



**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 Benton County for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Benton County for the period ended December 31, 2013, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Benton 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) implement, and verify compliance with, each item mentioned in the Summary and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 26th day of June, 2015.



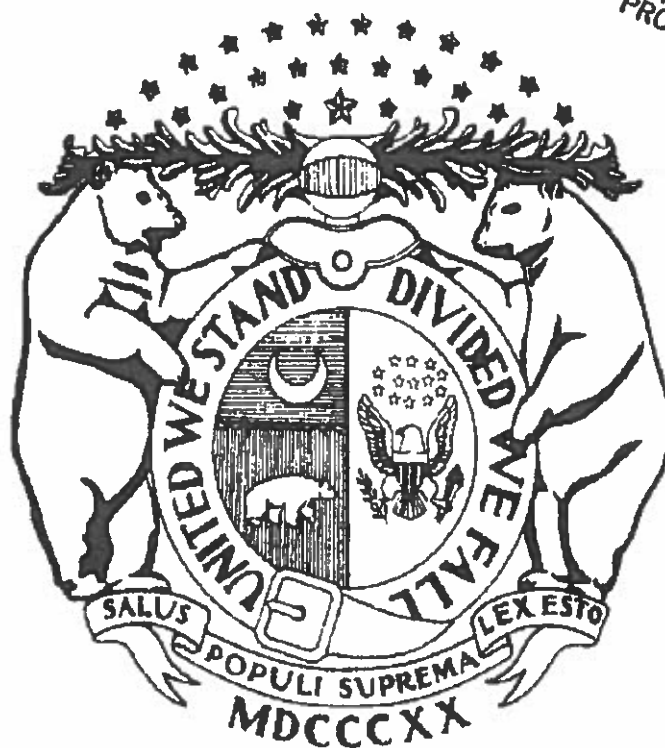
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
**FARMERS MUTUAL INSURANCE COMPANY
OF BENTON COUNTY**

AS OF
DECEMBER 31, 2013

FILED
JUN 26 2015
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 23, 2015
Warsaw, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

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 BENTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 311 West Main, Warsaw, Missouri 65355, telephone number (660) 438-6424. This examination began on March 18, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, and was conducted by examiners 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 in the Financial 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.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Corporate Records

Comment: The Company was directed to properly file the April 22, 2000, amendments to the Articles of Incorporation with the DIFP.

Company Response: Company stated it filed amendments on April 15, 2009.

Current Findings: The Company complied by properly filing the amendments to the Articles of Incorporation with the DIFP.

Territory and Plan of Operations

Comment: The Company was directed to amend the management agreement to update the compensation terms and to add a commission schedule. In addition, the Company was directed to file the amended agreement in its entirety to the DIFP in accordance with Section 380.611 (Sale of Corporate Charter, Penalty -- Exclusive Right to Control a Company, Approval by Director, Requirements).

Company Response: Company stated it issued a new contract.

Current Findings: The Company filed with the DIFP an amended management agreement which updated compensation terms and added a commission schedule.

Reinsurance

Comment: It was recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company's reinsurance contracts, and that all pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to the Company.

Company Response: Company stated the new reinsurance agreements have the proper signatures.

Current Findings: The Company's current reinsurance contracts contain the proper signatures and are properly executed.

Notes to the Financial Statements

Comment: The Company was directed to properly classify reported assets on future Annual Statement filings.

Company Response: Company stated it has made the appropriate changes to its reporting of assets.

Current Findings: The Company has made the recommended changes regarding the reporting of assets on the Annual Statement.

HISTORY

General

The Company was originally organized in March of 1909, and incorporated on April 5, 1933, as Farmers Mutual Fire Insurance Company of Benton County. On February 19, 1973, the Company changed its name to Farmers Mutual Insurance Company of Benton County.

The Company has a Certificate of Authority dated December 21, 2004, 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 last Saturday in January, at the home office of the Company or at such other 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. Eight 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 the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately twice per year, and the directors are compensated \$20 per each meeting.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Steven Daleske Warsaw, Missouri	Farmer/County Commissioner	2015
Frederick Gregory Warsaw, Missouri	Retired Farmer	2016
Thad Henderson Edwards, Missouri	Farmer	2016
Victor Phillips Cross Timbers, Missouri	Farmer	2014
Richard Ingram Warsaw, Missouri	Retired	2015
David Gregory Deepwater, Missouri	Power Plant Operator/Farmer	2015

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, 2013, were as follows:

Steven Daleske	President
Thad Henderson	Vice-President
Debra Reed	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, and no potential material conflicts were 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 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 \$50,000. 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. The Company's sole agent carries errors and omissions insurance, and a portion of the premium cost is paid by the Company.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

EMPLOYEE BENEFITS

The Company has one full-time and one part-time employee. The benefits package offered by the Company to its employees is limited to paid time off.

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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri and writes all three lines. The Company's policies are sold by one licensed agent, who receives a 10% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms, and its policies are continuous. Property inspections and most adjusting functions are performed by the agent. Independent adjusters are utilized for large or complex claims. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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>
2013	\$ 728,750	\$ 4,643	\$ 281,796	\$ 52,909	\$ 6,935	\$ 46,027	\$ 46,027
2012	681,380	3,300	273,130	145,447	9,761	(52,207)	(42,446)
2011	720,526	0	257,760	40,632	10,588	55,859	66,417
2010	654,109	0	250,268	71,211	12,665	4,972	17,637
2009	636,472	0	268,185	85,724	17,111	(20,760)	7,240

At year-end 2013, 480 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Direct	\$ 281,796	\$ 273,130	\$ 257,760	\$ 250,268	\$ 268,185
Assumed	0	0	0	0	0
Ceded	<u>(122,387)</u>	<u>(120,166)</u>	<u>(104,027)</u>	<u>(114,017)</u>	<u>(128,045)</u>
Net	<u>\$ 159,409</u>	<u>\$ 152,964</u>	<u>\$ 153,733</u>	<u>\$ 136,251</u>	<u>\$ 140,140</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company's property excess of loss reinsurance program is placed through intermediary Guy Carpenter & Company, Inc. and consists of various contracts with multiple reinsurers (reinsurer). Under the property per risk agreement, the Company retains \$50,000 in losses per risk and the reinsurer covers 100% of the excess, limited to \$490,000 per loss. Under the layer one of the property catastrophe agreement, the Company retains \$70,000 per occurrence, and the reinsurer is responsible for 95% of \$1 million in excess of the retention. Under layer two of the property catastrophe agreement, the reinsurer is responsible for 100% of \$3,000,000 in excess of \$1,070,000 per occurrence. Under the unlimited aggregate agreement, the reinsurer is liable for 100% of property losses in excess of 80% of the Company's gross net earned premium income during the year. Employers Mutual Casualty Company is the lead reinsurer for the program, with a 32.5% participation.

The Company's casualty/liability business is reinsured by Cameron Mutual Insurance Company (Cameron Mutual). Under the casualty reinsurance contract with Cameron Mutual, the Company cedes 100% of the liability premium and risk and receives a 22% 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 packaged software systems for policy maintenance, accounting, policyholder information, premium, and claims but also maintains hard copies of all applications, policies, endorsements and claims in their storage area within the office. The Company also makes a daily back-up of the software system which is taken home with an employee each night. The Company prepares the Annual Statement filing, and the CPA firm of Tracey Spry & Associates prepares the Company's tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Cash on Deposit	\$ 655,741
Real Estate	32,317
Other Asset-Annuity	<u>40,692</u>
Total Assets	<u>\$ 728,750</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	\$ 1,650
Ceded Reinsurance Payable	2,847
Other Liabilities	<u>146</u>
Total Liabilities	<u>\$ 4,643</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>574,107</u>
Total Surplus	<u>724,107</u>
Total Liabilities and Surplus	<u>\$ 728,750</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 154,711
Other Insurance Income	16,482
Net Losses & Loss Adjusting Expenses Incurred	(56,475)
Other Underwriting Expenses Incurred	<u>(76,226)</u>
 Net Underwriting Income (Loss)	 \$ 38,492
Net Investment Income	6,935
Other Income	<u>600</u>
 Gross Profit (Loss)	 \$ 46,027
Federal Income Tax	<u>(0)</u>
 Net Income (Loss)	 <u>\$ 46,027</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 678,080
Net Income (Loss)	<u>46,027</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 724,107</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jeffery W. Buschmann 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.

J. Buschmann
J. Buschmann, AFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 19th day of May, 2015.

My commission expires:

04-14-2016

Beverly M. Webb
Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070



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.

Mark Nance
Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP