

Grinnell, Iowa
September 13, 2005

HONORABLE SUSAN E. VOSS
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, a market conduct examination has been made of the records and business affairs of the

GRINNELL MUTUAL REINSURANCE COMPANY

GRINNELL, IOWA

AS OF DECEMBER 31, 2004

at the Company's Home Office, 4215 Highway 146, Grinnell, Iowa.

INTRODUCTION

The examination report, containing applicable comments, explanations and findings, is presented herein. In general, this is a report by exception. Comments regarding practices and procedures reviewed during the examination have been omitted from the report if no improprieties were found.

SCOPE OF EXAMINATION

The Grinnell Mutual Reinsurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2001. This is the regular comprehensive market conduct examination of the Company covering the intervening period from December 31, 2001 to the close of business on December 31, 2004, including any material transactions and/or events occurring and noted subsequent to the examination date. The examination reported herein was conducted by examiners of the Iowa Insurance Division.

The examination was conducted in accordance with procedures recommended by the N.A.I.C., and other generally accepted insurance examination standards. A general review and survey was made, for statutory compliance, of the Company's marketing operations, underwriting and rating practices, complaint handling, claims practices and procedures, and producer appointments.

HISTORY

The Company was organized at Greenfield, Iowa on April 17, 1909, under the name of Iowa Farmers Mutual Reinsurance Association to provide a reinsurance facility for county mutuals domiciled in the state of Iowa.

In 1933, the Home Office was moved to Grinnell, Iowa. Also in that same year the Company's name was changed to Farmers Mutual Reinsurance Association by an amendment to the Articles of Incorporation.

In 1948, the name was changed to the Farmers Mutual Reinsurance Company. The Articles of Incorporation were amended to permit the Company to operate under the provisions of Chapter 515, Code of Iowa.

The Company's corporate existence was made perpetual as of April 17, 1949.

On June 26, 1963 the present corporate title, Grinnell Mutual Reinsurance Company, was adopted.

TERRITORY AND PLAN OF OPERATION

The Company has been granted authority in the following jurisdictions:

Illinois	Nebraska
Indiana	North Dakota
Iowa	*Ohio
Minnesota	South Dakota
Missouri	Wisconsin

*Entered jurisdiction during the examination period.

The direct business, which constitutes approximately 79% of gross writings, is heavily related to the Company's relationships with its farm mutual clientele. Business is developed through approximately 1,400 independent agents that are also agents of the companies reinsured. Liability, automobile, inland marine, recreational vehicle, workers' compensation, commercial multiple peril and other lines, which farm mutuals are statutorily unable to write, are offered by the Company. While the bulk of the group's operations are conducted in Iowa, Minnesota and Illinois (78% of direct business), business is also written in six other states in the Midwestern region of the United States.

The Company's reinsurance operations constitute 21% of gross writings. The reinsurance underwriting commitments consist of providing basic catastrophe and excess of loss reinsurance for property coverage written by small farm mutual insurance carriers throughout the Midwestern plains states. Rates for reinsurance coverages are determined by the loss experience of the ceding companies.

ADVERTISING

The Company's advertising files were reviewed and found to be in compliance with Iowa statutes. The Company also offers a co-op program to the appointed producers with the Company approving permitted advertising materials.

PRODUCER LICENSING

Business is written through an agency force of approximately 1,400 independent producers generally affiliated with member farm mutuals. A sample of 75 policy applications was reviewed to determine proper licensing and appointment of the signing producer.

COMPLAINT HANDLING

The Company maintains a complaint register. However, the log contains only complaints relating to claims and complaints filed with the respective insurance divisions. Iowa Administrative Code 191-15.13 provides that a record of all complaints shall be maintained.

UNDERWRITING AND RATING

Board, Bureaus and Associations

Statistical information, premiums written and losses incurred, is reported to the following associations:

National Association of Independent Insurers
American Association of Insurance Services
Insurance Services Office
National Council on Compensation Insurance
National Crop Insurance Services

Rating, Forms, and Underwriting

A review was made of 75 policy files for compliance with filed rates, rules, forms and underwriting standards. The rating factors used to determine the policy premiums were verified to those filed with the state and the total premium recalculated. Various policy forms used were verified to be filed and approved by the state. The Company's underwriting guidelines were reviewed for any unfair trade practices and the use of the guidelines verified to be consistently applied to all policyholders.

Policy Cancellations

A review of 100 policy cancellations indicated the Company was in compliance with policy provisions.

CLAIMS HANDLING

Time Payment Study

A sample of 100 claim files, obtained from the 2004 paid claim data files for both the Company and Grinnell Select Insurance Company, was reviewed to determine the Company's practice in the payment of first party claims. For this study, time was measured in calendar days from the date sufficient information was received for consideration of payment to the date the check was issued. The results are as follows:

<u>Days to Settle</u>	<u>Number of Claims</u>	<u>Percentage</u>
0- 7	80	80%
7-14	12	12
15-21	7	7
22-28	<u>1</u>	<u>1</u>
Total	<u>100</u>	<u>100%</u>

Closed Claims

A sample of 50 denied or closed without payment claim files was reviewed to determine the Company's claims handling practices. All files were denied or closed without payment in accordance with policy provisions.

UNDERWRITING EXPERIENCE

Underwriting experience during the examination period, as taken from data filed with the N.A.I.C., is as follows:

Direct Data Expressed in (000s)

<u>Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
Premiums earned	\$ 238,766	\$ 255,439	\$ 269,983	\$ 764,188
<u>Incurred deductions</u>				
Losses incurred	\$ 130,865	\$ 126,028	\$ 134,327	\$ 391,220
Defense and cost containment	7,260	5,343	8,194	20,797
Adjusting and other expenses	15,471	17,297	23,199	55,967
Commission and brokerage	44,294	48,764	52,452	145,510
Taxes, licenses and fees	4,463	6,565	5,953	16,981
Other underwriting expenses	23,533	25,312	26,425	75,270
Total deductions	\$ 225,886	\$ 229,309	\$ 250,550	\$ 705,745
Underwriting gain (loss)	\$ 12,880	\$ 26,130	\$ 19,433	\$ 58,443

Expressed in ratios of expenses incurred to premiums earned, the percentages would be:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
<u>Incurred deductions</u>				
Losses incurred	54.81%	49.34%	49.75%	51.20%
Defense and cost containment	3.04	2.09	3.04	2.72
Adjusting and other expenses	6.48	6.77	8.59	7.32
Commission and brokerage	18.55	19.09	19.43	19.04
Taxes, licenses and fees	1.87	2.57	2.20	2.22
Other underwriting expenses	9.86	9.91	9.79	9.85
Total deductions	94.61%	89.77%	92.80%	92.35%
Underwriting gain (loss)	5.39%	10.23%	7.20%	7.65%

UNDERWRITING EXPERIENCE BY STATE

The Company's direct underwriting experience by jurisdiction, as taken from the data filed with the N.A.I.C., is as follows:

Direct Data

<u>State</u>	<u>Three-Year Average Earned Premium</u>	<u>Three Year Operating Ratio</u>	<u>2004 Earned Premium</u>	<u>2004 Operating Ratio</u>
Illinois	\$ 45,553,667	89.10%	\$ 48,139,000	91.50%
Indiana	8,404,333	103.80	9,069,000	107.40
Iowa	82,453,667	92.40	84,956,000	95.80
Minnesota	70,659,667	89.30	77,793,000	84.40
Missouri	18,946,333	109.80	19,849,000	109.90
Nebraska	3,195,000	94.00	3,569,000	82.80
North Dakota	13,089,667	86.80	13,545,000	97.20
South Dakota	3,122,333	105.00	3,490,000	87.50
Wisconsin	9,304,667	88.00	9,573,000	90.80
Total	<u>\$ 254,729,334</u>	<u>92.40%</u>	<u>\$ 269,983,000</u>	<u>92.80%</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, Joseph W. Detrick, AFE, CPA, CISA; Joseph F. Cox; Danielson L. Dukor; and Bouavan Kha, examiners for the Insurance Division of Iowa, participated in the examination and preparation of this report.

Respectfully submitted,

VIRGINIA R. WEST, CFE
Examiner-in-charge
Insurance Division
State of Iowa