



DEPARTMENT OF COMMERCE & INSURANCE

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

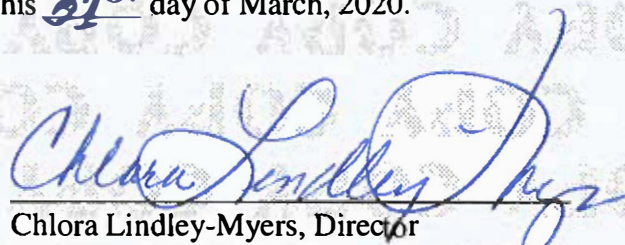
ORDER

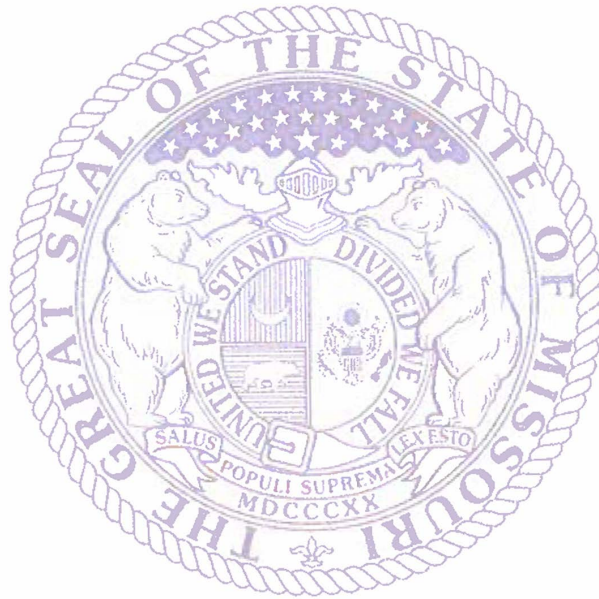
After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Daviess County for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance 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 Daviess 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 31st day of March, 2020.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF DAVIESS COUNTY

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

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November 14, 2019
Gallatin, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
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 DAVIESS COUNTY

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 204 East Corrine, (P.O. Box 72), Gallatin, Missouri 64640, telephone number (660) 663-3514. This examination began on November 6, 2019, was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2013, and was conducted by examiners from the Missouri Department of Commerce and Insurance (Department). The current full-scope examination covers the period from January 1, 2014, through December 31, 2018, and was conducted by examiners from the Department.

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 in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department and statutes of the State of Missouri prevailed.

HISTORY

General

The Company was incorporated on December 15, 1891, as Patrons' Home Protection Company of Daviess County, Missouri. Under reorganization procedures dated December 15, 1911, the name was changed to Farmers Mutual Fire and Lightning Insurance Company of Daviess County, Missouri. The Articles of Incorporation were amended June 17, 2004, to change the name to Farmers Mutual Insurance Company of Daviess County.

The Company has a Certificate of Authority dated February 10, 2005, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Monday in March at the home office of the Company. Special meetings may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is allowed if filed with the Secretary not less than 20 days prior to the meeting at which they are to be voted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. Directors are compensated \$125 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Stephen Reed Breckenridge, Missouri	Farmer	2019
Judy Hiley Altamont, Missouri	Retired Teacher	2020
Kenneth Lockridge Jamesport, Missouri	Insurance Agent	2020

Sharon Lockridge Jamesport, Missouri	Insurance Agent	2021
Tim Osborn Gallatin, Missouri	Maintenance Supervisor	2019
Robert Bird Gallatin, Missouri	Farmer	2021
Steve Stout Jamesport, Missouri	Postal Carrier	2019

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2018, were as follows:

Stephen Reed	President
Judy Hiley	Vice-President
Kenneth Lockridge	Secretary/Treasurer
Sharon Lockridge	Assistant Secretary/Treasurer

Conflict of Interest

The Company has a written conflict of interest procedure for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. A review of the completed statements noted that two directors disclosed being owners of the agency that writes all of the business of the Company.

Corporate Records

A review was made of the Articles of Incorporation (Articles) and the Bylaws of the Company. Neither the Articles nor the Bylaws were amended during the examination period. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect and approve corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000 and a \$0 deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents. The Company self-insures its home office and contents, and purchases commercial general liability insurance.

EMPLOYEE BENEFITS

The Company has three full-time employees. The employees receive paid time off and no additional benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Department as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. The Company writes fire, wind, and liability coverages. The Company's policies are sold by three licensed agents through an agency operating in the Company's home office. Agents receive a commission of 14% on new and renewal business.

Policy Forms and Underwriting Practices

The Company primarily uses American Association of Insurance Services (AAIS) policy forms, as well as some forms of their reinsurer, Wisconsin Reinsurance Corporation. The policies are written on a continuous period and renewed annually, with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Property inspections and loss adjusting are performed by the Company's Office Manager. An independent adjuster may be utilized for major or complex claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2018	\$ 1,646,625	\$ 500	\$ 318,834	\$ 96,454	\$ 38,780	\$ (28,004)	\$ 11,973
2017	1,668,760	6,080	321,676	61,357	32,153	20,123	53,232
2016	1,622,162	17,815	325,011	64,834	43,308	15,070	60,719
2015	1,568,783	12,750	320,797	131,488	33,674	(61,152)	(20,798)
2014	1,592,935	4,950	304,557	68,158	30,873	(5,156)	25,977

At year-end 2018, 481 policies were in force.

REINSURANCE

General

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

	2014	2015	2016	2017	2018
Direct	\$ 304,557	\$ 320,797	\$ 325,011	\$ 321,676	\$ 318,834
Assumed	0	0	0	0	0
Ceded	(84,986)	(84,496)	(84,078)	(85,755)	(90,896)
Net	\$ 219,571	\$ 236,301	\$ 240,933	\$ 235,921	\$ 227,938

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for property and casualty risks. The agreement includes per risk excess of loss and aggregate excess of loss coverage for property risks and quota share coverage for casualty risks.

Under the per risk excess of loss coverage, the Company retains \$50,000 per property risk, and the reinsurer's limit is \$950,000 per property risk. Under the aggregate excess of loss coverage, the Company's annual aggregate net retention, or attachment point, is equal to 60% of net premium. The reinsurer is responsible for 100% of losses in excess of this attachment. The attachment point for 2018 was \$168,675.

Under the casualty quota share section of the agreement, the Company cedes 100% of the casualty risks and premium to the reinsurer and receives a 25% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. The Company utilizes a combination of paper files and packaged software systems for policy maintenance. The CPA firm of Lockridge & Constant, LLC of Chillicothe, Missouri, performs a compilation of the Company's financial statements and prepares the Company's annual statement filing.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2018, 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, which 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, 2018

Bonds	\$ 561,174
Mutual Funds	330,083
Cash on Deposit	743,092
Interest Due and Accrued	6,171
Equipment	<u>6,105</u>
Total Assets	<u>\$ 1,646,625</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2018

Net Losses Unpaid	<u>\$ 500</u>
Total Liabilities	<u>\$ 500</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,496,125</u>
Total Surplus	<u>\$ 1,646,125</u>
Total Liabilities and Surplus	<u>\$ 1,646,625</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2018

Net Premiums Earned	\$ 227,938
Other Insurance Income	3,541
Losses & Loss Adjustment Expenses Incurred	(98,439)
Other Underwriting Expenses Incurred	<u>(161,044)</u>
Net Underwriting Income (Loss)	\$ (28,004)
Net Investment Income	38,780
Other Income	<u>1,197</u>
Gross Profit (Loss)	\$ 11,973
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 11,973</u>

RECONCILIATION OF SURPLUS
Changes from January 1, 2014, to December 31, 2018
(\$000's omitted)

	2014	2015	2016	2017	2018
Capital and Surplus, Beginning of Year	\$ 1,553	\$ 1,588	\$ 1,556	\$ 1,604	\$ 1,663
Net Income (Loss)	26	(21)	61	54	12
Change in Net Unrealized Gains (Losses)	<u>9</u>	<u>(11)</u>	<u>(13)</u>	<u>5</u>	<u>(29)</u>
Change in Capital and Surplus for the Year	<u>\$ 35</u>	<u>\$ (32)</u>	<u>\$ 48</u>	<u>\$ 59</u>	<u>\$ (17)</u>
Capital and Surplus, End of Year	<u>\$ 1,588</u>	<u>\$ 1,556</u>	<u>\$ 1,604</u>	<u>\$ 1,663</u>	<u>\$ 1,646</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

There were no significant subsequent events noted between December 31, 2018 and the date of this report.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Daviess County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Brian D. Hammann, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Brian Hammann
Brian D. Hammann, CPA, AFE
Financial Examiner
Missouri Department of Commerce & Insurance

Sworn to and subscribed before me this 19th day of February 2020.

My commission expires:
March 30, 2023

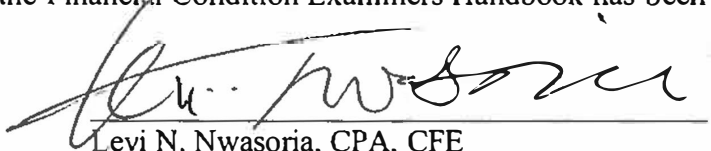
Hailey Webb
Notary Public



HAILEY WEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634368

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Levi N. Nwasoria", is written over a horizontal line.

Levi N. Nwasoria, CPA, CFE

Assistant Chief Financial Examiner

Missouri Department of Commerce & Insurance