

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**CENTER MUTUAL INSURANCE COMPANY
RUGBY, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2022**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Center Mutual Insurance Company

Rugby, North Dakota

as of December 31, 2022, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 21st day
of June, 2024.



Jon Godfread
Insurance Commissioner

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Rugby, North Dakota
April 25, 2024

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records, and financial condition of

Center Mutual Insurance Company

Rugby, North Dakota

hereinafter referred to as the "Company", was last examined as of December 31, 2017, by Examiners representing the North Dakota Insurance Department, hereinafter referred to as the "Department".

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. The last examination covered the period of January 1, 2013 through December 31, 2017. This examination covers the period of January 1, 2018 through December 31, 2022, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed 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. The examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include 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. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

There were no examination findings in the preceding Report on Examination which covered the period from January 1, 2013, to December 31, 2017.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

Effective January 1, 2024, the Company reorganized from an incorporated mutual company to an incorporated stock company. To execute this demutualization, the Company created a Mutual Holding Company named Northern Lights Mutual Group (“NLMG”) and transferred policyholder ownership from the mutual insurer to NLMG. At the same time, it also created an intermediate stock company named “Aurora Holding Company, Inc.” (“AHC”) which wholly owns the reorganized stock company, “Center Mutual Insurance Company.” At January 1, 2024, NLMG held all issued and outstanding shares of AHC.

HISTORY

General

The Company was incorporated on August 29, 1917, as Publishers Mutual Fire Insurance Company of North Dakota. On December 9, 1968, Farmers Mutual Insurance Company of Rugby merged into the Company. At the same time, the name of the Company was changed to Center Mutual Insurance Company. On April 23, 1970, the Company entered into a reinsurance agreement with Farmers Mutual Insurance Company, Harvey, North Dakota, and assumed all of the business, assets, and liabilities of the Harvey Company which was then dissolved.

The Company was formed to insure and make contracts of insurance in all forms now authorized or which may be authorized under the laws of the State of North Dakota relating to incorporated mutual insurance companies.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws provide that the number of directors shall be nine, a majority of whom shall constitute a quorum to do business. Nominations for director must be submitted to the Secretary-Treasurer of the Company by September 1 to be considered at the annual meeting. Directors are elected for three years with one-third of the directors elected at each annual meeting.

The Bylaws provide that the Board of Directors shall meet annually on the first Thursday in November each year immediately following the annual meeting of members. The minutes show that the annual meetings of the Board were held as required by the Bylaws. In addition to the

annual meetings, the Board held one additional meeting for each year under examination, except 2019, which had two additional meetings.

Directors serving at December 31, 2022, were as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
James Blessum Rugby, North Dakota	Farmer
Jeffrey Campbell Bottineau, North Dakota	Regulatory Senior Manager Eide Bailly
Robert Hovland Rugby, North Dakota	President Center Mutual Insurance Company
Robert Jaeger Rugby, North Dakota	Claims Supervisor Center Mutual Insurance Company
Chris Lamoureux Minot, North Dakota	Bank Trust Officer
Robert St. Michel Rugby, North Dakota	Furniture Store Owner
Rose Schneibel Rugby, North Dakota	Retired Chief Financial Officer
Steven Steinborn Jamestown, North Dakota	Retired Bank Officer & Insurance Agent
Rodger Zurcher Glenburn, North Dakota	Farmer

Officers

The Bylaws provide that the directors shall elect from their number a Chairman of the Board, Vice Chairman, President, Vice President and Secretary and Treasurer, all of whom shall hold their office for one year and until their successors are elected and qualified.

The officers duly elected by the Board of Directors and holding office at December 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Robert St. Michel	Chairman of the Board
Chris Lamoureux	Vice Chairman
Robert Hovland	President
Robert Jaeger	Vice President - Secretary/Treasurer

Committees

Audit Committee

The Audit Committee annually reviews the external auditor's report and the actuarial opinion. The Audit Committee met seven times during the exam period. Members serving on this Committee as of December 31, 2022 were as follows:

Bob Jaeger
Robert Hovland
Steven Steinborn

Investment Committee

The Investment Committee directs Company investments in accordance with guidelines approved by the Board. The Investment Committee met four times during the exam period. Members serving on this Committee as of December 31, 2022 were as follows:

Robert Hovland
Robert St. Michel
Robert Jager
Jeffrey Campbell
Chris Lamoureux

Executive Committee

The Executive Committee meets on an as needed basis. The Executive Committee did not meet during the exam period. Members serving on this Committee as of December 31, 2022 were as follows:

Robert Hovland
Robert St. Michel
Robert Jaeger
Rodger Zurcher
Chris Lamoureux

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation or Bylaws during the period covered by this examination.

Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were read.

The minutes of the various meetings indicate that board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation and statutory requirements. The

deliberations of the board were adequately documented and supported the Company's transactions and events. The board meets semi-annually.

Conflict of Interest

The Company has an established procedure for the disclosure of potential conflicts of interest or any material interest or affiliation on the part of its officers, directors or key employees to its Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2022, the Company was protected against fraudulent or dishonest acts of its employees by a fidelity bond. The bond insures the Company up to \$500,000, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company maintains other types of coverage including Professional Liability, Directors and Officers Liability with limits which were considered adequate.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2022:

Location	Type of Asset	Statement Value	Fair Value
North Dakota	Bonds	\$250,134	\$250,358

The deposit is held for the protection of policyholders from the State of South Dakota.

TERRITORY AND PLAN OF OPERATION

At December 31, 2022, the Company was licensed and qualified to write property and casualty insurance in the states of North Dakota and South Dakota. The Certificates of Authority issued by these states were reviewed and found to be in proper order and effect.

The Company writes primarily personal automobile, homeowners, and farmowners policies in North Dakota and South Dakota. North Dakota accounts for 85% of the Company's writings. The Company specializes in writing private passenger auto, home and farm owner's policies.

REINSURANCE

The Company's ceded reinsurance program is managed and brokered by reinsurance intermediary, Gallagher Reinsurance. The following is a summary of the Company's significant reinsurance treaties in force at December 31, 2022:

Reinsurance Ceded

Type	Limit	Retention	Premium Rate	Minimum Premium
Multi-Line Excess of Loss`	\$ 780,000	\$ 220,000	3.33%	\$ 872,000
Property Per Risk`	3,000,000	1,000,000	0.54%	93,000
Casualty Clash`	1,000,000	1,000,000	0.52%	50,000
1 st Excess Catastrophe*	3,500,000	500,000	6.99%	924,000
2 nd Excess Catastrophe*	10,000,000	4,000,000	1.76%	232,000
MRB Excess Cat Pool	14,000,000	14,000,000	0.77%	140,000
Total				\$2,311,000

*The 1st Excess Catastrophe layer is excess of a \$1.3M annual aggregate deductible. Both catastrophe layers include a reinstatement at the quoted price.

`The casualty clash and property per risk layers both, separately, inure to the benefit of the multiple line excess of loss contract, so the effective retention for each loss type under these contracts is \$220,000.

Reinsurance Assumed

The Company also assumes an immaterial amount of business via its participation with Mutual Reinsurance Bureau, a regional catastrophic risk pool. The Company also assumes an immaterial amount of business from a National Association of Mutual Insurance Companies ("NAMICO") risk pool.

The reinsurance agreements contain the insolvency clause required by N.D.C.C. § 26.1-02-21 and all required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

On the December 31, 2022 Annual Statement, the Company reported \$192,372.01 in expenses from a reinsurance audit that the Company engaged on line 20.2 as "Insurance Department Licenses & Fees" rather than line 18 "Legal and Audit."

It is recommended that the Company consult the Annual Statement Instructions when classifying and reporting expenses.

Safekeeping Agreement

During the period under examination, the Company's securities were held by U.S. Bank National Association ("U.S. Bank"). No changes were noted during the examination period with the Company's U.S. Bank custodial agreement. The agreement contained all provisions required by and even cited North Dakota Administrative Code ("N.D. Admin Code") § 45-03-23.

Third-Party Agreements

During the period under examination, the Company used the services of Gallagher Reinsurance as reinsurance intermediary and Madison Scottsdale, L.C ("Madison") as investment manager.

At December 31, 2022, the Company's investment policy, managed by Madison, included an "Allowable Investment and Limitations" listing in lieu of an approved asset allocation schedule. This investment limitation listing allows three separate asset classes to comprise up to 100 percent of the portfolio and an additional seven categories of assets (including asset backed securities) to consist of 50 percent or greater concentrations of the portfolio. This flexibility does not meet the diversification, appropriateness, or liquidity requirements specified for an investment plan per N.D. Admin Code §45-03-12-05(1):

The board of directors shall adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines as to the quality, maturity, and diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs, and its capital and surplus. The board shall review and assess the insurer's technical investment and administrative capabilities and expertise before adopting a written plan concerning an investment strategy or investment practice.

It is recommended that the Board approve an investment plan that complies with the requirements of N.D. Admin Code § 45-03-12-05(1).

Claim Complaints

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants. The Company's complaints logs were reviewed and deemed compliant.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2022. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, December 31, 2022

Statement of Liabilities, Surplus, and Other Funds, December 31, 2022

Statement of Income, Year 2022

Reconciliation of Capital and Surplus, January 1, 2018 through December 31, 2022

These financial statements are based on the statutory statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Center Mutual Insurance Company
Statement of Assets
December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$38,274,172		\$38,274,172
Stocks:			
Preferred stocks			
Common stocks	12,052,508		12,052,508
Real estate:			
Properties occupied by the company	421,111		421,111
Properties held for sale			
Cash	2,218,736		2,218,736
Short-term investments	4,177,118		4,177,118
Investment income due and accrued	263,907		263,907
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	523,494		523,494
Deferred premiums, agent's balances and installments booked but deferred and not yet due	7,585,029		7,585,029
Amounts recoverable from reinsurers	260,835		260,835
Federal Income Tax Recoverable	351,014		351,014
Net deferred tax asset	616,446		616,446
Electronic data processing equipment and software	321,878	312,007	9,871
Furniture and equipment	9,463	9,463	0
Company owned vehicles	100,195	100,195	0
Total Assets	\$67,175,906	\$421,665	\$66,754,241

Center Mutual Insurance Company
Statement of Liabilities, Surplus, and Other Funds
December 31, 2022

Losses	\$ 6,710,843
Loss adjustment expenses	577,084
Commissions payable, contingent commissions and other similar charges	635,047
Other expenses	1,101,603
Taxes, licenses and fees	267,671
Unearned premiums	18,166,193
Advance premium	409,734
Ceded reinsurance premiums payable	191,691
Funds held by Company under reinsurance treaties	0
Amounts withheld or retained by Company for account of others	<u>5,463</u>
Total Liabilities	\$28,065,329
Surplus as regards policyholders	<u>\$38,688,912</u>
Total Liabilities, Surplus, and Other Funds	<u><u>\$66,754,241</u></u>

**Center Mutual Insurance Company
Statement of Income
December 31, 2022**

Underwriting Income

Premiums earned		\$31,287,424
Deductions:		
Losses incurred	\$21,807,897	
Loss expenses incurred	1,705,657	
Other underwriting expenses incurred	<u>10,211,922</u>	
Total underwriting deductions		<u>33,725,476</u>
Net underwriting gain or (loss)		\$ (2,438,052)

Investment Income

Net investment income earned	\$ 530,661	
Net realized capital gains (losses) less capital gains tax of \$0	<u>121,025</u>	
Net investment gain or (loss)		\$ 651,686

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (29,523)	
Finance and service charges not included in premiums	102,028	
Aggregate write-ins for miscellaneous income	<u>77,246</u>	
Total other income		<u>149,751</u>
Net income, before federal and foreign income taxes		\$ (1,636,615)
Federal income taxes incurred		<u>14,485</u>
Net Income		<u><u>\$ (1,651,100)</u></u>

Center Mutual Insurance Company
Reconciliation of Capital and Surplus
January 1, 2018, Through December 31, 2022

	2022	2021	2020	2019	2018
Capital and surplus, December 31, previous year	\$41,877,215	\$36,921,063	\$32,747,984	\$29,669,217	\$29,116,478
Net income or (loss)	\$(1,651,100)	\$4,623,414	\$ 2,678,019	\$ 1,490,630	\$ 975,2228
Change in net unrealized capital gains or (losses)	(2,123,490)	286,502	1,238,387	1,509,148	(437,225)
Change in net deferred income taxes	344,648	(83,401)	(317)	58,914	18,134
Change in nonadmitted assets	149,364	221,912	257,044	(9,925)	26,602
Change in provision for reinsurance	92,275	(92,275)			
Net change in capital and surplus	\$(3,188,303)	\$4,956,152	\$ 4,173,079	\$ 3,048,767	\$ 582,739
Capital and surplus end of December 31, current year	\$38,688,912	\$41,877,215	\$36,921,063	\$32,747,984	\$29,669,217

CONCLUSION

The financial condition of the Company, as of December 31, 2022, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$66,754,241</u>
Total Liabilities	\$28,065,329	
Surplus as Regards Policyholders	<u>38,688,912</u>	
Liabilities, Surplus, and Other Funds		<u>\$66,754,241</u>

Since the last examination conducted as of December 31, 2017, the Company's admitted assets have increased \$9,069,013, its total liabilities have decreased \$503,421, and its surplus as regards policyholders has increased \$9,572,434.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Colton Mork, staff examiner for the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,



Colton Schulz, CFE, CISA, CRISC, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department

FINDINGS AND RECOMMENDATIONS

It is recommended that the Company consult the Annual Statement Instructions when classifying and reporting expenses.

It is recommended that the Board approve an investment plan that complies with the requirements of N.D. Admin Code §45-03-12-05(1).