



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

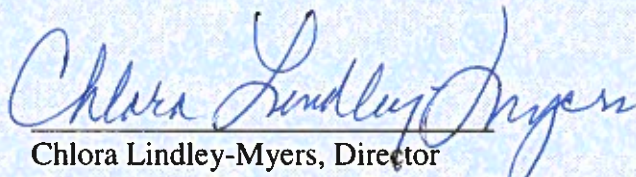
P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Preferred Standard Mutual Insurance Company for the period ended December 31, 2017, 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 Preferred Standard Mutual Insurance Company 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 July, 2019.

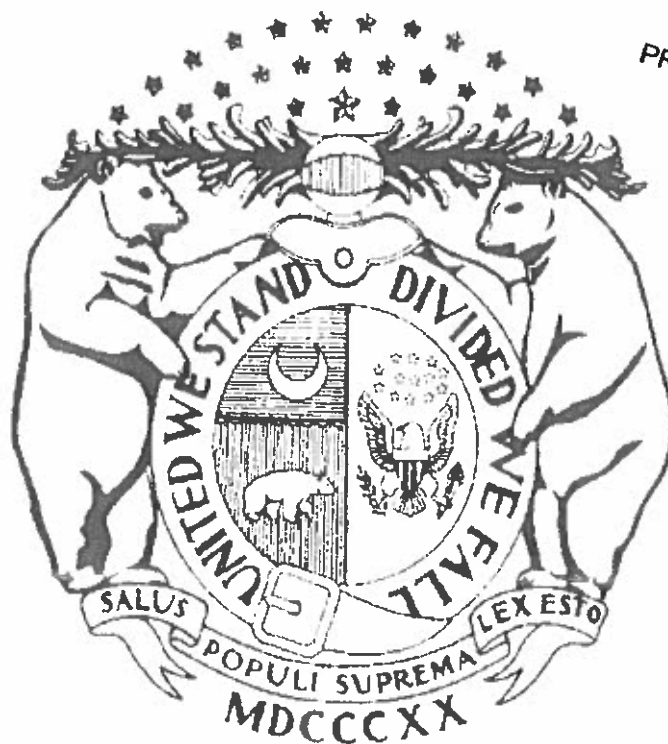

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF THE
FINANCIAL EXAMINATION OF
PREFERRED STANDARD MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2017

FILED
JUL 31 2019
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 4, 2019
St. Louis, MO

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

PREFERRED STANDARD MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 9558 Page Avenue, St. Louis, Missouri 63132, telephone number 314-371-6555. This examination began on October 25, 2018 and 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, 2012, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2013, through December 31, 2017, and was conducted by examiners from the 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 in the Financial Condition Examiners Handbook of 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 originally organized and incorporated on November 13, 1952, as Preferred Standard Mutual Insurance Company. On June 4, 1997, the Company merged with Lincoln Fire Insurance Company, with the Company being the surviving entity.

The Company has a Certificate of Authority originally dated April 1, 1985. The Company 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 third Monday in January. Special meetings may be called by a majority vote of the Board of Directors at any time.

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 five members that are elected annually. All directors must be policyholders of the Company. The Board of Directors meet annually and are compensated at an annual rate of \$200.

Members serving on the Board of Directors, as of December 31, 2017, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term End Date</u>
Scott Brandenburg O'Fallon, MO	Broker	2018
Tuesday Brandenburg O'Fallon, MO	Financial Adjustment Specialist	2018
Ashley Brandenburg O'Fallon, MO	Manager	2018
Alecia Brandenburg St. Louis, MO	Manager	2018
Malanie Millsap Wildwood, MO	Retired	2018

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2017, were as follows:

<u>Name</u>	<u>Office</u>
Scott Brandenburg	President
Ashley Brandenburg	Vice-President
Tuesday Brandenburg	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 has its directors and officers sign conflict of interest statements on an annual basis. Completed conflict of interest statements were reviewed during the examination. A review of the completed conflict of interest statements noted that Scott Brandenburg, the Company's President, also serves as President of West End Insurance Company, Inc., which is the Company's management company.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Company's Board of Directors approved an amendment to the Articles of Incorporation on November 25, 2013 to change the Company's address to its current location in St. Louis, Missouri.

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 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. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents. In addition, the Company's sole agency carries errors and omissions insurance coverage.

EMPLOYEE BENEFITS

The Company has no employees. Employee services are provided under a management agreement with West End Insurance Agency, Inc. (West End). Under the terms of the agreement, West End provides management services to the Company, including agency force, claims payment and administrative functions. Compensation paid to West End equals 50% of monthly gross premiums, for which 30% is to represent agent commissions and 20% is to represent the monthly management fee. In addition, West End receives 50% of the annual net underwriting income.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. The Company's policies are sold by West End Insurance Agency, Inc. under a management agreement (see the Employee Benefits section of this report).

Policy Forms and Underwriting Practices

The Company utilizes an ISO policy form that provides residential contents coverage for the perils of fire, burglary and earthquake. Policy limits range from \$1,000 to \$8,000. The policies are renewed on a monthly basis. Adjusting services are performed by West End Insurance Agency, Inc. under a management agreement (see the Employee Benefits section of this report). Rates are determined by the Board of Directors. Inspections and adjusting services are provided by West End.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2017	\$ 315,021	\$ 277	\$ 11,944	\$ 0	\$ 1,026	\$ (10,108)	\$ (9,082)
2016	324,132	306	13,561	4,695	863	(10,906)	(10,043)
2015	334,501	326	15,062	0	863	(8,220)	(7,357)
2014	342,012	480	17,883	0	909	(7,020)	(6,111)
2013	348,201	558	18,789	200	1,849	(2,892)	(1,043)

At year-end 2017, the Company reported that 115 policies were in force.

It was recommended in the previous examination's management letter to the Company, dated August 20, 2013, that the Company start developing a long-term business plan to address drastic decreases in its policyholder base and underwriting losses. Poor financial results continued during the current examination period, with the Company reporting underwriting and net losses in each of the five examination years. In 2017, the cost of reinsurance exceeded premium written (see the Reinsurance – General section of this report). There is no evidence that the Company has made progress towards developing a long-term business plan that addresses the continued losses.

REINSURANCE

General

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Direct	\$ 18,789	\$ 17,883	\$ 15,062	\$ 13,561	\$ 11,944
Assumed	0	0	0	0	0
Ceded	<u>(5,833)</u>	<u>(12,500)</u>	<u>(12,500)</u>	<u>(12,500)</u>	<u>(12,500)</u>
Net	<u>\$ 12,956</u>	<u>\$ 5,383</u>	<u>\$ 2,562</u>	<u>\$ 1,061</u>	<u>\$ (556)</u>

Assumed

The Company does not assume any reinsurance from other companies.

Ceded

The Company cedes business to BMI Company, Inc. (the Reinsurer) through per risk excess of loss and aggregate excess of loss reinsurance agreements.

Under the per risk excess of loss agreement, the Company retains \$1,000 of losses per risk and the Reinsurer will cover 100% of losses up to \$4,000 in excess of the Company's retained amount. The Reinsurer's coverage is limited to \$20,000 for any one occurrence that is irrespective of the number of risks and type of property peril involved. In addition to their retention, the Company has an annual deductible equal to the first \$1,500 of losses and loss adjustment expenses that would otherwise be recoverable.

The aggregate excess of loss agreement covers all of the Company's policies classified as property insurance. The Reinsurer pays 100% of the losses in excess of the attachment point and the reinsurance coverage is unlimited. The attachment point for 2017 was \$50,000.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that the 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 cash basis. Robert Lallinger completes the Company's Annual Statement and prepares its taxes.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2017, 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, 2017

Cash on Deposit	\$ 297,291
Due from Affiliate (Note 1)	17,730
	<hr/>
Total Assets	\$ 315,021
	<hr/>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2017

Unearned Premiums	\$ 277
	<hr/>
Total Liabilities	\$ 277
	<hr/>
Guaranty Fund	\$ 150,000
Other Surplus	164,744
	<hr/>
Total Surplus	314,744
	<hr/>
Total Liabilities and Surplus	\$ 315,021
	<hr/>

STATEMENT OF INCOME
For the Year Ending December 31, 2017

Net Premiums Earned	\$ (527)
Other Insurance Income	0
Net Losses & Loss Adjusting Expenses Incurred	0
Other Underwriting Expenses Incurred	(9,581)
<hr/>	
Net Underwriting Income (Loss)	\$ (10,108)
Net Investment Income	1,026
Other Income	0
<hr/>	
Gross Profit (Loss)	\$ (9,082)
Federal Income Tax	0
<hr/>	
Net Income (Loss)	\$ (9,082)
<hr/> <hr/>	

RECONCILIATION OF SURPLUS
Changes from January 1, 2013 to December 31, 2017
(\$000's omitted)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and Surplus, Beginning of Year	\$349	\$348	\$342	\$334	\$324
Net Income	(1)	(6)	(7)	(10)	(9)
Capital and Surplus, End of Year	<u>\$348</u>	<u>\$342</u>	<u>\$334</u>	<u>\$324</u>	<u>\$315</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 **Due From Affiliate** **\$0**

The Company listed an advance made to its manager, West End Insurance Agency, Inc., as a \$17,730 asset at December 31, 2017. The advance was made without the approval of the Director and is not an otherwise permissible investment under Section 380.471 RSMo (Approved Investments). Therefore, the balance of the advance was determined to be non-admissible.

EXAMINATION CHANGES

Surplus as reported by the Company at December 31, 2017		\$ 314,744
	<u>Increase</u>	<u>Decrease</u>
Due from Affiliate	\$ 0	\$ (17,730)
Net Change in Surplus		(17,730)
Surplus per examination at December 31, 2017		\$ 297,014

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

Long-Term Business Plan (Page 4)

It is recommended that the Company's Board of Directors continue working towards developing a long-term business plan to address the underwriting losses that occurred each year of the examination period.

Advances to Affiliates (Page 9)

The Company advanced money to its manager, West End Insurance Agency, Inc., during the examination period. This arrangement does not comply with the permitted investments outlined in 380.417 (Approved Investments) or 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). The Company should ensure this loan is immediately repaid in full and such advances are not entered into in the future.


ACKNOWLEDGMENT

The assistance and cooperation extended by Preferred Standard Mutual Insurance Company and its management during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)


I, Joshua R. Nash, 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.


Joshua R. Nash, CPA
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 16th day of July, 2019.

My commission expires:

March 30, 2023



Notary Public



HAILEY LUEBBERT
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 "Michael R. Shadowens", written over a horizontal line.

Michael Shadowens, CFE
Audit Manager
Missouri DIFP