



**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 BMI Company, Inc. 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 BMI Company, Inc. 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 31<sup>st</sup> day of July, 2019.

*Chlora Lindley-Myers*

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



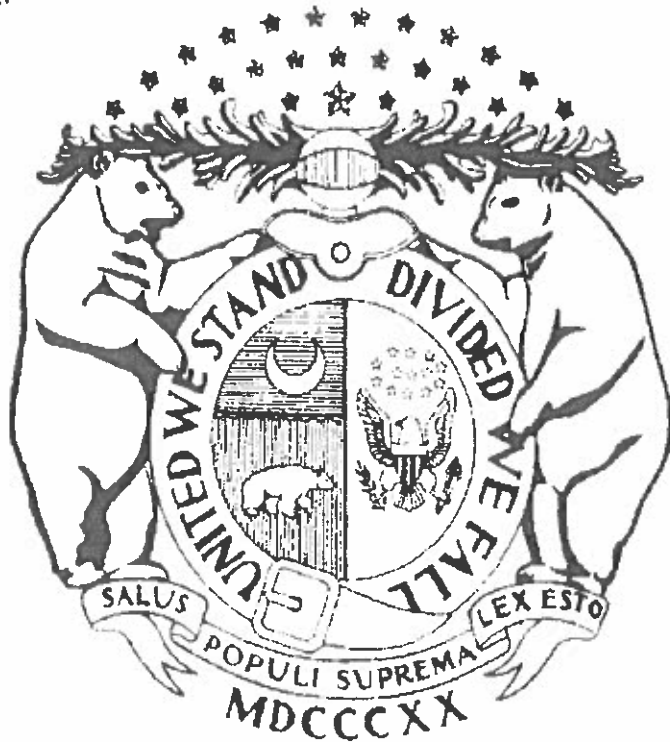
REPORT OF THE  
FINANCIAL EXAMINATION OF  
BMI COMPANY, INC.

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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April 9, 2019  
Billings, Missouri

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 examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**BMI COMPANY, INC.**

hereinafter referred to as such, or as the "Company" or "BMI." The Company's administrative office is located at 118 S.W. Highway 60 (P.O. Box 40) Billings, Missouri 65610, telephone number (417) 744-2717. This examination began on April 3, 2019, 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, 2011 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, 2012 through December 31, 2017 and was also 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 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 on May 9, 1891 as Farmers Mutual Insurance Company of Billings, and was incorporated on August 5, 1970. The Company changed its name to Billings Mutual Insurance Company in 1992.

On January 1, 2004, Farmers Mutual Fire and Lightning Insurance Association of Phelps County merged into the Company, with the Company being the surviving entity. Effective January 1, 2012, the Company entered into an assumption agreement with North Central Mutual Insurance Company (North Central). Under the terms of the agreement, the Company assumed all of the liabilities and policies from North Central in exchange for all the assets of North Central. Effective January 31, 2013, North Central was administratively dissolved as a corporate entity. Effective July 1, 2012, Scott County Farmers Mutual Insurance Company was merged into the Company, with the Company being the surviving entity. Effective January 1, 2013, The Mutual Insurance Company was merged into the Company, with the Company being the surviving entity. Effective January 1, 2013, The Missouri State Mutual Insurance Company was merged into the Company, with the Company being the surviving entity.

Effective March 16, 2017, the Company changed its name to BMI Company, Inc.

The Company has a Certificate of Authority dated December 31, 1992, and is covered by Sections 380.201 through 380.611 Revised Statutes of Missouri (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 second Thursday in February 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately nine times per year, and each director receives an annual retainer of \$10,000 and \$2,000 per meeting attended.

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</u> |
|--|--|-------------|
| Charles Smith<br>Galena, Missouri        | Chief Executive Officer/Secretary,<br>BMI      | 2016-2019   |
| Harold Hodges<br>Sparta, Missouri        | Insurance Agent                                | 2016-2019   |
| Ron Welch<br>Republic, Missouri          | Realtor  | 2016-2019   |
| Ron Edward<br>Crane, Missouri            | Insurance Agent                                | 2015-2018   |
| Andy Reavis<br>Marionville, Missouri     | Chief Operations Officer, BMI                  | 2015-2018   |
| Beverly Moore<br>Clever, Missouri        | Chief Financial Officer/Office<br>Manager, BMI | 2015-2018   |
| Connie Kennemer<br>Springfield, Missouri | Retired  | 2017-2020   |
| Andrew Bowles<br>Miller, Missouri        | Insurance Agent                                | 2017-2020   |
| Gary Fowler<br>Sheldon, Missouri         | Retired  | 2017-2020   |

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, 2017 were as follows:

|               |                |
|---------------|----------------|
| Harold Hodges | President      |
| Andrew Bowles | Vice-President |
| Charles Smith | Secretary      |
| Beverly Moore | 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 executed conflict of interest statements was performed as part of this examination. Three of the directors disclosed that they also serve as directors for another Missouri Mutual Insurance Company, Old Missouri Mutual Insurance Company (OMM). Four of the directors are agents of the Company and/or other companies. Seven of the directors disclosed they are members of Missouri Insurance Services, LLC (MIS), a service company that primarily acts as a general agent for the Company's agency force to facilitate the writing of coverages not offered by the Company through its reinsurer. MIS also provides off-site data storage for BMI and manages the out-sourcing of BMI adjusting services to other mutual companies. No other significant disclosures were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended March 16, 2017 to reflect the change in name of the Company. No changes were made to the Bylaws 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 \$300,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$350,000.

The Company carries liability coverage for its directors and officers. The Company utilizes an independent agency force and requires its agents to carry errors and omissions insurance. The Company also carries business owner's coverage on its home office and contents, as well as general and commercial umbrella liability, business automobile, employment practices and workers compensation coverages.

## **EMPLOYEE BENEFITS**

The Company had 34 full-time employees as of December 31, 2017. The benefits package offered to the employees includes life and health insurance, SEP retirement plan with employer matching, and 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. (Extended Missouri Mutual Insurance Companies). The Company writes fire, wind, automobile, and liability coverages.

The Company's policies are marketed by 238 independent agencies. Commissions are tiered based upon production levels and policy type, and range from 8% to 17% of premium written.

### **Policy Forms and Underwriting Practices**

The Company primarily utilizes AAIS policy forms. MAMIC and some custom policy forms are also utilized. Policies are renewed annually. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by Company inspector/adjusters. Rates are determined by the Board of Directors.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

| Year | Admitted Assets | Liabilities | Gross Premiums | Gross Losses | Investment Income | Underwriting Income | Net Income |
|------|-----------------|-------------|----------------|--------------|-------------------|---------------------|------------|
| 2017 | \$41,715,163    | \$9,092,798 | \$23,778,584   | \$10,517,486 | \$653,463         | \$ (82,966)         | \$ 501,090 |
| 2016 | 40,677,219      | 8,561,495   | 22,097,908     | 5,459,505    | 578,548           | 4,720,943           | 3,609,870  |
| 2015 | 37,133,851      | 8,661,611   | 21,214,332     | 6,073,427    | 534,267           | 3,722,033           | 3,001,850  |
| 2014 | 33,991,731      | 8,457,425   | 21,371,309     | 8,375,565    | 524,995           | 3,289,443           | 2,695,859  |
| 2013 | 31,117,435      | 8,275,211   | 18,638,848     | 5,727,762    | 486,875           | 3,980,807           | 3,056,514  |
| 2012 | 18,557,601      | 6,739,976   | 13,718,276     | 5,267,993    | 355,497           | (796,709)           | 68,638     |

At year-end 2017 there were 22,181 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:

|         | 2017         | 2016         | 2015         | 2014         | 2013         | 2012         |
|---------|--------------|--------------|--------------|--------------|--------------|--------------|
| Direct  | \$21,082,401 | \$19,514,116 | \$18,661,214 | \$18,810,737 | \$17,871,995 | \$13,718,276 |
| Assumed | 32,446       | 34,234       | 32,429       | 34,618       | 32,174       | 0            |
| Ceded   | 3,482,522    | 3,015,760    | 2,892,830    | 2,956,924    | 2,822,108    | 3,609,843    |
| Net     | \$17,632,325 | \$16,532,590 | \$15,800,813 | \$15,888,431 | \$15,082,061 | \$10,108,433 |



### **Assumed**

MAMIC Mutual Insurance Company (MAMIC) issues direct policies to insure agents' errors and omissions liability and directors' and officers' liability risks for various mutual insurance companies, including the Company. All of the policy risks insured by MAMIC for these two products are pooled and ceded to participating mutual insurance companies. The Company has a 6% share in the interests and liabilities of the pool.

### **Ceded**

The Company's reinsurance program is brokered through Guy Carpenter with numerous subscribing reinsurers (reinsurers) that agree to share a portion of the interest and liabilities of each contract.

The Company has a Property Per Risk Excess of Loss Reinsurance Contract under which the reinsurers are liable for the ultimate net loss over and above a retention of \$125,000 subject to a limit of \$875,000 each loss, each risk and \$1,750,00 each occurrence.

The Company has an Unlimited Aggregate Excess of Loss Reinsurance Contract under which the reinsurers are liable for 100% of the ultimate net loss over and above an initial ultimate net loss of 60% of gross earned premium.

The Company has a Casualty Quota Share Reinsurance Contract under which the Company cedes 100% of all casualty business to the reinsurers subject to a \$1,000,000 limit.

The Company has a Personal Automobile Quota Share Reinsurance Contract under which the Company cedes 75% of automobile physical damage and automobile liability to the reinsurers subject to a limit of \$75,000 each loss, each policy.

The Company has an Umbrella Facultative Reinsurance Contract under which the Company cedes a 95% share of up to \$1,000,000 of ultimate net loss, each occurrence, each policy for personal and farm liability policies. The reinsurers are also liable in respect of each loss occurrence, each policy for the ultimate net loss over and above an initial ultimate net loss of \$1,000,000 each loss occurrence, each policy subject to an additional limit of liability to the reinsurers of up to 100% of \$1,000,000 each loss occurrence, each policy.

The Company has a Property Facultative Reinsurance Contract under which the Company's surplus liability on risks may be ceded to the reinsurers subject to a minimum net retention of \$375,000.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that 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 an accrual basis. The Company utilizes Rural Computer Consultants, Inc. accounting and policy maintenance software. The CPA firm of Marberry & Eagle, PC, of Columbia, Missouri performs an annual audit of the Company's financial statements and prepares the 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, 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**

|                                  |                      |
|----------------------------------|----------------------|
| Bonds                            | \$ 11,390,845        |
| Stocks                           | 1,500                |
| Mutual Funds                     | 2,008,645            |
| Real Estate                      | 673,995              |
| Cash on Deposit                  | 26,755,038           |
| Other Investments                | 358,930              |
| Premiums Uncollected             | 23                   |
| Computer Equipment               | 43,291               |
| Federal Income Taxes Recoverable | 257,486              |
| Prepaid Insurance                | 61,157               |
| Note Receivable                  | 22,714               |
| Vehicles                         | <u>141,539</u>       |
| Total Assets                     | <u>\$ 41,715,163</u> |

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2017**

|                                       |                      |
|---------------------------------------|----------------------|
| Losses & LAE Unpaid                   | \$ 794,296           |
| Ceded Reinsurance Payable             | 100,069              |
| Unearned Premium                      | 7,951,387            |
| Accounts Payable to Agents            | 152,760              |
| Employee SEP Payable                  | 54,948               |
| Outstanding Checks Liability Premiums | 6,268                |
| Accrued Premium Tax Payable           | <u>33,070</u>        |
| Total Liabilities                     | <u>\$ 9,092,798</u>  |
| Guaranty Fund                         | \$ 1,750,000         |
| Other Surplus                         | <u>30,872,365</u>    |
| Total Surplus                         | <u>32,622,365</u>    |
| Total Liabilities and Surplus         | <u>\$ 41,715,163</u> |

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2017**

|   |                   |
|---|-------------------|
| Net Premiums Earned                           | \$ 17,254,608     |
| Other Insurance Income                        | 166,234           |
| Net Losses & Loss Adjusting Expenses Incurred | 10,346,967        |
| Other Underwriting Expenses Incurred          | <u>7,156,841</u>  |
| Net Underwriting Income (Loss)                | \$ (82,966)       |
| Net Investment Income                         | 653,463           |
| Other Income                                  | <u>113,396</u>    |
| Gross Profit (Loss)                           | \$ <u>683,893</u> |
| Federal Income Tax                            | 182,803           |
| Net Income (Loss)                             | <u>\$ 501,090</u> |

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2017**

|   |                      |
|---|----------------------|
| Policyholders' Surplus, December 31, 2016 | \$ 32,115,724        |
| Net Income (Loss)                         | 501,090              |
| Mutual Funds Market Over Cost             | <u>5,551</u>         |
| Policyholders' Surplus, December 31, 2017 | <u>\$ 32,622,365</u> |

## NOTES TO THE FINANCIAL STATEMENTS

None.

### EXAMINATION CHANGES

None.

### SUMMARY OF RECOMMENDATIONS

#### **Fidelity Bond (Page 4)**

It is recommended the Company increase its fidelity bond coverage to a minimum of \$350,000, in accordance with the NAIC guidelines.

### SUBSEQUENT EVENTS

As indicated in the Conflict of Interest section of this report, three of the Company's current directors are also directors of OMM. On July 24, 2018, the Company and OMM signed a Memorandum of Understanding to document the relationship between the two companies, including the possibility of sharing resources in the future.

On December 30, 2018, the Company issued a surplus note in the amount of \$2,000,000 to Barton Mutual Insurance Company. The note has a stated interest rate of 6.25%. Interest payments are to be made semi-annually on July 1 and January 1 of each year commencing July 1, 2019. The principal amount of the note is due and payable on December 2022 with four scheduled payments in the amount of \$500,000 due on December 31<sup>st</sup> of each year commencing with December 31, 2019. Payments of interest and principal are subject to review and approval by the DIFP.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of BMI Company, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Lisa Li, CFE, CPA, examiner for the DIFP also participated in this examination.

**VERIFICATION**

State of Missouri        )  
                                  )  
County of Greene        )

I, Mark Nance 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.

*Mark Nance*

Mark Nance, CFE, CPA  
Senior Examiner-In-Charge  
Missouri Department of Insurance Financial  
Institutions and Professional Registration

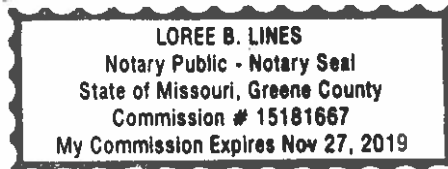
Sworn to and subscribed before me this 21 day of May, 2019.

My commission expires:

11-27-2019

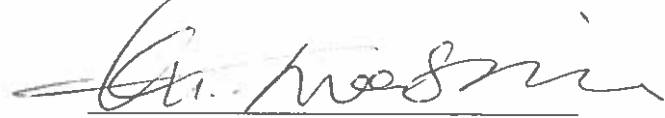
*Loree B. Lines*

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", is written over a horizontal line.

Levi Nwasoria, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance Financial  
Institutions and Professional Registration