

2002/2003- Double digit rate increases!

Why?

Manager explains:

Teresa Vaughn, Iowa's Insurance Commissioner, observed at a recent meeting: "A perfect storm has struck the insurance industry." She went on to explain three reasons for her comment, and why insurers are finding it necessary to make substantial rate adjustments at this time:

1. Significant underwriting losses, five of the last seven years, due to severe weather patterns.
2. Tightening of world reinsurance markets due to adverse world events, including the 911 disaster.
3. Reduced investment income due to downturn in the investment markets.

When all three of these factors occur simultaneously, only one option remains. Companies must re-price their product to a level that will allow companies to increase policyholder surplus. If surplus is not increased, company capacity for new business is reduced. Some companies have been forced to limit their writings or withdraw from the marketplace. This has added to the problem by reducing the number of choices consumers have for their personal insurance coverage.

Net underwriting profit is defined as

"premium income" less "claims paid" less "adjusting expense." In the past, companies had been willing to experience underwriting losses, relying on investment income to realize company profitability. Many companies were able to increase policyholder surplus even when they had underwriting losses. Adverse weather, in recent years, slowed growth of surplus. However, positive investment income had allowed property premiums to remain stable, or even be reduced in many cases. The chart below illustrates what has happened the last 12 years, regarding property premiums for County Mutual Companies in Iowa:

Companies have been analyzing past loss experience, estimating future reinsurance costs and adjusting premiums accordingly, factoring little or no investment income. Policyholder surplus and financial strength of companies can only be protected, in the present financial environment, by

Average Rates/1,000 Analysis	1990	1996	2000	2001	2002
Humboldt Mutual Insurance Association	\$3.54	\$3.40	\$3.41	\$3.45	\$3.57
Northwest Iowa Mutuals	\$3.83	\$3.56	\$3.47	\$3.37	\$3.59
All Iowa Mutuals Combined	\$3.79	\$3.39	\$3.37	\$3.36	\$3.55

refocusing on underwriting and making underwriting profitable.

Humboldt Mutual Board of Directors faced this challenge first by implementing a full-time inspection program in 2001. This program has been ongoing and will continue to be used to re-underwrite our present book of business. We already have seen positive results from this program. We are confident losses can be controlled using proper underwriting endorsements and adequate rating for types of risks insured.



Maurice Abens
Secretary-Manager

Next, our board addressed increased reinsurance costs by raising policyholder rates 15% across the board effective July 1, 2002. Reinsurance base rates had increased 20% January 1, 2002, and were surcharged an additional 30%. The surcharge was a result of adverse loss experience in 1997, 1998, and 1999 (Humboldt Mutual paid \$4,173,261 in total losses and recovered \$1,841,656 from our reinsurance carrier. Total reinsurance premiums paid during the three years was \$526,206. This was a 350% reinsurance loss ratio for the period and has resulted in substantial reinsurance surcharges).

Company goal, after the July 1 increase, was to hold the line on premiums and review again in July 2003. Unfortunately, base reinsurance rates increased another 20% effective January 1, 2003, and reinsurance claim surcharge increased to 48%. These were very significant increases and Humboldt Mutual Directors took immediate action to make additional policyholder rate adjustments effective January 1, 2003. Farmate premiums were increased an additional 10% and Home-Guard premium an additional 15%.

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The basics of estate planning



Larry Curran
Treasurer

Estate planning is admittedly not a cheerful subject, but it is obviously an important one and, like most financial subjects in today's world, a complicated one. The purpose of this article is to outline just the basics of estate planning from the point of view of an average individual. Probably the easiest way to summarize the subject is in terms of four legal or semi-legal documents (items 1 through 4 below).

1. A Last Will and Testament

The property of a deceased person passes to other persons in one of two ways: (1) by operation of the applicable state law of intestate distribution, meaning that it passes to designated relatives if the deceased has not left a valid will, or (2) under the terms of the deceased person's validly executed last will and testament. "Last" will and testament refers to the fact that a person can make many different wills during a lifetime, but only the last one is effective.

The will should name a person or corporate fiduciary, such as a trust company, as executor. This person or entity is in the category of personal representatives of the estate, which means that the property in the estate is collected, sold if necessary, and distributed according to the terms of the will by that person or entity as a fiduciary. Another kind of personal representative is an administrator, who administers the estate of an intestate person.

Both kinds of personal representatives function under the supervision of a probate court, in which the will is filed, reviewed to make sure it is properly executed and otherwise appears to be acceptable, and made a public record. It is also the court where any persons who have an objection to the will can have their cases heard, and where the personal representative makes certain reports or "accountings." For this reason, the court-supervised process of transferring property under a will is called probate, and the property passing

under the will is called the probate estate.

2. A Letter of Instructions

A will, as noted above, has to be probated before it truly becomes legally effective to dispose of the deceased person's assets. Beyond that, a person's will is often kept in the family's safe deposit box or, preferably, in the secure custody of the attorney who prepared it and supervised its execution. A Letter of Instructions or "Last Wishes" is not strictly speaking a legal document and is not in any way a substitute for a will, because it is not legally binding, but it is often used to convey the insured's wishes regarding funeral arrangements, burial or cremation, religious services, and the like, to close family members. It should be kept by a responsible person in the family as a guide to be referred to immediately after the death occurs.

A letter is preferable to oral instructions, because the latter may be recalled differently by different family members, or simply not recalled, or misunderstood, or a combination of the foregoing may occur.

3. A Power of Attorney

A Power of Attorney is a document that names one or more persons as the agent of the person granting the power to do certain things on the latter person's behalf and in his or her name, as if they had been done personally. In essence, it allows a person's personal and business affairs to be conducted by someone else, as a matter of convenience or necessity. The scope of a Power of Attorney is theoretically limited only by the law that governs what things can and cannot be done by a person through an agent. (For example, making a valid will or adopting a child cannot be done through an agent.)

First of all, a Power of Attorney is absolutely not, to any extent, a substitute for a will because, just the opposite of a will, it ceases to be effective immediately upon the death of the principal. It also generally ceases to be

effective if and when the principal is no longer legally competent, which can be a very complicated and controversial issue in itself, but is definitely not limited to extreme states of incapacity, such as unconsciousness or coma.

The exceptions are a "Durable Power of Attorney," which continues in effect as long as the principal is alive, even though not legally competent, and a "Springing Power of Attorney," which does not become effective until the principal is legally incompetent, then becomes effective ("springs" into effect) and remains effective as long as that condition continues, or until the principal dies. These exceptions are relatively new inventions, and their use is ordinarily possible only if expressly authorized by state statutory law.

4. A "Living Will"

Many people believe that a "Living Will" is, more or less, a document that gives them the right to "die with dignity." That is, they want a living will to give instructions to doctors and hospitals, in advance of a terminal illness or injury, with regard to extent of treatment that is to be given to keep them alive. This may be the primary function of many living wills, but there is quite a bit more to the subject that needs to be examined and considered.

There are two basic kinds of living will, which are quite different in general concept:

A Durable Power of Attorney for Health Care Decisions (sometimes called a Health Care Proxy) names a person, usually a close relative, acting as an agent or attorney-in-fact, to make health care decisions for the principal at

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Loss prevention comments

Humboldt Mutual Insurance Association has stepped up its inspection program hoping to cut down on losses and help keep rates down. Obviously, we can not control the weather, but there are a number of things that can be done to help reduce fire and other losses. Improperly installed and poorly maintained electrical systems are one of the major causes of fire losses.

Some common problems that are found in inspections.

1. **OUTSIDE WIRING** – A. No central disconnect. B. No grounds on pole central disconnect. C. Bare overhead wires, usually from age. D. Wires improperly secured at the pole and buildings.
2. **DWELLING** – A. Service entrance wires too small. B.



Steve Samuels
Claims &
Loss Prevention

- Service entrance heads not installed. C. Circuit breaker or fuse panel too small. D. Over fusing for the type and size of wiring. E. No ground or ground improperly installed. F. Extension cords too small for use and extension cords run under rugs.
3. **OUTBUILDINGS** – A. Service entrance wires too small for the electrical use of the building. B. Service entrance weather-head not installed. C. Building not fused. D. No ground. E. Wrong wire type or size. F. No covers on disconnect switches, junction boxes or covers left open. G. Unused knockouts not closed. H. Metallic or bake-lite fixtures.

If you think you have some problems, have a reputable electrician check your system. A few repairs or some minor maintenance could help prevent a loss or personal injury.

Estate planning *from page 2*

a time when, presumably, the principal is no longer able to make such decisions personally, at least not in a coherent or rational manner. Some states have enacted statutes governing these documents.

A “regular” living will, under the laws of many states, allows the individual to give instructions directly under the terms of the document, without the use of an attorney-in-fact. In this case also, what treatments that can and cannot be given or withheld are matters that are restricted as a matter of

state law.

With regard to all of the above, especially the preparation and execution of a will, the services of an attorney should be used in all instances. Yes, it is possible to do these things without an attorney, following a commercial instruction book for example. But the risks of error are so great that they clearly outweigh the cost of legal services. Most important, once the individual in question has died or become legally incompetent, the errors can't be corrected.



Humboldt Mutual Board reduced from nine to seven directors

Policyholders voted to approve new Articles of Incorporation and Bylaws at the Policyholder Annual Meeting held the fourth Monday in January. The main purpose for rewriting the Articles was to give the board authority to reduce the number of directors required to serve on the board. Articles previously required nine directors to serve on the board. Articles now state there shall be no more than ten or less than five directors serving on the board. The board has authority to change the number of directors by resolution within limits set by the articles. Presently, the board has been reduced to seven directors. Mike Girres of Bode resigned in August to move out of state and Valdon Nerhus of Badger elected to retire in January when his term expired. Now serving on the board and pictured left to right are: Marvin Lindemann, Vice President - Humboldt; Roger Nelson, Director - Humboldt/Bode; Lawrence E. Marty, President - Hardy; Jerry Haverly, Director - Goldfield; LeRoyn Stensland, Director - Thor; Ralph Jacobson, Past President - Humboldt; and Calvin Sorensen, Director - Humboldt/Pioneer.

Why? *from front page*

Total policy premium adjustments totaled 25% and 30% respectively, for Farmate and Home-Guard policyholders, within a six-month period. We realize increases have been significant, but we hope policyholders understand why they were necessary.

Many policyholders offset these increases, receiving appropriate premium credits, by raising deductibles. Items insured have also been closely reviewed, and in many cases coverage reduced or removed when no longer practical. Anyone with questions regarding increased rates or how premiums might be reduced should contact their agent or our office for review.

If you have a claim ...

Prompt and courteous claim service has always been a priority at Humboldt Mutual Insurance Association. We promise that your claim will be investigated and settled as quickly as possible. To help us accomplish this there are some things that you can do to help. The conditions section of your policy list your duties after a loss. Knowing these duties and being prepared to perform them will aid in completing your claim. Your duties after a loss, as stated in your policy includes:

- a. give **us** immediate notice. In case of theft, vandalism or malicious mischief, also notify the police. Also notify the credit card company or fund transfer card company in case of loss under Credit Card or Fund Transfer Card coverage.
- b. protect the property from further damage. Make necessary and reasonable repairs to protect the property;
- c. make a list of all damaged or

- destroyed property, showing in detail quantities, costs, actual cash value and amount of loss;
- d. send to **us**, within 60 days after a loss, proof of loss signed and sworn to by the **insured person**. This proof of loss would include:
 - 1) the time and cause of loss;
 - 2) the interest of **insured persons** and all other in the property;
 - 3) actual cash value and amount of loss to the property;
 - 4) all encumbrances on the property;
 - 5) other policies covering the loss;
 - 6) changes in the title, use, occupancy or possession of the property;
 - 7) if required, any plan and specifications of any damaged building or fixtures;
 - 8) an inventory of damaged and undamaged personal property;
 - 9) evidence supporting a claim under Credit Card, Fund Transfer Card, Forgery and Counterfeit Money coverage. State the cause and amount of loss.

Cindy Thompson
Inspector
Humboldt
Mutual
Insurance
Association



- e. exhibit the damaged property to **us** or **our** representative, as often as may be reasonably required;
- f. permit **us** to conduct individual examinations of each insured under oath by any person named by **us**;
- g. permit **us** to take samples of damaged property for inspection, testing, and analysis;
- h. produce for examination all books of account bills, invoices, receipts and other vouchers as **we** may reasonable require;
- i. produce receipts for any increased costs to maintain **your** standard of living while you reside elsewhere, and records pertaining to any loss of rental income.

Premium payments

Iwould like to remind our policyholders that timely premium payments are essential for your protection. We are required by law to send out bills 30 days before their due date, and if payment is not made by that date, policy coverage is suspended until premium is paid.

Any losses may be denied if premium is not current. I am sure everyone wants to be protected from costly losses.



Amy Westberg
CSR, Policy
Processing/
Bookkeeping



INSURANCE ISSUES:

Terrorism, black mold and punitive damage awards are issues insurance companies have to deal with every day. Humboldt Mutual is required to notify its policyholders when the coverage provided under a certain policy is changed or excluded. The next renewal received by policyholders will include several important notices regarding coverage changes and clarifications in the current policy. Those changes are highlighted in this article.

Terrorism

The September 11 attacks on the World Trade Center in 2001 caused most insurance companies to start specifically excluding coverage for damage caused by a terrorist event. It was almost impossible to secure coverage for terrorism. The federal government teamed up with insurance industry leaders and developed a federally backed program to provide coverage for terrorism. On November 26, 2002, President Bush signed into law the Federal Terrorism Risk Insurance Act of 2002.

Two things have to happen for coverage to be triggered. First, the terrorist event must be considered a "certified" event. To be certified the event must cause at least \$5 million in total damage. Second, the event must have been caused by foreign terrorists. This law, as was the case in the Oklahoma City bombing, does not cover domestic terrorism.

Once an event has been considered a certified terrorist event, damages will be paid by your insurance provider. When your insurance provider hits a certain limit of claims paid, the federal government takes over. The federal government will be a backstop so insurance companies can more accurately predict losses. The government may then assess a tax of up to 3% of the total premium for all commercial insurance written in the U.S. The tax will not be triggered unless an actual terrorist event is triggered and, depending on the size, may only be 1% or 2% of the premium. If the tax is assessed, Humboldt Mutual will pass this on to the affected policyholders and pay the tax to the government on their behalf.

You may be asking yourself, "How

does this affect me?" Under this program, insurance carriers must offer terrorism coverage to all commercial policyholders. Farming is defined as a commercial business for purposes of the program, so Humboldt Mutual must offer terrorism coverage to all FarmMate policyholders. The probable place for a terrorist strike is in the larger cities. However, because farming is defined as a commercial business by the act, farm policies may be assessed at the same rate as other commercial policies, should another event like September 11 occur. There is no up-front premium charged for the coverage provided by Humboldt Mutual. You will receive an important notice with your policy explaining the coverage provided in the Terrorism Act.

If you have any concerns, please contact our office and we will be happy to answer any questions you may have.

Fungi and bacteria

Toxic mold has become a hot issue in the insurance industry the last few years. Mold is caused by water damage to a house or apartment, and the drywall, carpet, etc. are not dried out properly. What used to be a water cleanup and minor repair claim has turned into a major loss because of the toxic nature of mold spores. Cleanup costs for mold are very high and, in some cases, the house can be deemed uninhabitable, causing a total loss situation.

Rising claim costs associated with mold losses have caused many companies to put a maximum dollar limit on claims arising from toxic mold. Endorsement #RC353 and RC351 limit Humboldt Mutual's liability to \$5,000 aggregate per year for mold claims. This means that Humboldt Mutual will pay up to \$5,000/year for claims from mold if the damage arises from a covered claim (i.e. - water pipe breaks causing water damage in kitchen). This endorsement does not affect the amount we will pay to repair the damaged property from the water pipe breaking. It simply means that if mold becomes a problem, as a result of the covered loss, then Humboldt Mutual will pay up to \$5,000 for cleanup of the fungi or bacteria.



Bob Abens
Underwriting &
Accounting,
Asst. Secretary/
Treasurer

There are some exclusions that apply to this endorsement. If you have any questions regarding fungi or bacteria coverage, please call the Humboldt Mutual Office at 515.332.2953.

Punitive damages

Liability insurance covers an individual when a court of law has found that person legally liable for damages caused to another party. There are two types of damages that a jury may award in a lawsuit, compensatory and punitive. Compensatory damages are actual damages sustained in a loss. Loss of property, income, life, pain and suffering, medical costs. These are all considered actual damages that an injured party is entitled to after a loss. Juries as punishment use punitive damages. Punitive damages are generally awarded in cases where a person is considered to have been grossly negligent in his/her conduct, which results in injury or damage to another. Examples may be an intoxicated driver having an accident and causing a fatality.

Insurance companies have never intended to cover punitive damages. The purpose of insurance is to make the injured party whole after a loss. Endorsement #GMIL4709 – Punitive Damages Exclusion, clarifies the fact that punitive damages are not covered.

Copies of the endorsement discussed in this article, as well as all forms used by Humboldt Mutual Insurance Association, can be seen at the home office. Please stop or call with questions regarding this or any other matter. Thank you.

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 P.O. Box 35
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**HUMBOLDT MUTUAL INSURANCE ASSOCIATION
 SUMMARY OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	December 31	
	2002	2001
UNDERWRITING INCOME		
Gross Premiums	\$ 1,402,211.28	\$ 1,373,142.89
Less Reinsurance Premiums	328,881.69	239,030.53
Net Premiums	\$ 1,073,329.59	\$ 1,134,112.36
UNDERWRITING EXPENSES & LOSSES		
Gross Losses	\$ 603,778.01	\$ 1,041,314.20
Less Reinsurance Recovered	0.00	62,770.16
Net Losses	\$ 603,778.01	\$ 978,544.04
Loss Adjustment Expense	65,335.83	47,547.84
Commissions	197,827.35	214,439.00
Operating Expenses	204,144.82	205,210.73
Total Underwriting Expenses & Losses	\$ 1,071,086.01	\$ 1,445,741.61
Net Gain (Loss) From Underwriting	\$ 2,243.58	\$ (311,629.25)
INVESTMENT INCOME		
Interest Income	\$ 91,194.44	\$ 105,322.64
Dividend Income	10,406.90	36,262.95
Capital Gains	0.00	0.00
Gain/(Loss) on Sale of Investments	32,954.22	14,230.51
Increase (Decrease) in Adj of Bonds	(3,115.50)	12,176.99
Total Investment Income	\$ 131,440.06	\$ 187,993.09
OTHER INCOME		
Premiums Collected for Other Companies	\$ (4,583.86)	\$ 7,264.18
Rent	12,600.00	13,325.00
Increase (Decrease) in Ledger Liabilities	(13,745.80)	16,007.35
Other	(4,925.57)	(5,653.03)
Total Other Income	\$ (10,655.23)	\$ 30,943.50
Net Income Before Federal Income Tax	\$ 123,028.41	\$ (112,692.66)
Federal Income Tax	0.00	(26,500.00)
Net Gain (Loss) For The Year	\$ 123,028.41	\$ (86,192.66)
ANALYSIS OF INSURANCE IN FORCE:	2002	2001
Gross Risks in Force January 1	\$ 398,468,203	\$ 385,468,203
Gross Risks in Force December 31	392,999,532	398,494,187
INCREASE IN INSURANCE IN FORCE	\$ (5,468,671)	\$ +13,025,984



2002 DIRECTORS & OFFICERS

Lawrence Marty, President Hardy
 G. Marvin Lindemann,
 Vice President Humboldt
 Ralph Jacobson, Past President Humboldt
 LeRoy Stensland, Past President Thor
 Roger Nelson, Director Humboldt
 Mike Girres, Director Bode
 Jerry Haverly, Director Goldfield
 Valdon Nerhus, Director Badger
 Calvin Sorensen, Director Gilmore City

 Maurice Abens Corporate Secretary
 Larry Curran Corporate Treasurer
 Bob Abens Underwriting/Accounting,
 Asst. Secretary/Treasurer
 Steve Samuels Senior Adjuster/Inspector
 Cindy Thompson Associate Adjuster/Inspector
 Amy Westberg Policy Processing/Billing and
 Asst. Bookkeeper

AGENCIES

Abens-Marty-Curran Agency Humboldt/
 Goldfield/Bode
 Anchor Insurance Fort Dodge
 Arthur-Meinders & Associates Clarion
 Jasperson Insurance
 & Real Estate, Ltd. Thornton/Belmond
 North IA Insurance Agency ... Armstrong/Swea City
 Powers Insurance Agency Pocahontas
 Smith Realty & Insurance Humboldt
 Sundet-Omdahl
 Insurance Agency, Inc. Algona/Corwith
 Thompson Insurance Agency Humboldt

POLICIES IN FORCE DECEMBER 31, 2001 2,176
POLICIES IN FORCE DECEMBER 31, 2002 2,034
(142)