

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

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

RE: Examination Report of Farm Mutual Insurance of St. Francois County for the period ended December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Farm Mutual Insurance of St. Francois County for the period ended December 31, 2016, 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 Farm Mutual Insurance of St. Francois 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 20th day of September 2018.



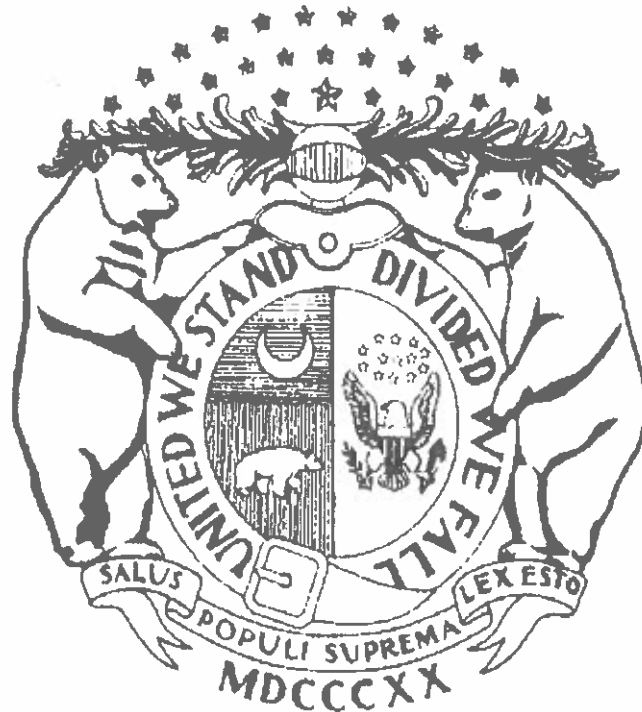
A handwritten signature in blue ink, which appears to read "Chlora Lindley-Myers", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF**

Farm Mutual Insurance of St. Francois County

**AS OF
DECEMBER 31, 2016**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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May 17, 2018
Farmington, Missouri

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

Farm Mutual Insurance of St. Francois County

hereinafter referred to as such, or as the "Company." The Company's home office and principal place of business is located at 1109A Ste. Genevieve Ave., Farmington, MO 63640; telephone number (573)756-1510. This examination began February 6, 2018, and fieldwork concluded on the date above, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2011 and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2012 through December 31, 2016, and was conducted by an examiner 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 by 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

It was recommended that the Company obtain conflict of interest statements from all officers and directors annually. It was also recommended that the Company prepare its annual statement on an accrual basis.

HISTORY

General

The Company was organized in 1895 as the Farmers Mutual Fire Insurance Company of St. Francois County, Missouri. The Company received a Certificate of Incorporation from the Missouri Secretary of State on November 21, 1895.

Management

The Company is managed by a board of seven directors; serving staggered, three-year terms. Directors are elected at annual member meetings held on the first Friday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets quarterly. Directors receive \$70 per meeting. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2016:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Charles Belken Farmington, MO 63640	Farmer	2016-2019
Kenneth Graham Farmington, MO 63640	Farmer	2015-2018
Tom Heberlic Bonne Terre, MO 63628	Farmer	2014-2017
Tim Mattingly Farmington, MO 63640	Environmental Specialist	2015-2018
Dennis Norris Bonne Terre, MO 63628	Agent	2014-2017
Larry Peterson Bonne Terre, MO 63628	Farmer	2015-2018
Warren Shelley Bonne Terre, MO 63628	Farmer	2014-2017

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, 2016 were as follows:

Kenneth Graham	President
Dennis Norris	Vice President
Brian Graham	Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its March 1, 2013 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$50,000 from Grinnell Mutual Reinsurance Company. This coverage does not meet the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of \$3 million.

Each of the Company's agents carries Errors and Omissions Liability (E&O) insurance with a minimum limit of liability of \$500,000 per agent. The Company purchases the coverage for each of its agents.

The Company has property and liability insurance coverage for its office building through Grinnell Mutual Reinsurance Company. The policy has a limit of \$486,448 for the property and \$2 million for liability, and includes earthquake coverage.

The Company has a workers' compensation and employers' liability policy with Grinnell Mutual Reinsurance Company. The workers' compensation insurance applies to the workers' compensation laws of the state of Missouri. The employers' liability insurance has a limit of liability for bodily injury by accident of \$500,000 each accident and limits of liability for bodily injury by disease of \$500,000 per employee and a policy limit of \$500,000.

EMPLOYEE BENEFITS

The Company has a full-time Secretary/Treasurer, a full-time Office Assistant and five part-time agents. No benefits are paid to employees aside from the E&O coverage for the agents.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated November 2, 1998 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in St. Francois County. Insurance is provided on an assessable basis. Advertising is done through local phone books and other small local ads.

Policy Forms and Underwriting Practices

The Company writes policies for a three-year period. The Company uses policy forms supplied by its reinsurer, Grinnell Mutual Reinsurance Company. Insurance products are sold by six captive agents who receive a commission of 12% on new and renewal business. Additional agent bonuses are provided as approved by the Board.

An onsite inspection is performed by the agents prior to the issuance of policies. Inspections are also performed upon renewal. Agents perform loss adjusting as needed. Loss adjusting is done by Grinnell Mutual, with some small claims handled by the Company manager.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

The following exhibit summarizes the operating results of the Company over the last five years. These numbers were taken from the Annual Statements as filed with DIFP, which were prepared on a cash basis.

	<u>Admitted</u>		<u>Gross</u>	<u>Gross</u>	<u>Investment</u>	<u>Underwriting</u>	<u>Net</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Premiums</u>	<u>Losses</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
2016	\$3,032,390	\$ 0	\$ 1,318,310	\$ 574,958	\$ 37,948	\$ 193,559	\$ 216,359
2015	2,951,612	0	1,166,236	3,261,950	40,047	(315,687)	(259,197)
2014	3,210,809	0	1,092,491	205,090	39,894	285,426	329,790
2013	2,881,018	0	993,102	230,204	43,804	208,762	239,227
2012	2,641,791	0	886,717	268,192	51,593	158,287	214,652

At year-end 2016, there were 1,704 policies 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct	\$ 886,717	\$ 993,102	\$1,092,491	\$ 1,166,236	\$ 1,318,310
Assumed	0	0	0	0	0
Ceded	<u>(272,736)</u>	<u>(345,564)</u>	<u>(373,082)</u>	<u>(400,902)</u>	<u>(416,875)</u>
Net	<u>\$ 613,981</u>	<u>\$ 647,538</u>	<u>\$ 719,409</u>	<u>\$ 765,334</u>	<u>\$ 901,435</u>

Assumed

None.

Ceded

The Company has a reinsurance agreement with Grinnell Mutual Reinsurance Company (the reinsurer). The following coverage is provided under this agreement.

Aggregate Excess

This coverage provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2016 contract year was \$800,000. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage.

Earthquake Reinsurance

Under this section the Company cedes all earthquake premiums to the reinsurer, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

Liability Reinsurance

Under this section the Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The Company's records are maintained on a cash basis. Policyholder information is maintained on a software program called Compass. The Annual Statement is also prepared on a cash basis by the Company's Secretary/Treasurer. Accrued liabilities are reported on the Annual Statement on page 13. As of December 31, 2016 the company reported liabilities of \$51,465.

FINANCIAL STATEMENTS

The following financial statements as filed with DIFP, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2016, 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

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.

ANALYSIS OF ASSETS
December 31, 2016

Real Estate	\$ 106,094
Cash on Deposit	2,926,296

Total Assets	\$ 3,032,390
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Total Liabilities	\$ 0

Guaranty Fund	\$ 150,000
Other Surplus	2,882,390

Total Surplus	3,032,390

Total Liabilities and Surplus	\$ 3,032,390
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 901,435
Other Insurance Income	129
Net Losses & Loss Adjustment Expenses Incurred	(446,197)
Other Underwriting Expenses Incurred	(261,808)

Net Underwriting Income (Loss)	\$ 193,559

Net Investment Income	\$ 31,309
Other Income	0

Gross Profit (Loss)	\$ 224,868
Federal Income Tax	8,509

Net Income (Loss)	\$ 216,359
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 2,951,611
Net Income (Loss)	182,415
Prior Years' Depreciation Expense	(135,580)

Policyholders' Surplus, December 31, 2016	\$ 3,032,390
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

The Company has fidelity bond coverage that does not meet the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure. It is recommended that the company increase its fidelity bond coverage to at least \$75,000.

SUBSEQUENT EVENTS

None.

