



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Farmers Mutual Insurance Company of Marion County for the period ended December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Marion County for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Marion County to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 17th day of September, 2018.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF
FINANCIAL EXAMINATION**

**Farmers Mutual Insurance Company
of Marion County**

**AS OF:
DECEMBER 31, 2016**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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April 11, 2018
Chesterfield, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

Farmers Mutual Insurance Company of Marion County

hereinafter referred to as such, or as the "Company." The Company's home office and principal place of business is located at 621 South Main Street, Palmyra, Missouri 63461; telephone number (573) 769-4615. This examination began on April 2, 2018, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2011, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2012 through December 31, 2016, and was conducted by an examiner from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth by the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

HISTORY

General

The Company was organized on October 1, 1907, as the Farmers Mutual Insurance Association of Marion County. On November 19, 1917, the Company filed for incorporation. The Company changed its name to Farmers Mutual Insurance Company of Marion County on January 15, 1981.

The Company has a Certificate of Authority dated December 1, 2003, and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

Management

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at annual membership meetings held on the third Tuesday of every March. Eight members shall constitute a quorum at membership meetings. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets monthly and directors receive \$125 per meeting. All directors are also policyholders.

Members serving on the Board of Directors as of December 31, 2016, were as follows:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Dennis Keim Hannibal, MO	Farmer / Insurance Agent	2016-2019
Brian Obert Palmyra, MO	Manager AG-Related Business / Insurance Agent	2015-2018
Jason Plunkett Philadelphia, MO	Farmer / Insurance Agent	2015-2019
Tina Bridgman Ewing, MO	U.S. Farm Service Agency / Insurance Agent	2015-2018
David Moss Monroe City, MO	Farmer / Insurance Agent	2014-2017
James Behring Palmyra, MO	Retired Union Carpenter	2015-2018
Cynthia Kruse Hannibal, MO	Retired Office Personnel	2016-2019

The officers of the Company serving at December 31, 2016 were as follows:

Dennis Keim	President
Brian Obert	Vice President
David Moss	Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. It was noted that the Articles of Incorporation were amended during the 2013 Annual Meeting to change the date of the Annual Meeting from January to March. The amendment was properly filed with the Missouri Secretary of State.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its February 21, 2013 Board meeting.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company has a Certificate of Authority dated December 1, 2003 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Marion and surrounding counties. Insurance is provided on a non-assessable basis. Advertising is done through local radio, newspapers and the yellow pages.

Policy Forms and Underwriting

The Company uses policy forms supplied by its reinsurer, Grinnell Mutual Reinsurance Company. Policies are written for continuous one-year terms. Property inspections are done on all new business upon policy issuance by JMI Inspection Service, and the property is inspected every five years thereafter. More frequent inspections are made if a property warrants. A majority of claims are handled by Grinnell's Adjusting Service and all claims are reviewed by the Company President before payments are made. The Company's policies are marketed by eleven agents and agencies who receive commissions of 13% on all new and renewal business, which is a reduction from the

rates of 20% and 14% respectively that were paid as of the end of prior examination. The Company keeps a copy of all agents' licenses and tracks them annually. Agents are required to provide their own E&O coverage. The Company requires each agent to carry at least \$1 million in E&O coverage.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2016	\$ 5,757,563	\$ 871,286	\$ 1,936,580	\$ 453,123	\$ 136,601	\$ 454,625	\$ 436,796
2015	5,477,475	1,027,994	1,951,773	339,332	120,228	599,442	552,641
2014	4,911,808	1,014,968	1,806,377	317,671	113,295	324,487	354,857
2013	4,436,752	894,768	1,409,688	824,142	121,319	(279,379)	(63,136)
2012	4,455,504	850,384	1,263,622	502,369	122,195	138,532	224,847

The Company had 2,239 policies in-force at year-end 2016.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct	\$ 1,263,622	\$ 1,409,688	\$ 1,806,377	\$ 1,951,773	\$ 1,936,580
Assumed	0	0	0	0	0
Ceded	176,986	262,561	521,453	541,137	559,867
Net	<u>\$ 1,086,636</u>	<u>\$ 1,147,127</u>	<u>\$ 1,284,924</u>	<u>\$ 1,410,636</u>	<u>\$ 1,376,713</u>

Assumed

None.

Ceded

The Company has a reinsurance agreement with Grinnell Mutual Reinsurance Company (the reinsurer). The following coverage is provided under this agreement.

Per Risk Excess

The reinsurer shall pay 100% of the ultimate net loss in excess of the Company retention of \$200,000 per risk, subject to a maximum of \$15,000,000 per risk. The premium for Per Risk Excess coverage was \$46,800 in 2016.

Aggregate Excess

The reinsurer shall pay 100% of the ultimate net loss in excess of the Company retention of \$1,075,000 on all policies classified as Property insurance. Aggregate Excess reinsurance provided by this coverage is unlimited. The premium for Aggregate Excess coverage was \$356,880 in 2016.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage.

Pollution Clean-Up and Removal

Under this section the Company cedes 100% of the liability it assumes on coverage insured by the Pollution Clean-Up and Removal Endorsement.

Liability Reinsurance

The Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission of 20% of the subject net written premiums.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained on an accrual basis. Policyholder and financial records are maintained on a software package from IMT Computer Sales of Des Moines, Iowa. The CPA firm of Marberry & Eagle, P.C. prepares the Company's financial statements, Annual Statements and tax returns and performs an annual audit of the financial statements.

FINANCIAL STATEMENTS

The following financial statements as filed with DIFP present the financial condition of the Company for the period ending December 31, 2016, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS
December 31, 2016

Bonds	\$ 4,078,900
Real Estate	143,127
Cash on Deposit	1,209,772
Computer Equipment	5,231
Intertest Due & Accrued	18,133
Prepaid Insurance	8,150
Prepaid Federal Income Taxes	57,723
Agency	236,527
Total Assets	<u>\$ 5,757,563</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Losses Unpaid	\$ 29,955
Ceded Reinsurance Premium Payable	69,759
Unearned Premium	744,622
Payroll Tax	975
Accounts Payable to Agents	18,716
Accounts Payable Other	7,259
Total Assets	<u>\$ 871,286</u>
Guaranty Fund	\$ 150,000
Other Surplus	4,736,277
Total Surplus	<u>\$ 4,886,277</u>
Total Liabilities and Surplus	<u>\$ 5,757,563</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 1,406,831
Other Insurance Income	9,449
Net Losses & Loss Adjustment Expenses Incurred	(423,193)
Other Underwriting Expenses Incurred	<u>(538,462)</u>
Net Underwriting Income (Loss)	\$ 454,625
Investment Income	136,601
Other Income	<u>11,254</u>
Gross Profit (Loss)	\$ 602,480
Federal Income Tax	<u>(165,684)</u>
Net Income (Loss)	<u><u>\$ 436,796</u></u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' surplus, December 31, 2016	\$ 4,449,481
Net Income (Loss)	<u>436,796</u>
Policyholders' surplus, December 31, 2016	<u><u>\$ 4,886,277</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

