

STATE OF MISSOURI



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 Citizens 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 ORDER Citizens 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 23rd day of January, 2019.

Chlora Lindley-Myers

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



REPORT OF THE
FINANCIAL EXAMINATION OF
CITIZENS MUTUAL INSURANCE COMPANY

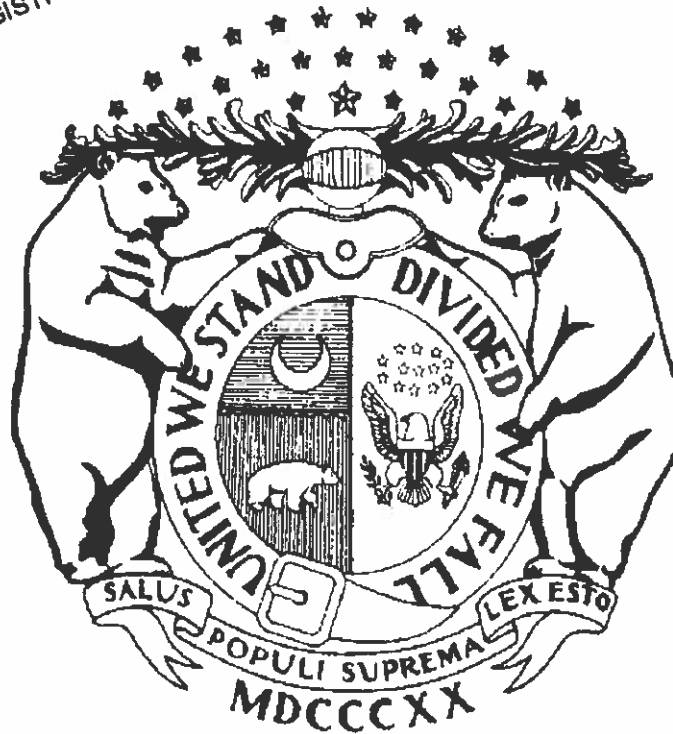
AS OF

DECEMBER 31, 2017

FILED

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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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Columbia, Missouri
November 27, 2018

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

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

CITIZENS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the Company or CIT. The Company's administrative office is located at 2102 White Gate Drive, Columbia, Missouri 65202, telephone number (573) 777-4021. This examination began on April 2, 2018, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a single-state examination of CIT. The last examination was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017. This examination also included the material transactions or events occurring subsequent to December 31, 2017.

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 DIFP and statutes of the State of Missouri prevailed. The *Handbook* requires the planning and performance of the examination to evaluate the Company's 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. The following key activities were identified during the examination: Investments, Premiums, Underwriting, Claims Handling, Reserving, Reinsurance, and Taxes.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not communicated within the examination report but separately communicated to other regulators and/or the Company.

Missouri acted as the overall lead state in the coordinated examination. The examination was conducted concurrently with the DIFP's examination of Columbia Mutual Insurance Company. The examination was also coordinated with the Nebraska Department of Insurance examination of Columbia National Insurance Company and the Texas Department of Insurance examination of Association Casualty Insurance 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.

SUBSEQUENT EVENTS

Subsequent to the examination period, CIT executed a definitive agreement with Everett Cash Mutual Insurance Company (ECM), a Pennsylvania mutual insurance company specializing in farmowners business, whereby CIT will merge with and into ECM, with ECM being the surviving entity. To effect the transaction, and immediately prior to the planned merger, CIT will convert from a mutual insurer operating under the laws of Chapter 380 Revised Statutes of Missouri (RSMo), (County, Town and Farmers' Mutual Property Insurance Companies) to an insurer operating under the laws of Chapter 379 RSMo, (Insurance Other than Life). Subject to receipt of all necessary policyholder and regulatory approvals, the transaction is targeted to take effect April 1, 2019.

COMPANY HISTORY

General

The Company was incorporated in the State of Missouri on December 27, 1932, as Citizens Mutual Fire Insurance Company. In January of 1970, the Company merged with Bollinger County

Farmers Mutual Aid, with the Company remaining as the surviving entity. In October of 1971, the Company changed its name to Citizens Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and operates under Missouri Law at Chapter 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies).

Dividends and Capital Contributions

CIT does not have any stockholders and therefore, no stockholder dividends. The Company's Bylaws allow for dividends to be paid to its policyholders. The Company paid dividends on participating workers' compensation policies in the following amounts during the examination period:

<u>Year</u>	<u>Amount</u>
2014	\$ 0
2015	0
2016	4,124
2017	5,453

Mergers and Acquisitions

Other than the planned merger described under the Subsequent Events section above, there were no mergers or acquisitions involving the Company or its subsidiaries during the examination period.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors' meetings and policyholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors that are elected by the policyholders. The Company's Articles of Incorporation specify that there shall be a nine directors.

The Board of Directors elected and serving as of December 31, 2017, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Michele J. DeVore	Vice President, Columbia Insurance Group
Gina B. Gervino	Senior Vice President, Columbia Insurance Group
Michael S. LeBlanc	Vice President, Columbia Insurance Group
Kelly J. Klug	Senior Vice President, Columbia Insurance Group
Scott D. Mackey	Senior Vice President, Columbia Insurance Group
Robert A. Gerding	Retired; former President, Gerding, Korte & Chitwood, CPAs
Betty J. Schuster	Agent, Principal Financial Group
Gary W. Thompson	President and CEO, Columbia Insurance Group
Alan G. Wills	Owner, Gene E. Wills Insurance Agency, Inc.

Committees

The Bylaws allow for the establishment of committees of the Board of Directors, but none were active during the examination period. However, an affiliate, CMIC, has committees that review and approve transactions that are applicable to all affiliated entities, including CIT as defined in the “Holding Companies, Subsidiaries and Affiliates” section below. The following committees of the CMIC Board of Directors were active, as of December 31, 2017: Audit Committee, Compensation Committee, Finance Committee, and Governance & Nominating Committee.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2017, were as follows:

<u>Name</u>	<u>Office</u>
Gary W. Thompson	Chairman of the Board, President and Chief Executive Officer
Kelly J. Klug	Senior Vice President, Treasurer and Chief Financial Officer
Scott D. Mackey	Senior Vice President and Chief Underwriting Officer
Gina D. Gervino	Senior Vice President, Secretary and General Counsel
Michael S. LeBlanc	Vice President – Claims
Stephen B. Lubbering	Vice President – Human Resources
Douglas A. Duncan	Vice President – Chief Information Officer
Elizabeth M. Dinnin	Vice President – Atlanta Branch Manager
Byron C. Smith	Vice President – Austin Branch Manager
Michelle J. DeVore	Vice President – Columbia Branch Manager
Shane C. Martinez	Vice President – Omaha Branch Manager
Dwight P. Tully ¹	Vice President – Salina Branch Manager

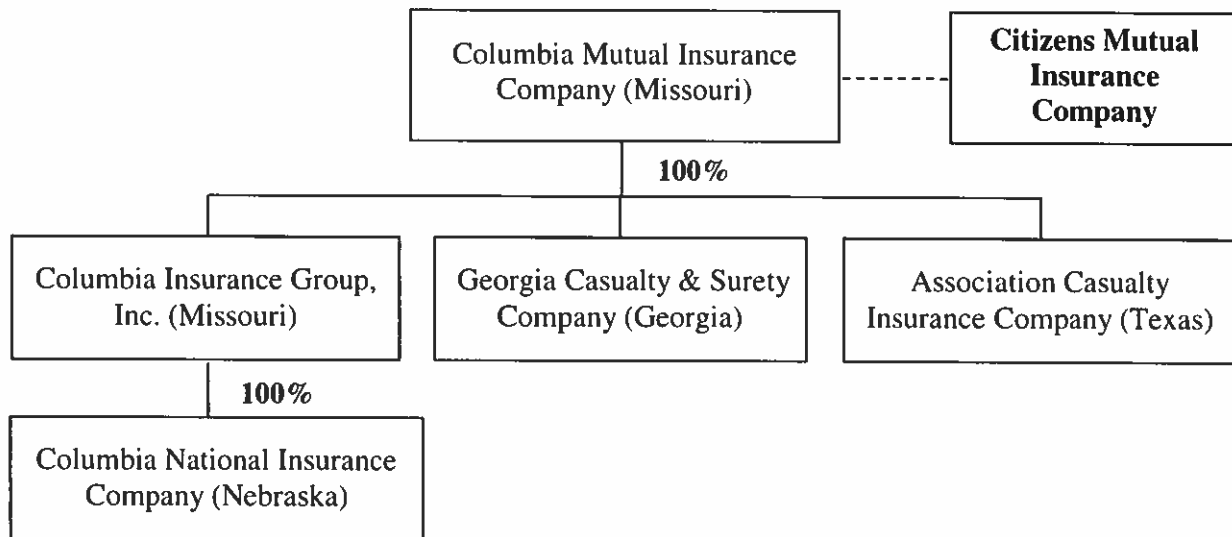
¹ Retired in March 2018. His position was not replaced.

Holding Company, Subsidiaries and Affiliates

Six of the nine directors of the Company are employees of Columbia Insurance Group, Inc. (CIG), a wholly owned subsidiary of Columbia Mutual Insurance Company, a Missouri property and casualty insurer. The Company and CMIC also have the same officers. CMIC owns three insurance companies including Columbia National Insurance Company, Georgia Casualty and Surety Company, and Association Casualty Insurance Company. As such, the Company is affiliated with the aforementioned companies by way of being controlled by the same management team.

Organizational Chart

Below is the organization chart of the Below is the organizational chart of CMIC and its subsidiaries, as of December 31, 2017.



----- Indicates affiliation through common officers and directors

Intercompany Agreements

The Company’s agreements with related parties that were in effect as of December 31, 2017 and subsequent periods are outlined below.

1. **Type:** Intercompany Reinsurance Agreement
- Parties:** CNIC, Georgia Casualty and Surety Company (GCSC), ACIC, CIT, CMIC
- Effective:** January 1, 2009

Terms: The total net risks from all insurance and reinsurance policies written by CNIC, GCSC, ACIC, and CIT (the “Affiliated Companies”) shall be ceded 100% to CMIC. All premiums, losses, assets and liabilities pertaining to the policies reinsured will be assigned and transferred to CMIC. The business assumed from the Affiliated Companies is pooled with the direct business of CMIC. External reinsurance is obtained for the gross pooled business of the Group and the remaining net pooled risks will be assumed by the Affiliated Companies, based upon the following percentages: CMIC – 66%, CNIC – 17%, ACIC – 9%, GCSC – 7%, CIT – 1%. The settlement of all assumed and ceded transactions between CMIC and the Affiliated Companies, will be made on a monthly basis within 90 days after the end of each month.

2. Type: Personnel and Services Agreement

Parties: CIG, CNIC, GCSC, ACIC, CIT, CMIC

Effective: January 1, 2011

Terms: CIG will provide the employees necessary or appropriate to conduct all business operations of CMIC, CNIC, GCSC, ACIC and CIT. CIG will be responsible for the wages, salaries, employee benefits, payroll taxes, and all other similar costs and expenses of the employees. Any employee and benefit costs that are directly attributable to an individual entity will be billed and reimbursed to CIG by the entity in which the cost is related. Any employee and benefit costs that are attributable to the Group, as a whole, will be allocated and reimbursed to CIG based upon each entity’s specific pooling percentage from the Intercompany Reinsurance Agreement.

3. Type: Facilities and Services Agreement

Parties: CNIC, GCSC, ACIC, CIT, CMIC

Effective: January 1, 2011

Terms: CMIC will provide various facilities and services necessary to conduct the business operations of CNIC, GCSC, ACIC and CIT. The operations provided include: office space, equipment, supplies, data processing, telecommunications, IT services, investment services, and others. Any expense that is directly attributable to an individual entity will be billed and reimbursed to CMIC by the entity in which the cost is related. Any expense that is attributable to the Group, as a whole, will be allocated and reimbursed to CMIC based upon each entity’s specific pooling percentage from the Intercompany Reinsurance Agreement.

TERRITORY AND PLAN OF OPERATION

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 insurance in all counties of the State of Missouri.

The Company's authorized lines of business are fire, wind and liability insurance. The Company's policies are marketed by thirty licensed producers. Commissions paid to producers vary from ten to fifteen percent, depending upon the line of business.

Policy Forms and Underwriting Practices

The Company utilizes American Association of Insurance Services (AAIS) and Insurance Services Office (ISO) policy forms. The policies are written on a continuous basis. Property inspections are performed by CIG employees, the writing agent or independent inspectors. Claims adjusting is performed by CIG adjusters. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured.

REINSURANCE

General

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Direct Business	\$2,241,849	\$1,882,447	\$1,833,230	\$1,738,343
Reinsurance Assumed:				
Affiliates	1,761,021	1,913,114	2,175,847	2,308,803
Non-affiliates	0	0	0	0
Reinsurance Ceded:				
Affiliates	(2,241,849)	(1,882,447)	(1,833,230)	(1,738,343)
Non-affiliates	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Premiums Written	<u>\$1,761,021</u>	<u>\$1,913,114</u>	<u>\$2,175,847</u>	<u>\$2,308,803</u>

Assumed

The Company has an Intercompany Reinsurance Agreement with CMIC, CNIC, GSCS and ACIC that was previously described in the Affiliated Transactions section of this report. The Company assumes 1% of the net pooled business of the Group, pursuant to the terms of the Agreement.

Ceded

The Company cedes 100% of its direct business to CMIC under the Intercompany Reinsurance Agreement. CMIC has external reinsurance coverage on a per risk and catastrophe basis for the combined pooled business of the Group.

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 agreement

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
as of December 31, 2017

Bonds	\$3,397,306
Cash	382,978
Agent's Balances Uncollected	604,687
Reinsurance Recoverable on Paid Losses	14,086
Interest Due & Accrued	14,262
Net Deferred Tax Asset	137,777
Other Assets	1,250
Total Assets	<u>\$4,552,346</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2017

Net Losses Unpaid	\$1,490,765
Net Loss Adjusting Expense Unpaid	396,790
Ceded Reinsurance Payable	99,491
Unearned Premium	1,009,670
Commissions Payable	74,682
Other Liabilities	74,451
Total Liabilities	<u>\$3,145,849</u>
Guaranty Fund	\$ 300,000
Other Surplus	1,106,497
Total Surplus	<u>\$1,406,497</u>
Total Liabilities and Surplus	<u>\$4,552,346</u>

STATEMENT OF INCOME
For the Year Ended December 31, 2017

Net Premiums Earned	\$2,245,089
Net Losses & Loss Adjusting Expenses Incurred	1,844,869
Other Underwriting Expenses Incurred	715,365
Net Underwriting Income (Loss)	<u>(\$ 315,145)</u>
Net Investment Income	73,969
Other Income	<u>21,672</u>
Gross Profit (Loss)	(\$ 219,504)
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u><u>(\$ 219,504)</u></u>

CAPITAL AND SURPLUS ACCOUNT
For the Year Ended December 31, 2017

Policyholders' Surplus, December 31, 2016	\$1,682,625
Net Income (Loss)	(219,504)
Change in Net Deferred Income Tax	(43,000)
Change in Nonadmitted Assets	(13,624)
Net Change in Capital and Surplus	<u>(\$ 276,128)</u>
Policyholders' Surplus, December 31, 2017	<u><u>\$1,406,497</u></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 officers and the employees of Citizens Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Tim Tunks, CPA, CFE, Josh Nash, CPA, Brian Hammann, CPA, Anna Duncan, and Kim Dobbs, CFE, AES, examiners for the Missouri DIFP, participated in this examination. Kristine M. Fitzgerald, ACAS, MAAA, FCA, of Actuarial & Technical Solutions, Inc., also participated as a consulting actuary.

VERIFICATION

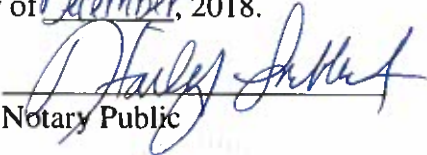
State of Missouri)
)
County of)

I, Marc Peterson, 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 Citizens Mutual Insurance 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.

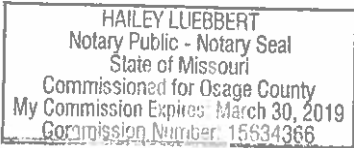


Marc Peterson, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 17th day of December, 2018.

My commission expires: March 30, 2019


Notary Public



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 Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration