the capacity of the balance sheet.

Which of these models or others should farm mutual companies follow? There is no one solution and there is no quick fix. The opportunities identified by this task force are not low risk solutions. Inertia suggests that the attrition in companies in Illinois will continue as companies struggle to attain consistent profitability. There will be fewer, perhaps significantly fewer, farm mutual companies in Illinois 10 years from now.

The companies that succeed will be those companies where the board and management take seriously their responsibility to plan for the future. The marketplace has changed. Consumers have changed. Technology has changed. Successful companies will be those with the creativeness, financial capacity and business discipline to identify consumer needs and find ways to serve them better than their competitors. The ultimate standard of success for any business venture, including farm mutual insurance companies, is to deliver a product or service at a price that the consumer is willing to pay and that returns a profit to the company. Only if companies do that, will they succeed. ❖

Successful companies will be those with the creativeness, financial capacity and business discipline to identify consumer needs and find ways to serve them better than their competitors.

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Appendix A: Illinois Farm Mutual Companies Summary Data

Source: Division of Insurance Annual Report to Governor

Year	Companies	Assets	Liabilities	Surplus	Gross Premium	Net Premium	Net Loss
2004	85	\$132,805,448	\$47,813,795	\$84,991,653	\$85,660,193	\$58,305,255	\$29,887,129
2003	89	\$127,895,967	\$43,273,770	\$84,622,196	\$80,368,734	\$56,047,991	\$32,358,278
2002	102	\$126,494,911	\$39,467,959	\$87,026,949	\$71,166,569	\$50,989,400	\$26,084,208
2001	107	\$121,473,268	\$36,152,989	\$85,320,283	\$64,428,334	\$46,674,897	\$27,423,619
2000	111	\$119,849,659	\$33,807,436	\$86,042,221	\$61,188,364	\$44,129,036	\$25,205,609
1999	113	\$116,900,917	\$32,518,006	\$84,382,910	\$60,617,568	\$44,798,277	\$26,151,573
1998	114	\$115,224,013	\$32,232,408	\$82,991,602	\$59,102,613	\$43,980,281	\$29,013,211
1997	115	\$115,840,680	\$31,830,416	\$84,009,253	\$57,725,847	\$43,194,468	\$22,866,143
1996	116	\$111,418,153	\$31,132,949	\$80,285,191	\$56,011,593	\$42,423,686	\$25,841,902
1995	122	\$109,664,704	\$31,008,914	\$78,655,791	\$55,049,836	\$41,333,226	\$22,233,650
1994	124	\$105,447,633	\$29,339,014	\$76,108,617	\$53,193,334	\$39,687,683	\$19,363,785
1993	126	\$99,958,741	\$28,200,136	\$71,757,766	\$51,338,806	\$37,381,310	\$19,721,185
1992	127	\$96,822,953	\$27,430,825	\$69,525,937	\$49,848,079	\$35,837,816	\$16,764,804

Year	Average Assets	Average Surplus	Average Premium	Premium Surplus	Premium Growth	Net Premium/ Gross Premium	Net Loss Ratio
2004	\$1,562,417	\$999,902	\$1,007,767	1.008	6.584%	0.681	0.513
2003	\$1,437,033	\$950,811	\$903,019	0.950	12.930%	0.697	0.577
2002	\$1,240,146	\$853,205	\$697,711	0.818	10.458%	0.716	0.512
2001	\$1,135,264	\$797,386	\$602,134	0.755	5.295%	0.724	0.588
2000	\$1,079,727	\$775,155	\$551,247	0.711	0.942%	0.721	0.571
1999	\$1,034,521	\$746,751	\$536,439	0.718	2.563%	0.739	0.584
1998	\$1,010,737	\$727,997	\$518,444	0.712	2.385%	0.744	0.660
1997	\$1,007,310	\$730,515	\$501,964	0.687	3.061%	0.748	0.529
1996	\$960,501	\$692,114	\$482,859	0.698	1.747%	0.757	0.609
1995	\$898,891	\$644,720	\$451,228	0.700	3.490%	0.751	0.538
1994	\$850,384	\$613,779	\$428,979	0.699	3.612%	0.746	0.488
1993	\$793,323	\$569,506	\$407,451	0.715	2.991%	0.728	0.528
1992	\$762,385	\$547,448	\$392,505	0.717		0.719	0.468

Appendix B: Farm Mutual Companies Financial Analysis 2005

	Average Small Company	Average Medium Company	Average Large Company
Policy Count	646	1179	3210
Gross In Force	\$115,958,317	\$241,459,274	\$682,422,319
Gross Premium	\$306,197	\$728,945	\$2,076,611
Investment Income	\$25,668	\$30,844	\$107,534
Admitted Assets	\$835,905	\$1,078,950	\$3,102,354
Surplus	\$663,518	\$691,662	\$1,818,868
Gross Losses	\$165,308	\$302,884	\$872,837
Commission Expense	\$51,381	\$107,504	\$359,444
Operating Expense	\$120,539	\$261,376	\$800,430
Reinsurance Premium	\$126,920	\$259,211	\$568,033
Reinsurance Recovery	\$79,156	\$70,072	\$149,519
Net premium	\$175,824	\$449,748	\$1,507,841
Net Losses	\$97,484	\$234,923	\$739,938
Change in Premium	3.81%	3.13%	1.19%
Change in Surplus	1.44%	8.86%	14.84%
Investment Yield	3.07%	2.86%	3.47%
Net Premium/Surplus	26.50%	65.02%	82.90%
Gross Loss Ratio	53.99%	41.55%	42.03%
Cost/Policy	\$186.59	\$221.69	\$249.36
Premium/Policy	\$473.99	\$618.27	\$646.92
Commission/Premium	16.78%	14.75%	17.31%
Operating Exp/Premium	39.37%	35.86%	38.55%
Reinsurance/Premium	41.45%	35.56%	27.35%
Net Losses/Net Premium	55.44%	52.23%	49.07%
Underwriting Gain	(\$42,199)	(\$46,551)	(\$32,527)
Average Rate	\$0.00264	\$0.00302	\$0.00304
Net Loss/Gross Premium	31.84%	32.23%	35.63%
Reinsurance	42.00%	36.00%	27.00%
Net Loss	31.84%	32.23%	35.63%
Operating Expense	39.37%	35.86%	38.55%
Loss cost	113.20%	104.08%	101.18%

State of the Industry Task Force Members

Harry Fehrenbacher, Chairman
Director, *Heartland Mutual Insurance Company*

David Campbell, PFMM
Secretary, *Magnolia Evans Mutual Insurance Company*

Bev Fick, PFMM
Secretary, *Bradford Victor-Adams Mutual Insurance Company*

Larry Forrester
Chairman, *NAMIC Insurance Education Foundation*

John Leezer
Secretary/Treasurer/Manager
Elmira Mutual Insurance Company

Roger Needham, AIC, AIS, PFMM, PCLS
Operations Manager, *Forreston Mutual Insurance Company*

Whitey Patton, CPA
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Dwight Shore
Secretary, *Marshall Mutual Insurance Company*

Richard Weigle
Secretary, *Town & Country Mutual Insurance Company*

Sandra Wulf, CAE, IOM
President, *Illinois Association of Mutual Insurance Companies*

Judy York
Agent, *Enfield Farmers Mutual Insurance Company*

The Board in Review

The IAMIC Board of Directors met June 20, 2006. Present were Chairman **Harry Fehrenbacher**, Chairman-Elect **David Campbell**, Directors **Joe Reid**, **Tricia Mickley**, **Becky Deters** and **Bill Peck** and President **Sandra Wulf**. Absent from this meeting were Vice Chairman **Roger Needham**, Secretary/Treasurer **Ronette Payne**, **Jim Wright** and **Steve Prosser**.

Strategic Goals

The Board of Directors reviewed the association's strategic goals and was updated on the progress being made.

FMPAC Donations

The Board approved making FMPAC Donations in 2006 to Senators **Bill Haine**, **Todd Sieben** and **Mike Jacobs** and Representatives **Frank Mautino**, **Bill Mitchell** and **Terry Parke**.

Audit Committee

The Board approved the creation of an Audit Committee, consisting of the Secretary/Treasurer and two directors.

Policy Handbook

The Board reviewed and approved changes to the IAMIC Policy Handbook.

President's Evaluation

The Board met in Executive Session to discuss the performance evaluation of President **Sandra Wulf**. Following the Executive Session, the results of the evaluation were shared with **Wulf**.

New Member

The Board of Directors approved the Associate Member Application of the Illinois National Bank. Their contact information is:

Peter Graham
Illinois National Bank
322 E. Capital Avenue
Springfield, IL 62701
P: 217-747-5567, F: 217-747-5530
E: pgraham@IllinoisNationalBank.com

Board Retreat

The Board decided that they would meet in late 2006 for a strategic planning session.

Seminars

The Board approved co-hosting a Basic Claims School with NAMIC and offering an Underwriting Seminar in 2007.

The IAMIC Board of Directors met again on August 8, 2006. Present were Chairman **Harry Fehrenbacher**, Chairman-Elect **David Campbell**, Vice Chairman **Roger Needham**, Secretary/Treasurer **Ronette Payne**, Directors **Joe Reid**, **Tricia Mickley**, **Jim Wright**, **Steve Prosser**, **Becky Deters** and **Bill Peck** and President **Sandra Wulf**. Also present was **Cindy Theis**.

Strategic Goals

The Board of Directors reviewed the association's strategic goals and was updated on the progress being made.

Director Service Eligibility

The Board discussed the pending merger of one of our Board Member's companies. After reviewing the IAMIC bylaws the board decided that this director would remain eligible to serve as an IAMIC Board Member. One board member abstained from the vote.

State of the Industry Report

The Board reviewed the State of the Industry Report (see page 16) and approved its acceptance and publication in the *Lautum News*.

Budget Committee

The Board approved naming the IAMIC Chairman-Elect as the Budget Committee Chairman. ❖

Thanks to our Volunteers

We are proud to have had the following individuals volunteer to serve the association in its mission. Special thanks go to them as they leave service on our board or committees.

David Campbell	<i>Magnolia Evans Mutual</i> – Forms Committee
Dave Christensen	<i>Grinnell Mutual Reinsurance</i> – Education Committee
Mike Davis	<i>Forreston Mutual</i> – Forms Committee
Bev Fick	<i>Bradford Victor-Adams Mutual</i> – Forms Committee
Harry Fehrenbacher	<i>Heartland Mutual</i> – Board of Directors, Government Relations, MAP and Public Relations Committees
Megan Heeg	<i>Forreston Mutual</i> – Government Relations Committee
Dorothy Henderson	<i>Grinnell Mutual Reinsurance</i> – Government Relations Committee
Lawson Lankford	<i>United Mutual</i> – Education Committee
Dean McHugh	<i>Carthage Mutual</i> – Nominating Committee
Tricia Mickley	<i>Mt. Carroll Mutual</i> – Forms Committee
Roger Needham	<i>Forreston Mutual</i> – Education & Forms Committees
Steve Prosser	<i>Central Illinois Mutual</i> – Board of Directors and Nominating Committee
Jackie Rakers	<i>Nokomis Farmers Mutual</i> – Convention & Forms Committees
Joe Reid	<i>Hamlet Mutual</i> – Board of Directors and Nominating Committee
Malcolm Rowland	<i>Rockford Mutual</i> – Forms Committee
Doug Sullivan	<i>Svea Mutual</i> – Forms Committee
Renee Walters	<i>Farmers Mutual Hail</i> – Education Committee
Linda Wares	<i>Belvidere Mutual</i> – Forms Committee

Notice of Position Opening

Executive Director of the Illinois Association of Mutual Insurance Companies, Springfield, IL.

Responsibilities include: Management of the business affairs of the association, meeting and event planning, coordination of volunteer activities, communication with membership, and accountability to the board of directors. Salary is negotiable. Management experience preferred.

Please send resume by September 30, 2006 to:

IAMIC
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Springfield, IL 62708-3125

F: 217-529-8389
E: leadership@iamic.org

IAMIC Bylaws Amended

The IAMIC membership amended the bylaws of the association at their Annual Business Meeting on Monday, August 21, 2006. The language below represents the new bylaw language. For a copy of the full bylaws, visit www.iamic.org.

Article VII – Committees

e) Other Committees. The Chairman may appoint such other committees as the Chairman, Executive Committee or the Board shall deem appropriate to the governance of the Association.

Unless otherwise provided herein, a Committee shall continue as such until the next annual meeting. The Chairman may fill a vacancy on any Committee if a method for filling any such vacancy is not otherwise provided herein. Each Committee may adopt rules for its own governance not inconsistent with these Bylaws or rules adopted by the

Board. Authority of a Committee may be exercised without a meeting if an action taken by the Committee is signed by all Committee members. The president of the Association shall serve as the representative to the National Association of Mutual Insurance Companies (NAMIC). In the event the president is unable or unwilling to serve in such capacity, then the Chairman shall appoint an alternate. Committee members shall not be entitled to receive compensation for their services, but shall be entitled to reimbursement for expenses reasonably incurred on behalf of the Association.

Article VII – Committees

d) Education. There shall be an Education Committee responsible for the education programming of the association. The Chairman-Elect shall select the Committee Chairman for the following term. ❖

IAMIC 2006-07 Calendar of Events

LAUTUMnews

Third Quarter, 2006
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October	16	Budget Committee Meeting – Oak Terrace Resort, Pana
	17-18	Manager's Retreat – Oak Terrace Resort, Pana (New Location!)
	31	IAMIC Board Meeting – IAMIC Office, Springfield
December	6-7	IAMIC Board Orientation, Retreat & Meeting – IAMIC Office, Springfield
February	6-8	IAMIC/NAMIC Property Loss Adjustment Fundamentals School – Hilton Hotel, Springfield
	13	IAMIC Board Meeting – IAMIC Office, Springfield
March	21	Regional Meeting – Location TBA
	22	Regional Meeting – Location TBA
April	10	IAMIC Board Meeting – IAMIC Office, Springfield
	24	IAMIC Underwriting Seminar – Doubletree Hotel, Bloomington
May	23-24	Mutual Crossroads Conference – Des Moines, Iowa
June	5	New Managers Meeting – IAMIC Office, Springfield
	6	IAMIC Board Meeting – IAMIC Office, Springfield
August	1	IAMIC Board Meeting – IAMIC Office, Springfield
	12-14	IAMIC Annual Convention – Hilton Hotel, Springfield
October	2	IAMIC Board Meeting – IAMIC Office, Springfield

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Same
Managing Editor (Name and complete mailing address):
Same

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Illinois Association of Mutual Insurance Companies	Same as above

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The purpose, function, and nonprofit status of this organization and the exempt status for federal income tax purposes:
 Has Not Changed During Preceding 12 Months
 Has Changed During Preceding 12 Months (Publisher must submit explanation of change with this statement)

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15. Extent and Nature of Circulation

Extent and Nature of Circulation		Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
a. Total Number of Copies (Net press run)		1,100	1,100
b. Paid and/or Requested Circulation (Sum of 15i, 15ii, 15iii, and 15iv)		890	867
c. Total Paid and/or Requested Circulation (Sum of 15b, 15c, 15d, and 15e)		937	914
d. Free Distribution Outside the Mail (Sum of 15f, 15g, and 15h)		43	47
e. Total Free Distribution (Sum of 15d, 15e, and 15f)		43	45
f. Total Distribution (Sum of 15c and 15e)		980	963
g. Copies not Distributed		114	137
h. Total (Sum of 15g and 15f)		1,100	1,100
i. Printed and/or Requested Circulation (Sum of 15b and 15c)		937	917

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 Publication required. Written or printed in the **Third Quarter** issue of this publication. Publication not required.

17. Signature and Title of Editor, Publisher, Business Manager, or Owner:
Sandra Wolf, President 8/31/06

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PS Form 3526, October 1999 (Reverse)

President's Message Sandra J. Wulf, CAE, IOM

Recently I announced to the IAMIC Board of Directors that I had accepted a position with the Illinois Association of Defense Trial Counsel and would be leaving IAMIC. I am going with mixed emotions. I am excited for the opportunities that lie ahead for me, but am saddened to be leaving such a wonderful group.

IAMIC has seen me through many changes — getting married, having kids and

so much more. I have always been impressed by the “family” feel of this association and will miss it a lot.

The industry has changed considerably in the time that I have spent with you and I expect that there are many more changes to come. I thank you for the opportunity and privilege of serving as your president and look forward to hearing of your continued success.



Sincerely,

A handwritten signature in cursive script that reads "Sandra J. Wulf".

Sandra J. Wulf, CAE, IOM

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