



Farm Mutual Director Certification

PROGRAM DESCRIPTION & COURSE CATALOG

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THE FARM MUTUAL DIRECTORS CERTIFICATION PROGRAM

The NAMIC Farm Mutual Director Certification (FMDC) designation formally recognizes the educational accomplishments and dedication to professionalism of the farm mutual director. The program consists of three modules: Management, Operations and Insurance, and Finance and Accounting.

CERTIFICATION REQUIREMENTS

To obtain certification, individuals must fulfill the following requirements:

- Submit a completed Farm Mutual Director Certification application along with a one-time \$25 application fee to NAMIC, FMDC, Designation, P.O. Box 68700, Indianapolis, IN 46268.
- Complete, in any order, four different classes from each module for a total of 12 classes within five years.
- Serve as an active director for a farm mutual insurance company at the time of completion.

All 12 courses must be completed by August 31 to earn your certification in the same year. Individuals completing certification requirements after the August 31 cutoff will be recognized with the next FMDC class.

To maintain the certification, individuals must complete four hours of coursework every two years. Courses may be from any of the three modules, but it must be four different courses.

Records are maintained by NAMIC. Status reports are distributed biannually. While NAMIC will make every effort to maintain accurate records, individuals are responsible for reporting discrepancies immediately upon discovery.

Applications are subject to approval by NAMIC with the assistance of the NAMIC Farm Mutual Conference Certification Committee. Course selection and development is determined by NAMIC with the assistance of the NAMIC Farm Mutual Conference Certification Committee.

BENEFITS OF FMDC CERTIFICATION

Directors meeting the certification requirements receive:

- Formal recognition at the NAMIC Annual Convention and state association annual meeting following completion.
- A lapel pin.
- A certificate of completion.
- Access to exclusive networking opportunities.
- A discount on your company's NAMIC D&O insurance policy (if at least 75 percent of your company's board is enrolled in the FMDC program).

ANNUAL ACTIVE PARTICIPANT FEE

A \$35 annual active participant fee is charged to all active enrollees and certificate holders and provides for:

- Entry and tracking of all courses taken
- Biannual transcript mailing and communication to monitor progress
- Invitation to FMDC breakfast at NAMIC Convention (\$25 value)
- Discount on NAMIC Annual Convention registration fee (20%)
- Annual subscription to IN magazine

This fee is billed directly to the participants' companies in the last quarter of each calendar year. Program participants, certified or pursuing certification, whose annual active participant fees have not been paid by the due date stated on the invoice will have their status changed to "suspended" and NAMIC will no longer track their coursework. Status may be returned to "active" once payment of annual active participant fees is received.

CERTIFIED DIRECTOR GRACE PERIOD

Certified directors who believe they will not complete their four hours of maintenance coursework within the expected two-year time frame, or whose maintenance has lapsed by less than 12 months, may contact the FMDC administrator to request a one-time grace period. Annual active participation fees must be current and the necessary four courses must be completed within twelve months from when the grace period is requested. If the required four courses are not met in that twelve-month grace period, the director will be marked inactive and will need to re-enroll and complete the necessary course work to become certified.

Questions about the program should be directed to the FMDC program administrator at (317) 875-5250 or fmdc@namic.org.

MANAGEMENT MODULE COURSE LIST

BOARD EVALUATION

Understanding the need to conduct board evaluations

Acting on the need to conduct board evaluations

Completing the process and following through on the results of the board evaluations

How to determine if your board is ready

Benefits of utilizing outside resources

BOARD MEETING PROCEDURES

Preparation of meeting

- Role of the chair/president/CEO/manager
- Separating the CEO/Chair role: pros/cons

Distribution of materials/director preparation for meeting

- Understanding the benefits of board portals
- Director review and preparation for meetings

Meeting

- Participation in-person or by electronic means
- Role of the chair
- Use of the consent agenda
- Use of the executive session
- Taking notes in board meetings – good or bad?
- Taking action

Post-meeting

- How to properly reflect meeting in the minutes
- Debunking myths related to minutes: best practices

BOARD RECRUITMENT

This course will provide a high-level focus on the important tools needed to recruit quality board members with a variety of backgrounds and experiences. Topics may include, but are not limited to:

- Understanding generational differences;
- Recognizing the importance of board succession planning as part of a director's fiduciary duty to the organization;
- Structuring the board to help achieve strategic goals and become future oriented;
- Utilizing a skills assessment to focus on recruitment efforts; and
- Creating a process to recruit and attract new board members.

CORPORATE GOVERNANCE FOR MUTUALS

Mutual company differences

New areas of expectations including institutional and regulatory/legislative issues

Impact of the courts in areas such as director duties, fiduciary/legal duties, limits to liability, the importance of good faith, and relevance of best practices

Policyholder as customer vs. shareholder

Rules under which companies operate

Importance of committee structure

How board responsibilities equate to certain financial liability issues as decisions are made that affect solvency (includes case studies about board decisions/effect)

Conflict of interest

D&O and E&O exposures

DIRECTORS AND OFFICERS LIABILITY

Real world claims situations

D&O exposures

Common features of D&O forms

Review – without legalese – conditions, exclusions, insuring agreements

Common terms

- Claims made and reported
- Retroactive date
- Coverage triggers

Cover Fiduciary, EPLI, Privacy/Cyber/ICPL

Review ways to control risk in this area

Special situations

- Mergers
- Joint ventures
- Regulatory issues

EMERGING GOVERNANCE ISSUES

In this session, emerging governance issues will be discussed with time allowed for questions. Topics may change from year to year due to their emerging nature.

LEADERSHIP SKILLS

This course will provide a high-level focus on the importance of investing in the development of leadership skills for company staff and leaders. Topics may include, but are not limited to:

- Defining and developing a leadership model;
- The value of executive coaching;

- Developing skills for healthy conflict and resolution; and
- Benefit of goal setting and periodic review of goals.

MAXIMIZING YOUR NAMIC MEMBERSHIP

Learn about ways to maximize your NAMIC membership

Learn how NAMIC continues to develop and evolve

Understand the variety of resources available to members, including free and low-cost options

MERGERS/CONSOLIDATIONS

Defining “mergers and consolidations” and exactly what they involve. This area will include the end of a company's separate existence (merged with another company) and endless due diligence questions that accompany negotiation and consummation

Why two separate companies consider a merger transaction. This area will include financial stability, operational efficiency (underwriting, claims, customer service, etc.), combined agency force - more geographic scope and management and board succession planning

Mileposts in the Merger Process – Understanding Terminology and Steps. This area will include confidentiality Agreements/ Non-Disclosure Agreements, Due Diligence Checklists (business, financial/accounting, legal, cultural), letters of Intent and reasons to use letters of Intent, Definitive Merger Agreements, the Regulatory and Policyholder Approval Processes

The Need for Outside Expert Advisors in Pursuing a Merger Transaction

Optional: Role Playing Exercise – Reacting to a Letter of Intent. Attendees will separate into groups, with each one to receive a sample letter of intent and formulate questions/issues/concerns to report on then discuss ideas with all attendees.

ROLE OF THE BOARD

Definition and review of what corporate governance means for mutual company directors

Understanding your role as a board member

Defining and developing a best practices approach to governance (including importance of committee structure)

Definition of board's role

Role of management vs. role of director

Evaluating the CEO

MANAGEMENT MODULE COURSE LIST

SMALL COMPANY CONFLICT OF INTERES

Understand potential conflicts of interest and what effect they may have on the mutual

Identify repairs to the conflicts and plan for any future issues that may arise

Implement long range planning to steer the mutual away from potential conflicts

Form the appropriate thought process during voting

Assess priorities and expenses for both the agency and mutual

Hire the appropriate employees (i.e. separate agents and managers)

STRATEGIC BUSINESS PLANNING

Developing a business plan

Monitoring and establishing benchmarks

Evaluating overall enterprise/company risk (evaluating organizational risks)

Importance of disaster recovery and business resumption planning

SUCCESSION PLANNING

Understanding what succession planning/management is and its relevance to an organization's present and future

Understanding the role of the board in overseeing a systemic approach to succession planning/management through training plans and skill charts for key positions

Developing a board succession plan and evaluating position knowledge needs

Designing and developing written plans for succession of directors, officers, and managers

Requirements of key positions; evaluating key positions

OPERATIONS AND INSURANCE MODULE COURSE LIST

CHANGING AGENT DISTRIBUTION CHANNELS

Discuss changes impacting distribution channels

Review "Insurers, Intermediaries, and Interactions: from Channels to Networks," a report published by the IBM Institute for Business Value that is based on the findings from surveys of more than 10,000 agents, brokers, and insurers and their customers.

Explore different perspectives of what is impacting changes in distribution models and how insurers and agents can successfully work together in an ever-changing business environment

CLAIMS

High-level overview of adjusting process

Catastrophe management

Determination of values

Depreciation

Bad faith

Fraud

Claims audits

Documentation

EMERGING INDUSTRY TRENDS

Discuss specific industry trends that impact farm mutuals. Issues may change from year to year due to their emerging nature.

EMERGING OPERATIONS ISSUES

This course will discuss emerging issues that impact the operations of farm mutual insurance companies. Issues may change from year to year due to their emerging nature.

EMERGING RISKS

Discuss general emerging-risk issues that impact commercial lines and personal lines

EVALUATING NEW BUSINESS

Evaluating company growth potential and goals

Board's role in evaluating growth and setting policy for management

Understanding the potential of new business vs. current book of business

Impact on surplus

Effect on combined ratios with low, moderate and high premium growth

Short-term effect on surplus from premium growth

When is it time to decrease your premium writings?

Effect on premium writings and loss ratio when insurance to value is implemented
Likely effect on loss ratios when credit based scoring is used as an underwriting tool

Evaluating risk types and risk concentrations (geographic) that need to be addressed when we focus on how much, where and what type of risks should be written

HUMAN RESOURCES

This course will provide a high-level focus on any number of Human Resources issues. Topics may include, but are not limited to:

- Attracting talent;
- Understanding the current and future labor markets; and
- Managing generational shifts

INSURANCE COMPANY OPERATIONS

Insurance principles

How an insurance company works

Administration

Asset/liability management

Buildings

Human resources

Protection of assets

Disaster recovery plans

Loss control

Information technology

Policy administration systems

Imaging

INSURANCE REGULATORY ENVIRONMENT

Legislative/political issues

Review of federal and state issues

Insurance departments and regulation

History of anti-trust

SOX

Fair credit reporting

Privacy laws

Current state issues

Farm mutual reform

MARKETING

Marketing plan

Agents appointments

Agents relations

Licensing

Advertising

Marketing representatives

ORGANIZATIONAL RISK MANAGEMENT

Evaluating current organizational risks (process)

Board's role in helping management develop a comprehensive list of all organizational risks

Establishing a risk appetite policy and key metrics

Board's role in monitoring the plan and potential impact to company

Establishing a dashboard to monitor key drivers

Building a culture around discussion of current risks and identification of emerging risks

PAST, PRESENT AND FUTURE OF THE FARM MUTUAL

Explore this history of farm mutuals and take a closer look at how they are operating today

Identify ways in which farm mutuals can succeed and thrive in the future

REINSURANCE

Importance of reinsurance

Reinsurance partnership

Backstop and advisor

Protection of reinsurer

Cost of reinsurance

Contract

OPERATIONS AND INSURANCE MODULE COURSE LIST

TECHNOLOGY NEEDS FOR THE BOARD

Identify the changing technology needs and competitive environment for property/casualty insurers

Provide for examples of a road map or decision matrix to help identify company needs

Provide an overview for evaluation of technology needs and current capabilities

Identify ways in which the board can evaluate success and provide management with appropriate levels of support/guidance

UNDERWRITING

High-level overview of underwriting process

Tools available in underwriting decisions

Pricing

Forms

Insurance to value

Use of credit-based insurance scoring

Documentation

Underwriting audits

Catastrophe mapping

WEATHER TRENDS

Discuss groundbreaking progress being made in accuracy of extreme storm warning systems

Learn how weather science is rapidly becoming a highly useful tool that will allow the insurance industry to better serve its clientele and limit exposure to extreme weather

Learn how to apply this new science to the challenges faced by the insurance industry

FINANCE AND ACCOUNTING MODULE COURSE LIST

BOARD'S ROLE IN STRATEGIC PLANNING/ESTABLISHING FINANCIAL GOALS

Understand key financial ratios in the company

Analyze company trends and benchmark to key financial ratios to your peer group

Use other Key Performance Indicators (KPI) in evaluating the performance of the company to strategic plan

Identify strategies to reach goals

CATASTROPHE MODELING IMPACT TO REINSURANCE

Provide an overview of the intricacies and difficulty in modeling the severe thunderstorm peril

Summarize what data is available, what is deemed 'reliable' in the meteorological world and how the data is being used in catastrophe modeling

Show how catastrophe modelers are modeling severe thunderstorms and some of the tools utilized by companies to assist modeling severe thunderstorm risks

Illustrate how the concentration of risk in small companies coupled with weather trends in their communities presents significant risk and impact to the reinsurance purchase

CURRENT ADVOCACY ISSUES (SMALL COMPANY TAX UPDATES)

Understand the current legislative arena and possibilities for changes to current tax treatment

Learn about the different taxation options and challenges operating as a small farm mutual company

Learn about how the IRS reviews legislation and activity of small property/casualty insurance company taxation

Understand the implications of tax reform and its effect on the insurance industry

FINANCIAL IMPLICATIONS AND IMPACT OF DEFINED BENEFIT PLANS

Effect of asset returns on funding of pension plans

Effect of interest rates and the economy on funding of pension plans

- Financial statement ramifications
- Company pension plan funding ramifications

Relationship between funding of a company's pension plan and the financial statements of the company

Alternatives to pension plans

- SEP IRA plans
- Simple IRA plans
- "Top Hat" plans
- "Golden Handcuffs"

Comparison of pension plans to alternative plans

- Benefits of each
- Disadvantages

Procedures for/ramifications of changing plans

Board member liability

FINANCIAL PRIMER: INVESTMENTS, AUDITS AND INSURANCE ACCOUNTING FOR DIRECTORS

Describe privately held insurance company board governance best practices

Identify the common risks within the core operating cycles of an insurance company

Understand the roles and responsibilities of the board management, and service providers in the investment process

Learn tips that can be used to maximize the value of the interactions among the board, management, and external service providers

Understand current governance challenges in overseeing an insurance investment portfolio

Identify the key components of a sound and repeatable institutional investment process

INSURANCE ACCOUNTING

Premium accounting

Payment options

Cancellation

Earned premium

Unearned premium

Reserves

Understanding and analyzing financial statements

Basics of insurance accounting

Review of balance sheet

Liabilities, including unearned premium

Policyholder surplus

Reserve adequacy

Performance and profitability

INSURANCE-SPECIFIC PERFORMANCE METRICS (SCORECARD)

Rating agencies

Use and value of insurance ratings

Maintaining acceptable state standards

Audit function

Key matrixes

How to measure success

Loss ratio

Combined ratio

Expense ratio

Investment yield

Surplus

Return on equity

Policyholder retention

INVESTMENT PERSPECTIVE

Need for investments

Use of bonds

Stocks

Investment managers

Yield and terms

How to manage

Investment policy

Oversight

FINANCE AND ACCOUNTING MODULE COURSE LIST

MERGERS/CONSOLIDATIONS – FINANCIAL IMPLICATIONS

Introduction

- This course focuses only on the financial implications of a merger on the companies involved
- Before and during any merger discussions, the primary responsibility of the board is to focus on the best interests of the policyholders, whether from the perspective of a company seeking to acquire another company, or the perspective of a company seeking another company with which to merge
- The perspectives of companies seeking to acquire another company and of companies seeking another company with which to merge are not always the same. Those differences should be pointed out when possible in this course and always kept in mind by board members.

Types of Consolidations

- Merger
- Asset acquisition (e.g., renewal rights)
- Stock acquisition for a stock company
- Non-merger affiliation through a common management

Financial Implications of Each Acquisition Type

- Merger
 - No protection against liabilities
 - Succession to surplus
- Asset acquisition
 - Generally protection against unknown liabilities; not against scheduled liabilities
 - Succession to surplus depends on negotiation
- Stock acquisition
 - Protection against liabilities if target is maintained as separate subsidiary
 - Succession to surplus, but segregated in separate subsidiary unless there is an upstream merger or liquidation
- Non-merger affiliations
 - Protection against liabilities
 - No succession to surplus

Assist board members to better understand what financial questions they should ask during initial discussion of a merger:

- Positive reasons for a merger
 - Reinsurance options
 - Increased premium income
 - Economies of scale from perspective of both companies
 - Staff
 - Technology
 - Building
- When to consider when seeking a merger partner, either to be the acquirer or to be acquired

- Before the company is in trouble
- The company is existing on investment income
- Company does not have premium income and budget to operate

What questions board should ask up to and after the merger

- Review existing benefit plans of each company for employees and retirees
 - Health plans
 - Severance packages
- Possible tax implications
- Consider each company's investment guidelines
- What financial ratios to review of individual companies and combined company
 - Prior to a merger (what healthy ratios look like)
 - Subsequent to a merger (what healthy ratios look like)

What financial trends to review of individual companies and combined company

- Prior to merger (what's healthy)
- Subsequent to merger (what's healthy)

Catastrophe clause which allows parties to dissolve negotiations and/or merger if catastrophic event happens between time of policyholder approval and regulatory approval

UNDERSTANDING AND ANALYZING FINANCIAL STATEMENTS

Basics of insurance accounting

Review of balance sheet

Liabilities, including unearned premium

Policyholder surplus

Reserve adequacy

Performance and profitability

UNDERSTANDING THE AUDIT COMMITTEE ROLE

Importance of an audit committee

Role of the audit committee

Developing the audit committee charter

Steps to formation

Committee composition