



**Armed Forces  
Insurance**

1887 - 2012

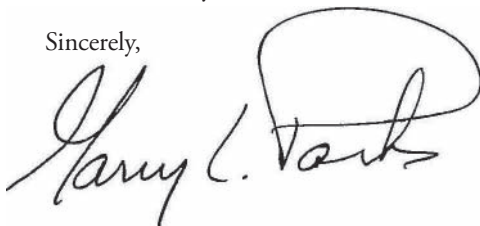
**125**  
YEARS

## 125 YEARS OF SERVICE

This booklet documents the past 125 years of history of an organization that was founded with a stated purpose: to provide low cost fire insurance tailored to the particular needs of service officers. We are proud to still be serving the service men and women of our great nation 125 years later. Throughout the years, many changes have been made at Armed Forces Insurance to further benefit our members, from broadening our coverages to expanding our membership.

I am proud to be part of an organization that understands that its members have unique circumstances and insurance needs, enabling Armed Forces Insurance to offer a level of personalized service that's unequalled in the industry, and I am excited about protecting the people who protect our nation for another 125 years.

Sincerely,

A handwritten signature in black ink that reads "Garry L. Parks". The signature is written in a cursive style with a large, prominent loop at the end of the last name.

Garry L. Parks  
Lieutenant General, U.S. Marine Corps (Ret)  
Chairman, Board of Directors



**Armed Forces Insurance**

OUR MISSION IS YOU.®

1887 - 1962



Lieutenant Colonel Abram K. Arnold  
First President of The Association

The date was 7 February 1887. The place was the Hop Room of the frontier post of Fort Leavenworth, Kansas. Over thirty officers of the garrison were gathered to organize a unique association to provide greater financial security for themselves and for their families. Schooled in the pioneer tradition that demanded cooperation as the price of survival, this small gathering pledged their support of the Army Co-operative Fire Association. Their stated purpose was to provide low cost fire insurance tailored to the particular needs of service officers.

Following the Civil War, the small regular army had resumed in earnest the bitter Indian Wars that were to last until the beginning of the twentieth century. Numerous small garrisons dotted the West from the Mississippi to California. Fort Huachuca and Fort Keogh were not considered as “hardship posts”, but as a way of life for a generation of soldiers and their families.

Newly commissioned Second Lieutenants crossed the Missouri with their brides, raised their children, and became grey in the service between the battles of Appomattox and San Juan Hill. They often lived in temporary billets, read by coal oil lamps, and moved their families and their few possessions to the next post in their carriages or in Company escort wagons. Flimsy quarters and overheated stoves during the harsh winters made fire a constant hazard. The Regimental Fire Guard was often unable to do more than save the occupants of a burning building. Because of the uncertainties of the risks involved, commercial insurers were unwilling to protect the possessions of the service officer. Thus, a fire in quarters or the gutting of a warehouse brought tragedy to the army family.

Captain Arthur MacArthur, Jr., of the 13th Infantry, (father of General of the Armies Douglas MacArthur) discussed this serious situation with Lieutenant Colonel Abram K. Arnold of the 1st Cavalry. Captain MacArthur broached the idea of the formation. By officers, of an association to mutually insure each other’s property against fire losses. Colonel Arnold was so impressed with the plan that he called a meeting of interested officers to discuss it.

The first meeting took place on 16 November 1886. Captain MacArthur, who was the principal speaker, managed to impress his listeners with the soundness of his scheme. Two committees were appointed: one to gather information on the fire-incurred losses suffered by officers at military stations and the other to plan an organization along the lines recommended by MacArthur. Later Captain MacArthur and Lieutenant Rowland G. Hill, 20th Infantry, were appointed to draft a constitution and bylaws for an insurance cooperative.

Cooperative fire insurance was a new idea in those days and MacArthur and Hill had little experience from which to draw. Thus their plan for payment of fire claims was almost entirely original composition.

The draft constitution and bylaws were submitted to a meeting of those interested on 3 February 1887. Several amendments were proposed at that time, and on 7 February 1887, the constitution and bylaws were approved. Lieutenant Colonel Abram K. Arnold was elected the first President of the association, and Captain MacArthur, the first Vice President. Because of his transfer from Fort Leavenworth, Colonel Arnold did not serve out the first full year of the association, and he was followed as President

by Brevet Major General Alexander McD. McCook. General McCook, a prominent Civil War leader and a successful Indian fighter, was then Commandant (1886-1890) of the United States Infantry and Cavalry School, the predecessor of the present United States Army Command and General Staff College.

Under the plan of insurance which was adopted, the minimum amount of personal property coverage was set at four hundred dollars, and the maximum permitted was two thousand dollars. All commissioned officers of the United States Army, and acting assistant surgeons actually on duty with troops, were declared eligible for membership. Each member took the responsibility of telling his brother officers of the Association and its advantages by word of mouth and by letter.

By the time of the first annual meeting, 250 officers had joined the Association and had insured property valued at \$210,400. The Association had met with modest financial success from the first. The report of the Secretary announced receipts totaling \$2087.20, and expenses of \$128.62. Assets of the Association amounted to \$1946.58, cash in the bank.

At the end of the second year the Association had begun to fulfill its purpose. It had paid four claims, totaling \$1518.38. Property values totaling \$792,600 were insured.

In 1906 the San Francisco fire put the Association to its first real test. When the ashes had cooled and reconstruction had begun, the Association had paid indemnities in sixty claims arising out of the great fire. In addition, in that year forty-nine other claims were paid throughout the membership. Among these were claims arising from the burning of the officers' club at Fort Myer, Virginia, and fire aboard the U.S. Transport Meade.

The Association had literally faced its ordeal by fire, and emerged strengthened by the resolution and promptness with which it had paid the claims. The example furnished the officers of the Army had so caught their attention, that the Association gained nearly four hundred members in 1906.

A comparison of claims paid in the early years of the Association with those paid today, highlights the changes in customs and living standards of officers through the years. In one of the early fire claims, at Fort Stanton, New Mexico, the total personal property of a Captain and his family was valued at \$1010. Included among the items in the claim were \$45 for books, \$93 for clothing, \$6 for a silver shaving mug and \$20 for a silver pudding dish. Indicating that Army life was not entirely without luxuries, the Captain's claim also included the



Major General Alexander McD. McCook  
Second President of The Association

loss of 9 gallons of whiskey valued at \$39.00; 1 gallon of cherry bounce valued at \$4.00; 1 barrel of Phil Best's beer valued at \$15.50; and Havana cigars valued at \$38.40. His wife had also lost her little treasures and asked indemnity for a hat with feathers valued at \$3.00, a parasol valued at \$2.50, and assorted veils and ribbons valued at \$3.00.

In other early claims the new Association paid for such items as curling tongs, walnut commodes, ice cream freezers, rubber bath tubs, game bags, lambrequins, portieres, chromos, hair mattresses, spurs and helmet cords.

In recent years many officers have taken advantage of the opportunity offered by their tours of foreign duty to furnish their quarters with objects d'art, fine furniture, oriental rugs and other accessories of gracious living. Thus, it is not uncommon for the Association, in any month, to make indemnity for oriental rugs from Bokhara, Isfahan or Kermanshah, handmade furniture from Spain or Germany, or fine china from Bavaria, France, England or Japan. Of course, the bulk of today's losses continue to be more commonplace: a chair lost in transit, a TV antenna destroyed by lightning, uniforms stolen from a locked car, or books destroyed in a flooded basement.

The vigor and independence of the officer corps brought about the founding of the Association in the American do-it-yourself tradition. That vigor is reflected in a letter from a Lieutenant Colonel of the 10th Cavalry, at Fort Apache, Arizona, in 1891. He had been denied payment of his claim of \$50.00 for bedding and clothing lost when his tent burned while he was on reconnaissance.

The Colonel was furious. He wrote:

“What a travesty on justice and equity. I am assessed to pay the claims of officers who simply have their property on storage, without the formality of a sentinel to protect the interests of the Association. All of their claims paid without dissent, while I in the field, under the protection of troops, am debarred of my just dues upon a quibble and as I now believe ... without authority. You say that if I am dissatisfied I can appeal to the annual meeting. Well, I am dissatisfied, and every member of the Association at this Post with whom I have conversed upon the subject, agrees that my claim is perfectly just in every sense, and feel that if our just claims are to be set aside upon a quibble by the so-called Executive Committee, then there is no safety for any of us, and the very objective of the organization defeated. I propose later to submit my views for the action of the members of the Association, but not to the meeting at Leavenworth, where members of the Committee, with proxies in their pockets, can vote as they please.”

The Executive Committee reviewed the case, reversed its decision, and paid the Colonel's claim, thus extending the coverage to insure a member's property wherever it may be located. This incident helped establish a tradition of responsiveness to the needs of the members.

The sole purpose of the Association in 1887 was to insure for loss by fire. Millions of dollars have been paid to members who have lost property burned in quarters and tents, in destroyed warehouses at such posts as Fort Sill or Fort Benning, or in fires on transports at sea.

After World War II, hazards other than fire began to assume greater importance. Many of the members were serving in areas where typhoons, floods or earthquakes could

cause catastrophic losses. To meet these new requirements, the coverage offered by the Association was vastly expanded. In a series of actions beginning in 1947 and ending in 1953, the membership voted approval of coverage for lightning, smoke, explosion, windstorm, hurricane, tornado and typhoon, hail, certain transportation hazards, and flood and all other water damage.

Again recognizing the changing needs of its members, the Association in 1954, added a supplementary coverage to insure against loss, not only by theft and the allied risks of burglary, larceny, pilferage, and hold-up, but by mysterious disappearance, riot, civil commotion, spilling of liquids, breakage of gems, loss of settings from jewelry, and many other risks.

In 1960, following an extended study of requirements of the membership for insurance of real estate, and comprehensive liability, and to protect the members from forced loss of their personal property coverage, the Association entered the field of package coverage for homes in the United States, and for liability coverage throughout the world. The coverage offered is based on an unusually low rate which recognizes the better than normal claims experience to be expected from the high type of insured represented by members of our Association. As is the case in other coverages, surpluses are returned directly to the members as dividends.

In 1948, membership was made available to regular officers of the Air Force, Navy, Marine Corps and Coast Guard. In 1953 the ranks of membership were again expanded to include career reservists of the armed forces.

Throughout the changes and improvements which have marked the progress of the Association since the end of World War II, one basic tradition is unchanged. That is the tradition that operations shall be directly governed by an Executive Committee of members stationed at Fort Leavenworth, directly responsible to and elected by, the membership at large. The Executive Committees, through the years, have continued and enforced one basic policy: to meet the special requirements for insurance for officers, anywhere in the world, on an absolutely non-profit basis.

Officers of the armed forces have responded to the dedication of the Association to their insurance needs in increasing numbers. The Association now has more than 47,000 members. Its reserves and other assets total more than 5½ million dollars, and it insures personal property, scattered around the globe, valued at more than 325 million dollars. As this has always been a cooperative venture for the sole benefit of the officer members, the Association has never considered itself as a commercial enterprise. It has always been regarded as a quasi-military organization by the officer corps and by the Department of Defense.

Seventy-five years of service to officers have passed for the Army Co-operative Fire Association since the original small group of officers voted to share each other's risks for loss to personal property. On its seventy-fifth birthday, 7 February 1962, by vote of the membership its name was changed to the Armed Forces Co-operative Insuring Association, formerly the Army Co-operative Fire Association. The new name effectively recognizes the changed status of the Association, through the years, as an insuring group of officers of the armed forces. The name is changed, but the ideals and spirit of the Association remain the same.





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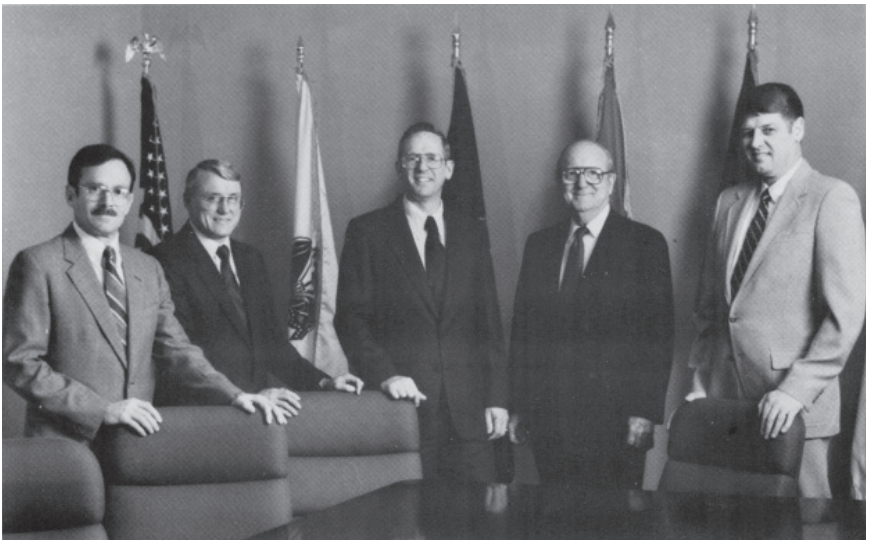


# Board of Directors

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Seventy-five years of service to officers have passed for the Army Co-operative Fire Association since the original small group of officers voted to share each other's risks for loss to personal property. On its seventy-fifth birthday, 7 February 1962, by vote of the membership its name was changed to the Armed Forces Co-operative Insuring Association, formerly the Army Co-operative Fire Association. The new name effectively recognizes the changed status of the Association, through the years, as an insuring group of officers of the armed forces. The name is changed, but the ideals and spirit of the Association remain the same.

So concludes "The First 75 Years ... Story of the Army Co-operative Fire Association," reprinted in its entirety later in this volume, published on the occasion of the 75th annual meeting of the Association in 1962. The paragraph serves as an admirable introduction to the history of the next 25 years leading up to the centennial of the Association in 1987, because it remains as applicable in 1987 as when it was written in 1962.

The years from 1962 to 1987 have been years of dramatic change for the armed forces and for the Association. War, economic fluctuations, new demographics and patterns of living in the armed forces, changes in the insurance industry and the law, the technology explosion, all have combined to make the past 25 years the most turbulent, yet progressive, in the history of the Association.

Growth and service have been the driving forces in the changes in the Association over the last quarter century. On its 75th Anniversary, the Association boasted a membership of over 47,000 officers, assets of more than 5.5 million dollars, and insurance in effect on property valued at over 325 million dollars. At the beginning of the centennial year, policyholders numbered over 105,000, assets had grown seventeen-fold to 96.3 million dollars, and insurance in force was counted in the billions. Among the many factors influencing this growth were improved marketing of insurance products, the addition of new coverages as the needs of the membership changed, and extension of eligibility for insurance to other members of the uniformed services.

In 1962, a member of the Association questioned whether it was well for the organization to continue to grow, his theory being that a larger organization would inevitably lead to reduced service to the individual member. The President of the Association in his reply pointed out that:

It is the association's duty to share with all eligible officers the advantages of low cost coverage to fit conditions. The larger the membership, the lower the cost per member. The association is an extended family, a feeling that does not change through growth.

In furtherance of that philosophy, the Association continued to capitalize on Operation Bootstrap, an effort begun in the 1950's whereby members recommend other eligible persons for membership, as well as expanding its advertising in service journals, newspapers, and through the use of modern direct-mail and telephone marketing techniques.

In 1968, the Executive Committee directed a study of the feasibility and desirability of extending insurance coverage to active duty senior enlisted members of the Army, Navy, Air Force, Marines and Coast Guard, on the premise that these key non-commissioned officers were deserving of the advantage of high quality insurance at low cost. With strong support from the senior NCO associations of the services and the Department of Defense, the Association began issuing insurance policies to service members in the three senior enlisted grades in May 1970. Since that time, enlisted policyholders have grown in number to 15,000 of the Association's 105,000 total.

In the aftermath of the Vietnam War, all of the services began to rely more heavily on their reserve components in the event of national emergency. Since 1953, the Association had extended membership to career reserve officers on active duty with their services. In 1981, with a significant fraction of the nation's total armed forces then in the reserve components, the Association extended eligibility to commissioned and warrant officers and the three senior enlisted grades of the service Reserves and National Guard. At the same time, eligibility was extended to commissioned officers of the United States Public Health Service and the National Oceanic and Atmospheric Administration.

Two years before the 75th Anniversary, the Association added homeowners and comprehensive personal liability insurance to its product list. Since then, other coverages have been provided as the needs of the membership changed. In 1970, the Association added its \$1,000,000 "umbrella" liability policy. This personal catastrophe insurance, which insures risks beyond underlying automobile and personal liability insurance, provides "peace of mind" insurance at unusually low rates in this age of extremely high liability awards. Mobile homeowners insurance was added to the inventory in 1973, and ranch/farm coverage (since discontinued) was added in 1975. Most recently, in 1986, a low cost comprehensive household goods policy was developed, specifically tailored to the needs of members who require coverage for personal property but who do not own large quantities of high value items.

The addition of homeowner coverage in 1960 wrought a profound effect on the business of the Association. The simple "so much premium for so many dollars coverage" personal property policies were joined by the more complex and complicated homeowner policies, with rates varying by location, construction, and age of property. Personal property claims which were essentially repair or replace on the word of the policyholder were joined by homeowner claims of a size and complexity often demanding service of a professional adjuster to assist the policyholder. Premiums in force and the total amount of insurance in force increased dramatically as the proportion of homeowner policies

increased – for example, in 1966 homeowner premiums represented slightly over 10% of the 2.6 million dollars premium in force in the Association. Just 20 years later, at the end of 1986, homeowner premiums accounted for nearly 60% of the Association's almost 35 million dollars annual premium.

Shortly after the introduction of homeowners insurance in 1960, the Association discovered that some of its members were experiencing difficulty in obtaining mortgage financing because mortgage companies were not familiar with Armed Forces Cooperative Insuring Association. To remedy this situation and to establish its stature as an insurer, the Association applied for an evaluation and rating from the A.M. Best Company, a widely known and respected insurance company rating firm. At the conclusion of the first Best examination of the Association's records and method of operation, a Best's rating of A + was awarded, conclusively establishing the financial strength and professional operations of the Association. Best's rating schemes have changed over the years, but the Association has continually received their highest marks and entered its centennial year with an A + (excellent) rating. Growth in the body of policyholders, coverage offered, and premiums in force has continued to drive the Association's physical plant development throughout its history. From its founding through 1955, the Association made use of whatever facilities could be borrowed from its landlord, the Army at Fort Leavenworth. The 1887 organizational meeting was held in a room of the Officers' Mess. Later, classroom and office space belonging to the United States Infantry and Cavalry School in Sherman Hall served as the headquarters location. During World War II, the Association's offices were housed above the Post Administrative offices. Finally, between 1953 and 1955, the Association constructed its first permanent home, a 5,000 square foot office building on a parcel of land leased from the Army at the corner of Kearny Avenue and Biddle Boulevard on Fort Leavenworth. The Founders' Building, as it came to be called, met the Association's needs for several years.



Army Co-operative Fire Association  
Founders' Building, 1955

Shortly after the 75th anniversary in 1962 it became apparent that demands for additional staff and office space caused by growth in coverages and policyholders had outstripped the capacity of the Founders' Building and plans were laid for an addition. Thus, in 1968 a 6,000 square foot addition was completed. This new wing of the Founders' Building was named for Lieutenant Colonel Ezra B. Fuller, Secretary-Treasurer of the Association 1909-1925, and his daughter, Miss Lottie Fuller, who succeeded her father and served as Secretary-Treasurer for 25 years between 1926 and 1951. Explosive growth in the Association made the Fuller Addition inadequate almost before its completion and by the early 1970s, a second addition to the Founders' Building was under way. Completed in 1975 at a cost of 1.2 million dollars, the Holman Addition, named for James W. Holman, Executive Director of the Association from 1951 to 1975, added another 18,000 square feet to the Founders' Building, bringing the Association's home office up to a total of 29,000 square feet for its 65 employees serving 85,000 policyholders.



James W. Holman, Executive Director  
1951-1975

Founders' Building with Fuller and  
Holman Additions, 1987

Even this large addition was destined to become inadequate in the very near future. By the early 1980s requirements stemming from growth in membership, record-keeping for the more than 150,000 policies in force, and massive direct-mail advertising activities had caused the Association to lease space in the City of Leavenworth. With the experience of the past 25 years as a guide, the Association's Executive Committee tasked the staff to develop a facilities plan which would



carry the Association well into the first quarter of the 21st Century. No longer would facilities be designed to cope with immediate need, but with a vision of the future which incorporated considerations of service to the membership foremost, projections of growth and further diversification of insurance products, the impact of certain organizational actions to be addressed later, and technology implications. As desirable as the Fort Leavenworth location had been and continued to be, adequate real estate was not readily available for lease from the Army. Thus, the Association staff and the Executive

committee began a search for desirable properties in the surrounding area upon which to build. In 1984, a 22 acre tract was selected along Eisenhower Road, on the south side of the City of Leavenworth. The following year financing for the project was secured via a 5.9 million dollar Industrial Revenue Bond issue by the City of Leavenworth. Ground was broken for the 63,000 square foot ultra-modern office building in November 1985, and the fully-furnished and equipped building at 550 Eisenhower Road was officially opened in April 1987. This new facility relieved overcrowding at the home office on Fort Leavenworth, allowed cancellation of the lease on the property in the City of Leavenworth and provided a superb working environment from whence to better serve the needs of the policyholder. While the home office of the Association remains at Fort Leavenworth for the foreseeable future, 550 Eisenhower Road and its surrounding real estate provide ample room for future relocations and expansions as conditions dictate.



Armed Forces Insurance, 550 Eisenhower Road, Leavenworth, Kansas, 1987

Throughout this 25 year period of growth in membership and physical plant, service to the policyholder has been the guiding star for the Association. As mentioned earlier, new coverages have been added, eligibility for insurance has been expanded, and modern marketing techniques have been adopted. Of equal importance to the member and policyholder has been the application of modern technology to the conduct of the



Association's business. From the very modest beginnings in the 1950s and 1960s, the Association has strived to keep pace with the expansion of technology in the service of its membership. Automation was first applied to the Association's accounting systems for the management of policyholder accounts and subsequently in the handling of investments and record-keeping for legally required examinations and audits. Both mainframe and personal computer applications have been used to support this effort. In the late 1970s, the Association began a several-year-long upgrade of its automatic data processing systems, culminating in conversion to a relational data base system in the early 1980s. This magnificent system allows instantaneous on-line access from the Association's terminals to the coverage, claims, and accounting data for any policyholder, as well as direct entry of data or policy changes or new member additions. On-line printing capability now produces declaration pages for all policies on issue and renewal. Recently added systems enhancements including electronic mail, electronic text composition, laser printers, and fourth generation programming software will further improve service. Although the business of insurance is notoriously paper-intensive, the Association has continued to move toward an environment where paper records are replaced by electronic data in the interest of cost containment and improved service. Computing power available to the Association makes itself felt in many ways not immediately apparent to the policyholder; a prime example is in the function of rate making for homeowner insurance. Through the rapid manipulation of masses of construction, location, fire protection, cost, and loss experience data, the Association's actuaries are able to develop and adjust annually rates which are among the lowest in the industry yet provide the Association with the necessary economic strength, all to the benefit of the policyholder.

The telecommunications revolution has wrought its effect on the Association as well. At the 75th Anniversary, it was estimated that over 95% of contacts with the Association were by mail – claims, new member applications, changes to existing coverages, and inquiries. With the advent of high-quality dependable telecommunications, the installation of toll-free numbers in the home office in 1977, and the societal changes of the 1970s and 1980s when doing business by telephone became not only acceptable but preferred, the situation completely reversed itself. In 1986, well over 80% of the Association's in-bound communications came by telephone. Telephone business has become a way of life, and is at the heart of the ways in which the Association deals with its members and policyholders.

As important as all the steps above have been in moving Armed Forces Co-operative Insuring Association into the modern world while preserving its 100-year-old heritage of meeting the special insurance needs of its policyholders anywhere in the world on a strictly not-for-profit basis, one last and largely unforeseen challenge awaited in the closing years of the first century. For over 90 years of its history, the Association had served its policyholders from Fort Leavenworth without having been licensed to operate as an insurance company by the Insurance Departments of any of the States. Had the Association not begun providing homeowner insurance in response to the needs of the membership in 1960, it is likely that it could have continued to write personal property coverage for its mostly transient membership with the sufferance of the various insurance departments. However, such was not to be and by 1980, growth in emphasis

on state regulation of all insurance companies had made it imperative that the Association not only operate in compliance with state laws with respect to policy terms and content, but that it also become licensed by the states and submit to their regulatory processes. On the advice of Kansas Insurance Commissioner Fletcher Bell and his staff, in 1980 Colonel (Retired) John D. Sapp (Executive Director 1976-1982) began the laborious process of developing the corporate structure and meeting the statutory and regulatory requirements to support attainment of licensed status in Kansas and, ultimately, in every state.



Colonel John D. Sapp, Retired  
Executive Director 1976-1982

Careful analysis of the Association's constitution and method of operation revealed that while it did not exactly match any existing type of insurance organization, it most closely resembled a reciprocal exchange, wherein a group of persons organize to insure each other in accordance with an attorney-in-fact agreement and a set of by-laws. The essential ingredient missing in the Association was a commercial corporation to act as attorney-in-fact to conduct the business of the reciprocal exchange.

Accordingly, under Colonel Sapp's leadership, the Association organized and chartered under the laws of the State of Kansas a wholly-owned subsidiary corporation, the Armed Forces Insurance Corporation, to act as attorney-in-fact. All of the stock of the Corporation is owned by the Association. Subsequently, a reciprocal exchange was formed, with a set of by-laws preserving the philosophy and spirit of the Armed Forces Co-operative Insuring Association's 95-year old constitution, named the Armed Forces Insurance Exchange, and proposed to the Kansas Insurance Commission for admission as a licensed insurer. Commissioner Bell presented the Exchange's Certificate of Authority in a ceremony in Topeka, Kansas on August 1982.



## STATE OF KANSAS

INSURANCE DEPARTMENT

### *Certificate of Authority*

ARMED FORCES INSURANCE CORPORATION  
ATTORNEY-IN-FACT FOR ARMED FORCES INSURANCE EXCHANGE

an inter-insurance exchange organized under the laws of **KANSAS**

registered corporate office at **TOPEKA, KANSAS**

has complied with all the requirements of the insurance laws of this state applicable to said exchange, and the said exchange is hereby authorized and empowered to transact the following lines of business, to wit:

\* FIRE \* WINDSTORM & HAIL \* EXTENDED COVERAGE \* INLAND  
MARINE \* HOMEOWNERS POLICIES \* FARMOWNERS POLICIES \*  
AUTOMOBILE LIABILITY \* GENERAL LIABILITY \*

within the State of Kansas from the 1st day of August, 1982 until such certificate is suspended, revoked or terminated by the Commissioner of Insurance of Kansas.



INTER-INSURANCE EXCHANGE

In Witness Whereof, I, FLETCHER BELL, Commissioner of Insurance of Kansas, have hereto affixed my signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas, this 30th day of

July 1982

  
Commissioner of Insurance.

By \_\_\_\_\_  
Assistant Commissioner.

Kansas Certificate of Authority,  
Armed Forces Insurance Exchange

The By-Laws of the Armed Forces Insurance Exchange contain specific provisions which guard the interests of its members as well as serving to carry forward into the future the policies, philosophies, and precepts of the Association. All members of the Exchange are, in accordance with the By-Laws, members of the Association as well, and participate in the election of members of the Board of Directors of the Association and the setting of Association policy via its By-Laws. Likewise, the operations of the Exchange are overseen by an Advisory Committee composed of member policyholders elected by the membership of the Exchange. As the Exchange becomes licensed to do business in a state, policyholders' accounts, policies, and surplus are transferred from the books of the unlicensed Association to the books of the licensed Exchange, and policyholders are required to execute a limited power-of-attorney called a Subscriber's Agreement authorizing the Armed Forces Insurance Corporation to act as the attorney-in-fact for insurance purposes. In addition, many of the administrative functions of conducting the Exchange's business are performed by the staff of the Association under a negotiated service agreement.

Undoubtedly, the 1887 founders of the Association never visualized the complexities that would confront the organization in the very competitive and highly regulated atmosphere of the 1980s. Nonetheless, the clarity of thought and single-mindedness of purpose that allowed them to create the Army Co-operative Fire Association would permit their immediate understanding of the necessity of licensing: to preserve and protect the ability of members of the uniformed services to insure themselves against loss of property or income, at the lowest possible rates and with service and products especially tailored to their needs.

The licensing process has not been without cost to the organization. Fees, premium taxes, agents' fees, membership in state Guaranty Associations, and other costs have been added as a result. However, the advantage of assured continuity of operations with the recognition and approval of state insurance commissions far outweighs the marginal added cost. At the start of the centennial year, the Armed Forces Insurance Exchange had received its certificate of authority in 29 states and the District of Columbia, and was actively pursuing licensing in all but one of the remaining 21 states.

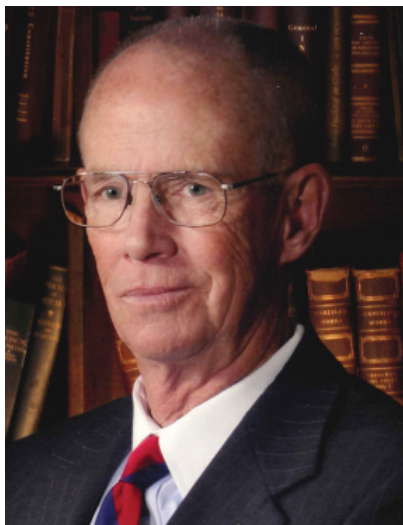
Under the guidance of Colonel (Retired) Thomas B. Giboney, Jr., President of the Association and Chairman of the Board of Armed Forces Insurance Corporation, attorney-in-fact for the Exchange, since 1983, Armed Forces Insurance stands poised to enter its second century. Its inventory of coverages is broad, its physical plant in superb condition, its technological support base sound, its corporate structure arrayed to meet future challenges, its work force dedicated and well-trained, and its financial condition impeccable. Most important of all, its basic tradition is unchanged: its operations are governed by a Board of Directors and Advisory Committee of members stationed at Fort Leavenworth, directly responsible to and elected by the membership at large. To quote the closing line of the 75-year history. "The name has changed, but the ideals and spirit remain the same."



**Armed Forces Insurance**

OUR MISSION IS YOU.®

1987 - 2012



Colonel John Orndorff, Retired  
President 1992-1997



Colonel Steve Kempf, Retired  
President 1997-2002



Colonel Thomas Dials, Retired  
President 2002-2003  
President and Chairman of the Board 2003-2009  
Chairman of the Board 2010-2011

The centennial report to the membership observed that, “The years from 1962 to 1987 have been years of dramatic change for the armed forces and for the Association.” The vantage point of the company’s quasiquicentennial confirms that the observation was both apt and eerily prescient of the next quarter century for both the military and the Association.

For the first ninety-three years of its existence, the Army Cooperative Fire Insuring Association and the Armed Forces Co-operative Insuring Association (AFCIA), both known informally as ‘the Co-op’ operated from its offices on Fort Leavenworth without being licensed as an insurer in the various states, whose province is the regulation of insurance. The insurance operations of the Co-op conformed closely to the original charter of the organization; the Association was originally an assessable risk pool and operated very much as a ‘not-for-profit’ fraternal benefit society. In 1960 the Co-op began writing homeowner’s insurance. By 1980, the decision to enter this more visible line of business had resulted in challenges to authority of the Association to transact business in several states. In response to these challenges, a decision to transition the structure and bylaws of the Association to operate as a regulated insurer was made. This action set the Association on a path away from its roots as a fraternal benefit society and its effects continue to shape Armed Forces Insurance Exchange (AFIE, the Co-op’s successor entity) to this day.

Under the leadership of Colonel Thomas B. Giboney, Jr., the Exchange entered its second century in 1987. Giboney saw the process of becoming a licensed insurer to completion: the revised bylaws of the company had been accepted by the State of Kansas in 1982 and the required structural changes were fully implemented; thirty of the fifty-one regulatory jurisdictions in the United States had issued certificates of authority to the company and filings were in place in the remaining twenty-one. The Association was also closing on its peak in both members and net financial strength. Over the last quarter of the first century, under both Colonels John Sapp and Giboney, membership more than doubled (to over 106 thousand) and premium volume had increased by nearly 28 times to \$37.1 million, policyholder surplus had reached nearly \$65 million.

As the financial strength and membership increased, Giboney set the company on a path to expand its lines of business to include personal automobile coverage. Following Giboney’s untimely death in 1992, he was succeeded by Colonel John F. Orndorff, under whose leadership the Co-op was closed out with all business transferred over to the Exchange and the expansion of the auto line of business to ten states was completed. In the aftermath of 1992’s Hurricane Andrew, Orndorff began the implementation of the initial steps toward managing risk at the enterprise level, instituting efforts to manage the company’s exposure in the coastal southeast and putting a comprehensive reinsurance program in place to protect the Association against catastrophe loss events. Over the next five years, the growth in membership continued, reaching nearly 112 thousand in 1993 with surplus reaching nearly \$113 million in the financial market boom of the late ‘90’s.

Colonel Stephen J. Kempf succeeded Orndorff upon his retirement in 1997. Kempf continued the process of institutionalizing enterprise risk management, further refining the reinsurance program to meet the evolving threat of catastrophe loss and establishing

Armed Forces Insurance Agency (AFIA) as a subsidiary of the attorney-in-fact Armed Forces Insurance Corporation (AFIC), with the tandem objectives of expanding the range of product offerings and geographic coverage available to subscribers and to offer policy placement alternatives for those individual risks eligible but not insurable at the premium levels charged by the Exchange.

The first decade of the 21st Century proved to be a much more challenging environment. Colonel Thomas A. Dials succeeded Kempf upon his retirement in 2002 and immediately set about attempting to address the inherent 'diseconomies of scale' associated with being the smallest national personal lines writer. These high internal costs, coupled with the high costs of management's lengthy struggle to upgrade automation systems supporting the insurance and financial operations of the Exchange placed a heavy burden on the resources and energy of the company. Dials placed increased emphasis in the areas of rate adequacy, underwriting/risk management, business process efficiency and instituted measures to shape the culture of the company to conform more closely to that of a regulated insurance company.

In the wake of the devastating hurricane seasons of 2004-2005, the competitive environment across the insurance industry became even more intense. The operational 'diseconomies' previously noted continued to adversely impact the ability of the Exchange to effectively carry out risk management and rate and product development tasks essential to keep pace with larger national writers. The dramatic increases in both frequency and severity of catastrophe and attritional losses placed further stress on the financial resources of the company. While both membership and surplus declined by one-third over the period, the premium written by the company increased by the same amount owing to the effects of increased emphasis on rate adequacy and insurance to value at the enterprise level. Tougher underwriting standards were put in place coupled with a concerted effort to ensure that rates charged adequately reflected the financial risk presented in each policy issued.

As Dials completed his tenure as CEO of the Exchange, several changes in the governance structure of the organization were introduced to ensure that the roles of management, the Subscribers' Advisory Committee (SAC) and the board of directors of the attorney-in-fact were more clearly defined and that the strategic positioning of the Association continues to address the objectives set forth by the founders 125 years ago. Thus, even as the Exchange wrestles with a deteriorating financial situation, the forces shaping the future of the institution are apparent to management, the SAC and the AFIC board.

Three strategic imperatives are the shaping forces for the next twenty-five years: profitability, capitalization and market viability. The company must demonstrate consistent profitability from its business operations; the company must balance assumed risk with its smaller capital base and the company must establish a unique presence within the eligible market segment which will enable it to effectively compete in the insurance marketplace over the long term. The strategic implications of these shaping forces have yet to be fully defined but it is apparent that the Association must evolve strategically to meet these challenges.



The restructuring over the past three years places additional emphasis on long-term industry expertise among senior managers while concurrently strengthening the historic interconnection with the military community to support the strategic planning functions of the board. Mr. Kurt Seelbach, a 30 year veteran of the insurance industry with a strong background in both insurance operations and finance, assumed the position of president and chief executive officer in January 2011. Seelbach is the first chief executive without direct military experience to lead the company in over fifty years. The management team assembled by Seelbach maintains the traditional emphasis on superior customer service while bringing a wealth of industry expertise to the crucial areas of underwriting, product and rate development, claims and loss control as well as the application of information technology to the business processes of the company.

The governance structure merges the board and the SAC into a single body. This reshaping affords the SAC a more direct role in the governance of the operations of AFIC, thus buttressing its effectiveness as trustee(s) of the interests of the subscribers. As in the past, the directors of the attorney-in-fact continue to be elected by the SAC. The organizational principle of military oversight of the operations of the Association was continued in the election of Lieutenant General Garry Parks, USMC (Ret) to succeed Dials in the role of chairman.

Ultimately what is critical is not the recitation of the past twenty-five years but a realistic assessment of the prospects for the next twenty-five years. It is perhaps instructive to consider the vision and mission statements for the company:

**Vision:** Armed Forces Insurance Exchange is a premier property and casualty insurer, the insurance company of choice for our eligible membership: the uniformed services, former and retired members of the uniformed services, their children and the Department of Defense civilians.

**Mission:** Provide premium quality, competitively priced property and casualty insurance products and deliver fast, fair, and efficient claims and policy service to our members. Create a rewarding customer service experience for our members while strictly adhering to our core competency, underwriting; protect our members from fortuitous loss and provide peace of mind.

Developed by the SAC to guide management of the operations of the Exchange, these statements remain faithful to the chartered purposes of the Association. While this recitation makes it apparent that the business model of the first century will require further modification to meet the market conditions and consumer needs of the next century, the Association may move forward with confidence that although, "The name is changed...the ideals and spirit of the Association remain the same."



LtGen Garry L. Parks, Retired  
Chairman of the Board



Kurt Seelbach  
President and CEO



Executive Leadership Group

Back Row (Left to Right): Arlen Briggs, Ardith Bequette, Michael Nixon, William Cody  
Front Row (Left to Right). Michael Mattix, Garry Parks, Kurt Seelbach, Drew Mazeitis.



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