



**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 Pettis 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 Pettis 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 Pettis 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.

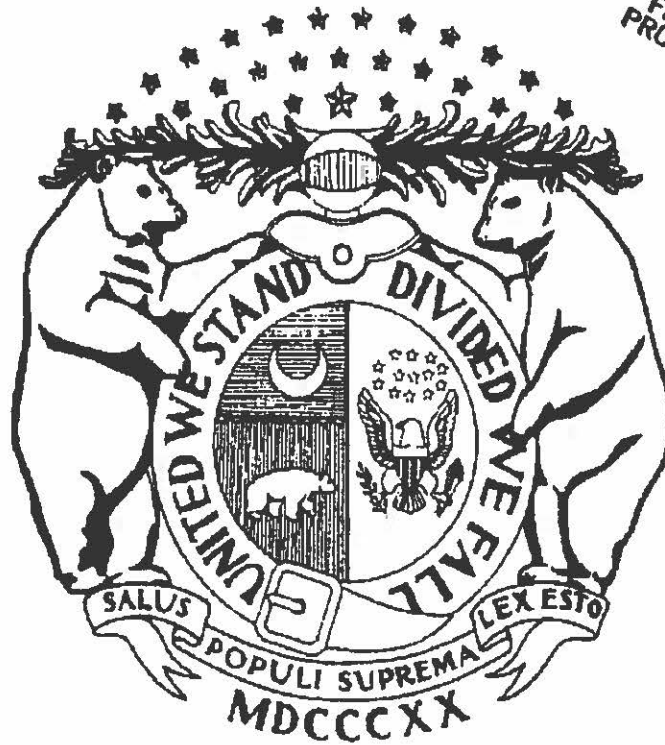


John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
FINANCIAL EXAMINATION OF  
**FARMERS MUTUAL INSURANCE COMPANY  
OF PETTIS 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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January 30, 2015  
Sedalia, 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 PETTIS COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 401 South Lamine Avenue, Sedalia, Missouri 65301, telephone number (660) 826-6964. This examination began on November 24, 2014 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.

### **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. 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 this Company.

*Company Response:* The Company addressed the signature issues with its reinsurers.

*Current Findings:* The Company's current reinsurance contracts contain the required signatures.

*Comment:* It was recommended the Company review the provisions of its wind reinsurance program and amend the contracts to reduce any unnecessary redundancies.

*Company Response:* The Company reviewed its wind reinsurance coverage with its intermediary and found the coverages to be adequate.

*Current Findings:* The Company's current reinsurance coverages meet the requirements of the applicable regulation.

## **HISTORY**

### **General**

The Company was originally organized and incorporated on March 23, 1894, as Farmers Mutual Fire Insurance Company of Pettis County. On June 18, 1984, the Company changed its name to Farmers Mutual Insurance Company of Pettis County.

The Company has a Certificate of Authority dated September 11, 1996, 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 fourth Tuesday in February at the home office of the Company or at such other place as may be designated by the Board. Eight members constitute a quorum at any membership meeting. Proxy voting is not permitted.

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 twelve members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$100 per each meeting attended. The President receives an additional \$600 per year for additional duties.

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</u> |
|---------------------------------------|-------------------|-------------|
| James Westermeir<br>Sedalia, Missouri | Retired/Farmer    | 2014-2017   |
| Ralph Thomas<br>Sedalia, Missouri     | Farmer            | 2012-2015   |
| Lloyd Shireman<br>Houstonia, Missouri | Farmer            | 2012-2015   |
| Thomas Smith<br>Smithton, Missouri    | Farmer            | 2014-2017   |
| David White<br>Sedalia, Missouri      | Landlord          | 2014-2017   |
| James Stever<br>Sedalia, Missouri     | Farmer            | 2013-2016   |
| Larry Avey<br>Mora, Missouri          | Farmer            | 2013-2016   |
| Lawrence Adams<br>Smithton, Missouri  | Farmer            | 2012-2015   |
| Walter Clark<br>Sedalia, Missouri     | Builder           | 2012-2015   |

|                                       |        |           |
|---------------------------------------|--------|-----------|
| Richard Mergen<br>Sedalia, Missouri   | Farmer | 2014-2017 |
| Delmar Cornine<br>Houstonia, Missouri | Farmer | 2013-2016 |
| Ronald Bohlken<br>Sedalia, Missouri   | Farmer | 2013-2016 |

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:

|                  |                     |
|------------------|---------------------|
| James Westermeir | President           |
| Lawrence Adams   | Vice-President      |
| Clell Furnell    | 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. A review of the signed statements noted no significant conflict disclosures.

**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 period under examination.

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 purchases errors and omissions insurance coverage for its agent. The Company also carries general liability and office contents coverage.

## EMPLOYEE BENEFITS

The Company has one full-time employee. The Company does not offer a benefits package to its employee.

## 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. The Company writes fire, wind and liability coverages in Pettis, Boone, Morgan and Cooper counties. The Company's policies are sold by a single licensed agent, who receives a 15% commission.

### Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms, and the policies are renewed annually. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Property inspections and adjusting functions are performed by the agent.

## 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        | \$ 602,233             | \$ 780             | \$ 184,939            | \$ 52,335           | \$ 2,780                 | \$ (25,190)                | \$ (22,410)       |
| 2012        | 625,657                | 1,793              | 180,985               | 53,209              | 4,349                    | (24,167)                   | 74,912            |
| 2011        | 551,437                | 2,485              | 170,905               | 167,646             | 6,989                    | (130,370)                  | (122,874)         |
| 2010        | 673,806                | 1,980              | 152,934               | 60,939              | 11,319                   | (22,493)                   | (10,578)          |
| 2009        | 683,757                | 1,353              | 160,462               | 146,549             | 17,509                   | (72,017)                   | (53,899)          |

At year-end 2013, 409 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:

|         | 2009       | 2010       | 2011       | 2012       | 2013       |
|---------|------------|------------|------------|------------|------------|
| Direct  | \$ 160,462 | \$ 152,934 | \$ 170,905 | \$ 180,985 | \$ 184,939 |
| Assumed | 0          | 0          | 0          | 0          | 0          |
| Ceded   | (65,686)   | (64,424)   | (65,747)   | (81,970)   | (89,691)   |
| Net     | \$ 94,776  | \$ 88,510  | \$ 105,158 | \$ 99,015  | \$ 95,248  |

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company's reinsurance program is provided by three different facilities for fire and wind property perils and casualty coverage.

The peril of fire for property risks is reinsured by Farmers Mutual Reinsurance Company of Missouri ("FM Re") under a per risk excess of loss with annual aggregate limit contract. Under the per risk excess of loss provisions of the contract, the Company retains \$50,000 per risk and FM Re assumes the excess, limited to \$650,000 per risk. Under the aggregate excess of loss provisions of the contract, the Company retains annual net losses equal to 80% of annual premium income. FM Re assumes the excess, limited to \$1 million for the contract year.

Reinsurance for the peril of wind for property risks is placed by broker Guy Carpenter & Company, LLC with various reinsurers (reinsurer) under property per risk and aggregate excess of loss contracts. The lead reinsurer under the program is Employers Mutual Casualty Company, with a 32.5% share in the interest and liabilities of the contracts. Under the per risk excess of loss agreement, the Company retains \$40,000 for each loss, each risk, and the reinsurer's limits are \$490,000 per risk and \$980,000 per occurrence. Under the aggregate excess of loss agreement, the Company's annual aggregate net retention, or attachment point, is equal to 75% of the Company's net earned premium income. The reinsurer is liable for 100% of losses in excess of this retention, without limitation.

The Company's casualty business is ceded under a quota share arrangement with Cameron Mutual Insurance Company (CMIC). The Company cedes 100% of casualty premiums and losses to CMIC 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 paper files and hard copies, as well as electronic storage for some documentation. The CPA firm of MHC Certified Accountants, LLC, performs an annual audit of the Company's financial statements and prepares the Company's annual statement and 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  | \$ 405,000        |
| Cash on Hand     | 100               |
| Cash in Checking | <u>197,133</u>    |
| Total Assets     | <u>\$ 602,233</u> |

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

|                               |                   |
|-------------------------------|-------------------|
| Fire Tax Payable              | <u>\$ 780</u>     |
| Total Liabilities             | <u>\$ 780</u>     |
| Guaranty Fund (Note 1)        | \$ 150,000        |
| Other Surplus (Note 1)        | <u>451,453</u>    |
| Total Surplus                 | <u>601,453</u>    |
| Total Liabilities and Surplus | <u>\$ 602,233</u> |

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2013**

|   |                    |
|---|--------------------|
| Net Premiums Earned                           | \$ 95,248          |
| Other Insurance Income                        | 1,681              |
| Net Losses & Loss Adjusting Expenses Incurred | (50,160)           |
| Other Underwriting Expenses Incurred          | <u>(71,959)</u>    |
| Net Underwriting Income (Loss)                | \$ (25,190)        |
| Net Investment Income                         | <u>2,780</u>       |
| Gross Profit (Loss)                           | \$ (22,410)        |
| Federal Income Tax                            | <u>(0)</u>         |
| Net Income (Loss)                             | <u>\$ (22,410)</u> |

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2013**

|   |                   |
|---|-------------------|
| Policyholders' Surplus, December 31, 2012 | \$ 623,864        |
| Net Income (Loss)                         | <u>(22,410)</u>   |
| Policyholders' Surplus, December 31, 2013 | <u>\$ 601,453</u> |

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 – Guaranty Fund**

The Company failed to report the guaranty fund balance of \$150,000 as required per Section 380.271 RSMo (Financial Reinsurance Requirements). An adjustment was made to increase the “Guaranty Fund” balance by \$150,000 and decrease the “Other Surplus” balance by \$150,000.

### EXAMINATION CHANGES

As described in Note 1 above, an examination change was made to increase the “Guaranty Fund” balance and decrease the “Other Surplus” balance, each by \$150,000. The change had no effect on total policyholder surplus.

### SUMMARY OF RECOMMENDATIONS

#### **Notes to the Financial Statements (Page 10)**

It is recommended the Company ensure proper reporting of guaranty fund balance in future Annual Statement reporting.

### SUBSEQUENT EVENTS

None.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
  )  
County of Cole        )

I, Jay 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  
Jay Buschmann, AFE  
Financial Examiner/Analyst  
Missouri DIFP

Sworn to and subscribed before me this 19<sup>th</sup> 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