

# **7<sup>th</sup> Annual Farmers Cooperatives Conference**

## **Co-op Innovation Challenges & Opportunities**

Jeff J. Nielsen  
United Farmers Cooperative

### **UFC – Quick Overview**

- **Parent Co-op Established in 1915**
- **2004 Revenues just over 80 million dollars**
- **10,000 Members – approx 2,500 Active Producers**
- **Diversified Business Base – Grain, Feed, Agronomy, Petroleum, Farm Equipment and Construction, and Consumer Goods**
- **Approximately 100 Full Time Employees**
- **Trade Area Includes – 8 Communities and 15 Service Locations**

## **Performing on the Promise**

UFC's Promise

**To supply our customers with technology, products, and services in a manner that is extraordinary enough to add value to their lives.**

## **Cooperative Innovations UFC's Decision Parameters**

- **Must Focus on Long Term Benefit**
- **Must Fit our Promise**
- **“Calculated Risk”- OK, how much?**
- **Must Never Forget Your Core Values**
- **Can We Be the Best – or Build To It**
- **Know When to Get Out/Say No**
- **Focus on *“Customer Driven Solutions”***

## Co-op Innovation – UFC Projects

- 1995 Developed Livestock Systems to Serve All Members – Built Local Demand for Corn
- 1999 Developed Employee Owned and Controlled Health Insurance Program
- 2000 Help to Pioneer Broadband Services for Rural America – Formed RTS Services
- 2001 Developed Innovative Marketing Programs for Core Business – “A.C.R.E.S.”
- 2003 Led the Effort to Create a Member Owned Alternative Insurance Program – “Parthenon Risk Partners”

## Cooperative Innovations

Project development path

***“Parthenon Risk Partners”***  
***A cooperative insurance alternative***

## Insurance - Defined

\In\*sur"ance\, n. [From Insure.] 1. The act of insuring, or assuring, against loss or damage by a contingent event; a contract whereby, for a stipulated consideration, called premium, one party undertakes to indemnify or guarantee another against loss by certain specified risks. Assurance

## Addressing Risk Alternatives

“Traditional Insurance Models”

- Remember – Insurance is Simply a “Risk Transfer” Mechanism
- Everyone is in the Pool
- Highest Risk Drives It
- We ALL pay .....

We ALL share the BURDEN regardless of our personal involvement

## With Traditional Insurance The Bottom line is.....

More Risk + More Exposure  
Combined with little or no control

=

**Bigger & BIGGER** PREMIUMS

- No one really has a crystal ball
- Very little control / influence
- Victims of outside circumstances

## Insurance Revenue Streams

What Effects Changes?

1. Major Loss Events (i.e. 911)
2. Investment Income (stock market performance)
3. Individual or Group Historical Performance
4. Supply and Demand Economics (lack of fair competition)

## Agri-Business Insurance

- Premiums have increased over 100% in the past 4 policy renewals
- Agri-business cooperative premiums today are over 780 million
- 700 million in premiums from 775 Cooperatives
- Four years ago there were 8 major carriers and today it has decreased to 4 with NFU exit

## OUCH!

Policy	2004	2003	2002	2001	2000	5 Year Total
P & C Commercial Guard	376,287	283,233	129,207	85,860	83,936	958,523
Umbrella	42,473	60,149	19,789	11,260	9,151	142,822
Directors & Officers Liab.	5,300	5,210	6,708	4,292	4,100	25,610
Pollution Liability	8,137	6,695	5,923	5,150	0	25,905
<b>P&amp;C Total</b>	<b>432,197</b>	<b>355,287</b>	<b>161,627</b>	<b>106,562</b>	<b>97,187</b>	<b>1,152,860</b>
Worker's Compensation	119,641	117,100	96,761	73,182	58,324	465,008
Employee Group Health	390,502	364,692	350,553	313,129	218,935	1,637,811
<b>Employee Ins Total</b>	<b>510,143</b>	<b>481,792</b>	<b>447,314</b>	<b>386,311</b>	<b>277,259</b>	<b>2,102,819</b>
<b>Total Company Insurance</b>	<b>\$ 942,340</b>	<b>\$ 837,079</b>	<b>\$ 608,941</b>	<b>\$ 492,873</b>	<b>\$ 374,446</b>	<b>\$ 3,255,679</b>

## **Hard Facts / Hard Market**

**The cost of insuring our  
people, property, and  
assets has become almost  
unbearable.**

**“You cannot escape the  
responsibility of tomorrow  
by evading it today”**

**Abraham Lincoln**

## **Commitment / Solutions ?**

**Quick Fix?**

**or**

**Correct Fix?**

## **Performing on the Promise**

### **Cooperation - Defined**

**“The combination of persons for purposes of production, purchase or distribution for their joint benefit.”**

## Alternative Risk Solutions

The Alternative Risk Marketplace currently holds a 55% market share of all commercial insurance premium dollars world wide.

The Alternative Risk Industry is comprised of many risk transfer vehicles. These may include:

- Risk Retention Groups
- Retention Programs
- Risk Purchasing Groups
- Self Funded Plans
- On Shore or Off Shore Captive Insurance Companies

The most popular Alternative Risk Transfer Vehicle worldwide is the Captive Insurance Company Formation.

## What is a Captive Insurance Company?

A well –accepted definition of a “captive” is as follows:

*“A closely-held insurance company whose insurance business is primarily supplied by and controlled by its owners, and in which the original insureds are the principal beneficiaries.”*

## What is a Captive Insurance Company?

- **Captive insurance companies are entities that have been created to:**
  - **Insure the property and casualty exposures of their founding organizations**
  - **Reduce operational costs**
  - **Take advantage of underwriting profit and investment profits**
  - **Take advantage of certain tax opportunities**

## Historical Perspective

- **First Captive – Late 1800's**
  - **Textile Industry (fires)**
  - **Became “Factory Mutual System”**
- **Nearly 100 captives by 1950**
- **By 2002 over 4,500 companies with premiums well over 40 billion**
- **50% of commercial market is now “Self Insured”**

## **Self Insurance Principles General Overview**

- **Members of common risk/exposure collaborate to share risk**
- **Group then shares first two levels of risk**
  - Individual Deductible
  - Group Deductible – “POOL”
- **Group purchases Re-Insurance to Cover Major Exposures (protects pool per incident)**
- **Group is responsible for risk management – share the reward if risk is managed well**
- **Additional benefits can be realized as the group/company builds strength**

## **Introducing “Pillar Insurance Ltd.”**

- **Officially formed March 2004**
- **Domiciled in Cayman Islands**
- **Currently 23 Members**
  - **MN only today**
  - **\$6.0 Million in P & C Premium**
  - **\$1.5 Million in Workers Compensation Premium**
  - **\$1.0 Million in Umbrella Premium**
- **Operational July 1<sup>st</sup>, 2004**

## Who Formed Pillar Insurance?

- In January 1993, a group of cooperatives took control of their workers compensation needs and started a self insurance company (Access Insurance Association)
- Today, in its 12<sup>th</sup> year of operation, Access has grown from 8 Members to 36 Members
- At their annual meeting in 2003, the Members of Access decided to look at the feasibility of self insurance for their property and casualty needs
- After a year of the initial feasibility and start up, Pillar Insurance was incorporated in March of 2004 and started operations July 1<sup>st</sup>, 2004 with 23 founding member co-ops

## What is Pillar Insurance Ltd.?

- A captive reinsurance company to the fronting company or CWIC
- Domiciled in the Cayman Islands (lower capital requirements, taxation, expertise)
- Similar to a cooperative
  - Members of common business band together to share risk in return for increased efficiencies, underwriting profits and investment profits
  - Controlled by the Membership who elects a Board of Directors from the Membership
  - Board of Directors hires management and other vendors for operations
  - Members share two levels of risk
    - Member individual deductible or retention
    - Group deductible or retention – “Pool”
  - One Member – One Vote
  - Profits and Losses are allocated and distributed based on amount business (premiums) and loss history of each Member
  - Tax treatment of profits – Option of Qualified or Non-Qualified
  - **Marketed in the United States by Parthenon Risk Partners**

## Introducing



Jeff Nielsen, Board Chairman

Dennis Pap, General Manager

Courtney Claflin, RJF Agencies

## Coop Innovation – Crucial Components To Achieve *“Customer Driven Solutions”*

- **Pro-Active Engaged Membership**
  - Consistent Communication
  - Say This → Do This
  - Be Flexible – Open to Change
  - Everything won't please everyone
- **Pro-Active/Visionary Board**
  - Innovative Mindset
  - Think long term – act short term
- **Don't Be Afraid to Fail – Take Calculated Risk**
- **Begin with the End in Mind – See It Through**

**“Never doubt that a small  
group of committed citizens  
can change the world**

**In fact, it is the only thing  
that ever has”**

Margaret Meade