

STATE OF MISSOURI



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 and Laborers Cooperative Insurance Association of Audrain County for the period ended December 31, 2020, 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.

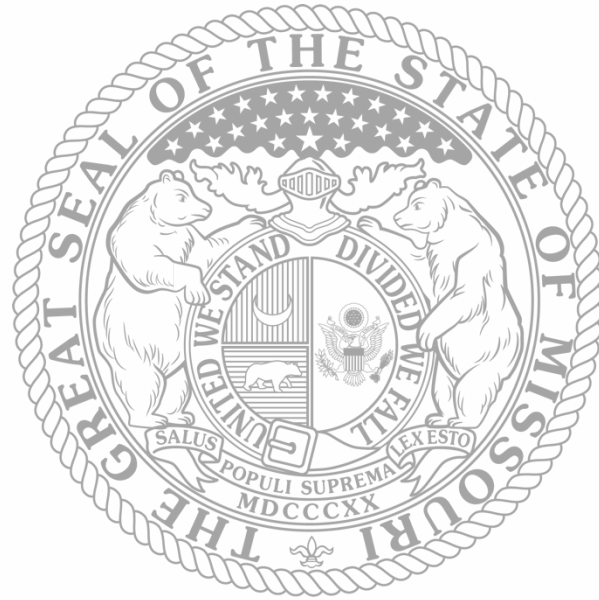
Based on such findings and conclusions, I hereby ORDER Farmers and Laborers Cooperative Insurance Association of Audrain County to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account 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 05th day of July, 2022.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS AND LABORERS COOPERATIVE INSURANCE ASSOCIATION OF AUDRAIN COUNTY

AS OF
DECEMBER 31, 2020

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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Mexico, MO
March 10, 2022

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

FARMERS AND LABORERS COOPERATIVE INSURANCE ASSOCIATION OF AUDRAIN COUNTY

hereinafter referred to as such, or as the Company. Its administrative office is located at 1005 West Monroe St., Mexico, Missouri 65265, telephone number (573) 473-6817. The fieldwork for this examination began on December 22, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Farmers and Laborers Cooperative Insurance Association of Audrain County. The last examination of the Company by the Department covered the period of January 1, 2011, through December 31, 2015. The current examination covers the period of January 1, 2016, through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company was originally established in 1891 as Farmers and Laborers Cooperative Insurance Association. In 1962, the Company changed its name to Farmers and Laborers Cooperative Insurance Association of Audrain County.

The Company has a Certificate of Authority dated July 1, 1991, 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 AND CONTROL

Board of Directors

In accordance with the Articles of Incorporation, the annual meeting of the Company’s members is held on the second Tuesday in February, at the home office of the Company or at such place as may be designated by the Board of Directors. Special meetings of the members 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 not addressed in the Articles of Incorporation.

The management of the Company is vested in a Board of Directors, who are elected by 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 monthly.

Members serving on the Board of Directors as of December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Lloyd Bruns Thompson, Missouri	Farmer	2022
Rennie Davis Vandalia, Missouri	Farmer	2023
Dan Kilbourn Centralia, Missouri	Retired Maintenance Worker	2022
Harry Riechers Mexico, Missouri	Farmer	2021
Jon Robnett Ladonia, Missouri	Farmer	2021
Alvin Wagner Rush Hill, Missouri	Farmer	2021
Lonnie Wolfe Paris, Missouri	Farmer	2023

Officers

The Board of Directors appoints the officers of the Company, who serve a term of one year. The officers serving, as of December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Rennie Davis	President
Lonnie Wolfe	Vice President
Andrew Hahn	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company’s directors and officers sign conflict of interest statements on an annual basis. A review of the executed conflict of interest statements noted no material potential conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The meeting minutes of the membership and the Board were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has two full-time employees. Employee benefits offered by the Company include paid vacation, paid sick leave, & retirement matching.

In addition to serving as an officer, the Company’s Secretary/Treasurer is also the Company’s Manager and one of its agents. The Manager is considered an independent contractor and receives a commission based upon the Company’s premiums.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$125,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$150,000 and \$175,000 in coverage.

The Company carries liability coverage for its directors and officers and errors and omissions liability coverage for its captive agents. Independent agents must provide their own coverage.

Other coverages maintained by the Company include building and business personal property insurance, commercial liability insurance, and workers compensation insurance.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Commerce and Insurance 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 Manager processes all policies.

Insurance products are sold by three agencies. Commission rates ranged from 10.5% to 15% in 2020, depending on the individual contract. However, effective January 1, 2021, all commissions were 15%. The majority of the Company’s business is concentrated in Audrain county and the surrounding areas. Insurance is provided on a non-assessable basis.

Policy Forms and Underwriting Practices

The Company utilizes American Association of Insurance Services (AAIS) policy forms. Rates are determined by the Board of Directors. The policies are written on a continuous renewable basis. Property inspections are performed by the writing agent prior to the issuance of a policy, and underwriting is performed by the Company’s Manager. Renewals are inspected approximately every third year. Claims adjustments are generally performed by independent adjustors, with some smaller claims being adjusted in-house.

GROWTH OF COMPANY AND LOSS EXPERIENCE

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2020	\$16,488	\$1,351	\$2,574	\$1,420	\$500	\$ 15	\$ 482
2019	16,068	1,512	2,524	900	485	522	870
2018	15,078	1,393	2,422	1,025	410	208	548
2017	14,656	1,518	2,282	773	506	469	763
2016	13,846	1,472	2,266	1,465	404	(535)	17

At year-end 2020, there were 2,844 policies in force.

REINSURANCE

General

The Company’s reported premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

<u>Premium Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Direct	\$ 2,266	\$ 2,282	\$ 2,422	\$ 2,524	\$ 2,574
Assumed	-	-	-	-	-
Ceded	(471)	(487)	(487)	(372)	(424)
Net Written	\$ 1,795	\$ 1,795	\$ 1,935	\$ 2,152	\$ 2,150

Assumed Reinsurance

The Company does not reinsure other companies.

Ceded Reinsurance

The Company has all of its reinsurance through Wisconsin Reinsurance Company (the reinsurer) under a single contract with multiple sections covering property and liability risks.

Under the per risk excess of loss section of the agreement, the Company retains \$200,000 per property risk, and the reinsurer is responsible for the excess, limited to \$4.8 million per risk. Under the casualty excess of loss section of the agreement, the Company retains \$10,000 per covered liability loss, and the reinsurer is responsible for the excess, limited to \$1.0 million per occurrence.

The aggregate excess of loss section of the agreement covers all business written by the Company. The reinsurer is liable for 100% of Company's net losses which exceed 90% of the Company's gross net earned premium income during the year. The Company also cedes 100% of the earthquake risks to the reinsurer, and receives a 15% 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 an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. David Shively, CPA, performs the monthly accounting and prepares the Company's annual statement and federal tax filings.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Farmers and Laborers Cooperative Insurance Association of Audrain County for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

ASSETS

As of December 31, 2020

Bonds-Book Value	\$ 15,155,050
Mutual Funds	499,379
Real Estate-Book Value	151,061
Cash on Deposit	525,388
Premiums/Assessments/Agent's Balances Uncollected	153,586
Federal Income Tax Recoverable	1,913
Interest Due and Accrued	1,168
TOTAL ASSETS	\$ 16,487,545

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Gross Losses Unpaid Less Reinsurance Recoverable	\$ 104,489
Ceded Reinsurance Premium Payable	36,628
Unearned Premium	1,258,640
Payroll Tax	7,449
Premiums Collected in Advance	39,877
Claims Processing Charges Payable	3,135
TOTAL LIABILITIES	\$ 1,450,218
Guaranty Fund	150,000
Other Surplus	14,887,327
TOTAL POLICYHOLDER SURPLUS	\$ 15,037,327
TOTAL LIABILITIES AND SURPLUS	\$ 16,487,545

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ended December 31, 2020

Net Earned Assessment/Premium Income	\$ 2,151,700
Other Insurance Income	11,929
Net Losses & Loss Adjustment Expense	(1,363,858)
Underwriting Expenses	(784,864)
Underwriting Income (Loss)	\$ 14,907
Investment Income	526,637
Investment Expenses	(26,827)
Net Investment Income	\$ 499,810
Other Income	55
Gross Profit or Loss	\$ 514,772
Federal Income Tax	(33,087)
NET PROFIT OR (LOSS)	\$ 481,685

GAIN OR LOSS IN SURPLUS

Changes from January 1, 2016 to December 31, 2020

(\$000s omitted)

	2016	2017	2018	2019	2020
Beginning Policyholder's Surplus	\$ 12,358	\$ 12,375	\$ 13,137	\$ 13,685	\$ 14,555
Net Profit or (Loss)	17	762	548	870	482
Ending Policyholder's Surplus	\$ 12,375	\$ 13,137	\$ 13,685	\$ 14,555	\$ 15,037

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Fidelity Bond

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The Company should increase the fidelity bond limit of liability to at least \$150,000 to meet the minimum amount suggested by the NAIC.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employee of Farmers and Laborers Cooperative Insurance Association of Audrain County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Conner Nilges, AFE, 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 facts appearing upon the books, records, or other documents of Farmers and Laborers Cooperative Insurance Association of Audrain County, 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.

Conner Nilges
Conner Nilges, AFE
Financial Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 16th day of May, 2022.

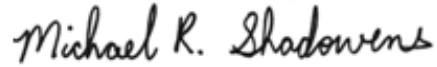
My commission expires: March 30, 2023
Hailey Lubbert
Notary Public



HAILEY LUBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366

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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance