

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
UFB Casualty Insurance Company)
225 South East Street)
Indianapolis, IN 46202-4056)

Examination of: **UFB Casualty Insurance Company**


NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of UFB Casualty Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 31, 2017, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of UFB Casualty Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

4/27/2017
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8605

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225 South East Street)
Indianapolis, IN 46202-4056)

Examination of : **UFB Casualty Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the UFB Casualty Insurance Company (hereinafter "Company") for the time period January 1, 2011 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on December 6, 2016.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 31, 2017 and was received by the Company on April 4, 2017.

The Company did not file any objections.

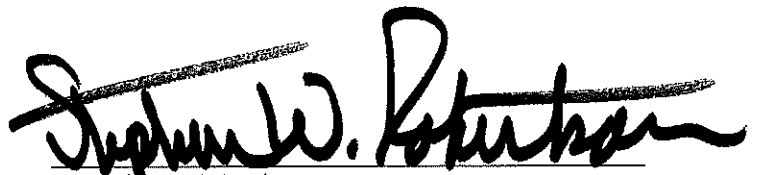
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the UFB Casualty Insurance Company as of December 31, 2015.
2. That the Examiner's Recommendations are reasonable and necessary in order for the UFB Casualty Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 27th day of
April, 2017.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

UFB CASUALTY INSURANCE COMPANY

NAIC Co. CODE 23868
NAIC GROUP CODE 542

As of

December 31, 2015

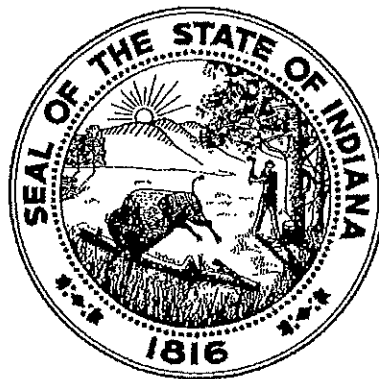


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/doi

December 6, 2016

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3895, an examination has been made of the affairs and financial condition of:

UFB Casualty Insurance Company
225 South East Street
Indianapolis, Indiana 46202

hereinafter referred to as the "Company", or "UFBCIC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
317-232-2413

COMPANY COMPLIANCE
317-232-3495

CONSUMER SERVICES
317-232-2395/1-800-622-4461

FINANCIAL SERVICES
317-232-2390

MEDICAL MALPRACTICE
317-232-2402

COMPANY RECORDS
317-232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2006 through December 31, 2010. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2011 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

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

David M. Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., was appointed by the INDOI to conduct a review of the Company's statutory reserves as of December 31, 2015. There were no actuarial adjustments resulting from the review performed by Mr. Shepherd.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact, as defined in Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. Other items were identified during the examination that due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report and were separately communicated to the Company.

HISTORY

The Company was created and incorporated under the laws of the state of Indiana on December 31, 1985, and adopted its current name on February 21, 1986. The Company commenced business on March 1, 1986 and is a wholly-owned subsidiary of United Farm Family Mutual Insurance Company (UFFMIC).

The Company's ultimate controlling person is Indiana Farm Bureau, Inc. (IFBI), an Indiana not-for-profit agricultural membership cooperative. The Company's affiliates, UFFMIC, United Farm Family Life Insurance Company (UFFLIC), and United Home Life Insurance Company provide insurance to IFBI members and other consumers in Indiana and are collectively known as Indiana Farm Bureau Insurance.

CAPITAL AND SURPLUS

UFFMIC owned 100% of the Company's issued and outstanding stock as of the examination date. There were 1,000 authorized shares of common stock with a par value of \$10,000 per share and 200 shares issued and outstanding throughout the examination period.

DIVIDENDS TO STOCKHOLDERS

The Company paid no dividends to UFFMIC during the examination period.

The Company received no capital contributions from UFFMIC during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is a multiple line carrier primarily focused on personal lines business with a small amount of direct commercial auto. The Company is licensed only in the state of Indiana and its products are available only to members of IFBI. Premiums are primarily personal lines with the largest segments being homeowners 82.3% of premiums, farmowners 17.2% of premiums, and private passenger auto was .4% of premiums in 2015.

The Company uses a common multi-line agency force of approximately 419 agents that exclusively market IFBI products. The agents are based in the IFBI offices located in every county in Indiana.

Premiums and losses are ceded 100% to the Company's parent, UFFMIC.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

| Year | Admitted Assets | Liabilities | Surplus and Other Funds | Net Investment Gain | Net Income |
|------|--------------------|-------------|----------------------------|------------------------|------------|
| 2015 | \$ 8,683,990 | \$ 22,615 | \$ 8,661,375 | \$ 160,362 | \$ 106,248 |
| 2014 | 8,576,249 | 20,037 | 8,556,212 | 156,715 | 103,695 |
| 2013 | 8,471,145 | 17,099 | 8,454,046 | 156,554 | 99,235 |
| 2012 | 8,375,125 | 22,358 | 8,352,767 | 194,241 | 121,008 |
| 2011 | 8,215,108 | (11,394) | 8,226,502 | 211,488 | 140,106 |

Bonds are the largest asset of the Company and have increased 9% throughout the examination period, to \$8.6 million.

The Company has a history of increases in surplus primarily due to investment gains. It was noted that surplus increased by \$434,873 from 2011 to 2015.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of thirteen (13) directors, each of whom shall be a citizen of the United States and a majority of the directors shall be residents of the state of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors at December 31, 2015, and their principal occupations as of that date:

| <u>Name and Address</u> | <u>Principal Occupation</u> |
|--|---|
| Mark Ellis Bacon Milroy, Indiana | Farmer Self-Employed |
| Isabella Franziska Chism Galveston, Indiana | Farmer Self-Employed |
| Jeffrey Allen Gormong Farmersburg, Indiana | Farmer Self-Employed |
| Randall Charles William Kron ^A Evansville, Indiana | Vice President Indiana Farm Bureau, Inc. |
| Steven Alan Maple Kokomo, Indiana | Farmer Self-Employed |
| Kevin Lee Ousley Columbia City, Indiana | Farmer Self-Employed |
| Harold Thomas Parker ^B LaPorte, Indiana | Farmer Self-Employed |
| Robert Leo Schickel Lanesville, Indiana | Farmer Self-Employed |
| Philip Herbert Springstun Boonville, Indiana | Farmer, Construction Self-Employed |
| Scott Thomas Trennepohl Middletown, Indiana | Farmer Self-Employed |
| Kevin Leonard Underwood West Lafayette, Indiana | Farmer Self-Employed |
| Donald Bruce Villwock ^C Edwardsport, Indiana | President Indiana Farm Bureau, Inc. |
| David Lee Wyeth North Salem, Indiana | Farmer Self-Employed |

^A Effective January 1, 2016, Randall Kron assumed the position of President and Director of the Company. Randall Kron's position as Vice President and Director of the Company was assumed by Kendall Culp.

^B Effective November 17, 2015 Harold Parker was appointed to fill the unexpired term of Larry Jernas who resigned as Director effective November 17, 2015.

^C Effective December 31, 2015, Donald Villwock retired as President and Director.

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a non-operating Vice President who is a director, an Executive Vice President, one (1) or more operating Vice Presidents, a Treasurer, a Secretary, a General Counsel, and such other officers as may be chosen by the Board. Each of these officers is elected by the Board and shall hold office until the next annual meeting, until their death, resignation or removal by the President, or resolution of the Board prior to such meeting date.

The following is a list of key officers and their respective titles as of December 31, 2015:

| <u>Name</u> | <u>Office</u> |
|---|---|
| Donald Bruce Villwock ^D | President |
| Lynn Brundage Jongleux ^E | Senior Vice President, General Counsel, and Secretary |
| Joseph Alan Martin | Executive Vice President and Chief Executive Officer |
| Richard Jay Kuster, Jr. | Senior Vice President, Marketing and Chief Operating Officer |
| Gregory James Clancy | Senior Vice President, Information Services |
| Kevin Thomas Murphy | Senior Vice President, Property & Casualty |
| Mark Richard Miske | Senior Vice President, Chief Financial Officer, and Treasurer |
| Kristin Bierlein Keltner ^F | Vice President, Assistant General Counsel |
| Mark Richard Sigler | Assistant Secretary |
| Randall Charles William Kron ^G | Vice President |

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2015.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2015.

^D Effective December 31, 2015, Donald Villwock retired as President and Director.

^E Effective December 31, 2015, Lynn Jongleux retired as Senior Vice President, General Counsel, and Secretary.

^F Effective January 1, 2016, Kristin Keltner assumed the position of Senior Vice President, General Counsel, and Secretary.

^G Effective January 1, 2016, Randall Kron assumed the position of President and Director of the Company. Mr. Kron's position as Vice President and Director of the Company was assumed by Kendall Culp.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. For each year under review, the annual meeting of shareholders was held as required.

The Company committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Budget Committee, and Investment Committee. There were no Executive Committee meeting minutes to document during the examination period.

AFFILIATED COMPANIES

Organizational Structure

The following is an abbreviated organizational chart which shows the Company's parent and affiliates as of December 31, 2015:

| | <u>NAIC Co. Code</u> | <u>Domiciliary State/Country</u> |
|--|--------------------------|--------------------------------------|
| Indiana Farm Bureau, Inc. | | |
| United Farm Family Life Insurance Company | 69892 | IN |
| UFB Development Corporation ^H | | IN |
| UFB Properties ^I | | IN |
| United Home Life Insurance Company^J | 69922 | IN |
| United Farm Family Mutual Insurance Company^K | 15288 | IN |
| UFB Casualty Insurance Company | 23868 | IN |
| Rural Insurance Agency, Inc. | | IN |

^H 75% Owned by UFFMIC, 25% owned by UFFLIC

^I 65% Owned by UFFMIC, 35% owned by UFFLIC

^J 75% Owned by UFFLIC, 25% owned by UFFMIC

^K IFBI is the ultimate controlling person of UFFMIC and its subsidiary companies. UFFMIC was created and organized by IFBI to provide property and casualty insurance to its members. As a mutual company, UFFMIC is owned by its policyholders.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Indemnity Reinsurance and Management Agreement

The Company has an Indemnity Reinsurance and Management Agreement whereby UFFMIC assumes 100% of the business of the Company. Under this agreement, UFFMIC indemnifies the Company for all lines of insurance written. In 2015, the Company paid a management fee to UFFMIC of \$2.9 million for services rendered under this agreement. In addition, the Company received a ceding commission from UFFMIC of \$2.9 million.

Consolidated Tax Allocation Agreement

The Company has a Consolidated Tax Allocation Agreement with UFFMIC whereby UFFMIC files a consolidated federal income tax return. Under the agreement, the Company is charged or refunded the amount that the Company would be entitled to if it had filed separately. Also, the agreement establishes an escrow account, maintained by UFFMIC, in an amount equal to the amount actually paid by UFFMIC, and the amount due to/from the Company if unconsolidated returns had been filed. Settlement under the agreement occurs within thirty (30) days of filing, except where a refund is due, in this case, UFFMIC may defer settlement until thirty (30) days after receipt of the refund.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Travelers Casualty and Surety Company of America. The bond has a single loss coverage limit of \$3,000,000 (\$6,000,000 aggregate limit), with a \$50,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2015, including but not limited to corporate and county liability, directors' and officers' liability, employed lawyers' professional liability, excess liability, umbrella, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no employees, and therefore, there were no employee pension or insurance plans. All personnel necessary to conduct business operations of the Company are provided by its affiliate, UFFMIC, pursuant to the Indemnity Reinsurance and Management Agreement. UFFMIC provides benefits to employees, and then passes proportional expenses, at cost, on to its affiliates.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following special and statutory deposits, at December 31, 2015:

| <u>State</u> | <u>Book Value</u> | <u>Fair Value</u> |
|--|-------------------|-------------------|
| For the Benefit of All Policyholders: | | |
| Indiana | \$ 109,114 | \$ 109,758 |
| Total Deposits | <u>\$ 109,114</u> | <u>\$ 109,758</u> |

REINSURANCE

Ceded Reinsurance

The Company cedes 100% of its business written to its parent company, UFFMIC. Total premiums ceded to UFFMIC under this arrangement in 2015 were \$11.6 million and total reinsurance recoverable as of December 31, 2015, was \$7.7 million. UFFMIC is an authorized reinsurer and thus all recoverables qualify for statutory reserve credit.

Assumed Reinsurance

The Company assumed no material amount of reinsurance premium or reserves during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the year ended December 31, 2015 was agreed to the respective Annual Statement. The Annual Statements for the years ended December 31, 2011 through December 31, 2015, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

UFB CASUALTY INSURANCE COMPANY
Assets
As of December 31, 2015

| | <u>Per Examination*</u> |
|---|-------------------------|
| Bonds | \$ 8,573,999 |
| Cash, cash equivalents and short-term investments | <u>67,472</u> |
| Subtotals, cash and invested assets | 8,641,471 |
| Investment income due and accrued | <u>42,519</u> |
| TOTALS** | <u>\$ 8,683,990</u> |

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

UFB CASUALTY INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2015

| | Per Examination* |
|---|------------------|
| Taxes, licenses and fees | \$ 2,590 |
| Current federal and foreign income taxes on realized capital gains (losses) | 14,701 |
| Net deferred tax liability | 5,324 |
| Total liabilities | 22,615 |
| Common capital stock | 2,000,000 |
| Gross paid in and contributed surplus | 1,000,000 |
| Unassigned funds (surplus) | 5,661,375 |
| Surplus as regards policyholders | 8,661,375 |
| TOTALS** | \$ 8,683,990 |

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

UFB CASUALTY INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2015

| | Per Examination* |
|--|------------------|
| UNDERWRITING INCOME | |
| Premiums earned | \$ - |
| DEDUCTIONS | |
| Net underwriting gain (loss) | - |
| INVESTMENT INCOME | |
| Net investment income earned | 157,711 |
| Net realized capital gains (losses) less capital gains tax | 2,651 |
| Net investment gain (loss) | 160,362 |
| Federal and foreign income taxes incurred | 54,114 |
| Net income** | \$ 106,248 |

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

UFB CASUALTY INSURANCE COMPANY
Capital and Surplus Account Reconciliation

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Surplus as regards policyholders, December 31 prior year | \$ 8,556,212 | \$ 8,454,046 | \$ 8,352,767 | \$ 8,226,502 | \$ 8,089,035 |
| Net income | 106,248 | 103,695 | 99,235 | 121,008 | 140,106 |
| Change in net deferred income tax | (1,085) | (1,529) | 2,044 | 5,257 | (2,639) |
| Change in surplus as regards policyholders for the year | 105,163 | 102,166 | 101,279 | 126,265 | 137,467 |
| Surplus as regards policyholders, December 31 current year** | <u>\$ 8,661,375</u> | <u>\$ 8,556,212</u> | <u>\$ 8,454,046</u> | <u>\$ 8,352,767</u> | <u>\$ 8,226,502</u> |

** The balances include immaterial rounding differences.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2015, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no other significant issues as of December 31, 2015, based on the results of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork which were considered material events requiring disclosure in this Report of Examination.

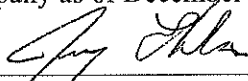
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Merlino & Associates, Inc., performed an examination of UFB Casualty Insurance Company, as of December 31, 2015.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of UFB Casualty Insurance Company as of December 31, 2015, as determined by the undersigned.

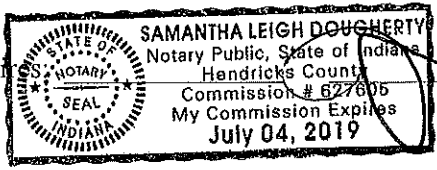


Jerry Ehlers, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 6 day of December 2016, before me personally appeared, Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires _____
 _____
Notary Public

