



## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Reinsurance Company of Missouri 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 Commerce and Insurance<sup>1</sup> 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 Farmers Mutual Reinsurance Company of Missouri 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.

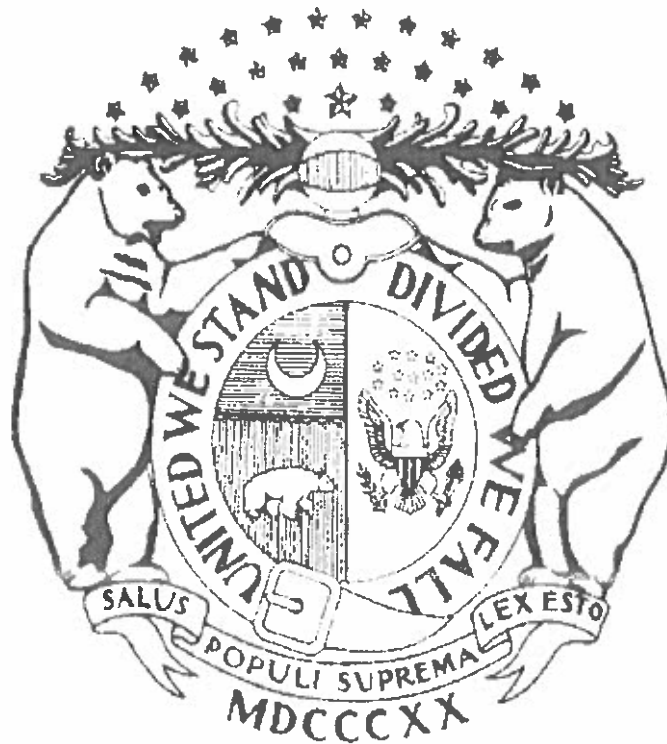
So ordered, signed and official seal affixed this 30<sup>th</sup> day of August, 2019.



*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance

<sup>1</sup> Pursuant to Executive Order #19-02, effective August 28, 2019, the department name was changed from the Department of Insurance, Financial Institutions and Professional Registration to the Department of Commerce and Insurance.

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS MUTUAL REINSURANCE COMPANY OF  
MISSOURI  
AS OF  
DECEMBER 31, 2017**



**STATE OF MISSOURI**

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

**JEFFERSON CITY, MISSOURI**

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March 19, 2019  
New Florence, MO

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

### **FARMERS MUTUAL REINSURANCE COMPANY OF MISSOURI**

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 733 Highway J, New Florence, Missouri 63363, telephone number (573) 564-2765. This examination began on February 13, 2019 and 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, 2017, 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, 2013, through December 31, 2017, and was 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 Condition 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 and incorporated on February 22, 1922, solely to provide reinsurance to other Missouri mutual insurance companies. At one time, the Company reinsured more than sixty companies. As of December 31, 2017, the Company reinsured three companies.

The Company operates under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies).

### Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in January, at a place selected by the Board of Directors. Membership consists of companies that have reinsurance contracts with the Company. Special meetings of the members may be called by the Board of Directors at any time. A majority of the Company's Board of Directors is considered a quorum. Proxy voting is not addressed in the Articles of Incorporation.

The management of the Company is vested in the Board of Directors, which consists of nine members that serve staggered three-year terms. All directors must be members of one of the companies reinsured by the Company. The Board of Directors meets approximately every quarter, and each director is compensated \$250 per meeting attended.

Members serving on the Board of Directors, as of December 31, 2017, were as follows:

<u>Name and Address</u>	<u>Member Company</u>	<u>Term End Date</u>
Lawrence Adams Smithton, MO	Farmers Mutual Insurance of Pettis County	2020
Leroy Cochran Middletown, MO	Farmers & Laborers Mutual Insurance Company	2021
Melvin Eggerman Lockwood, MO	Lutheran Fire and Lightning Insurance Company	2019
Clell Furnell Sedalia, MO	Farmers Mutual Insurance of Pettis County	2021
John Hall New Florence, MO	Farmers & Laborers Mutual Insurance Company	2019

Mark McMillin Monett, MO	Lutheran Fire and Lightning Insurance Company	2020
Phil Schad Purdy, MO	Lutheran Fire and Lightning Insurance Company	2020
Mark Stevens Montgomery City, MO	Farmers & Laborers Mutual Insurance Company	2020
James Stever Sedalia, MO	Farmers Mutual Insurance of Pettis County	2020

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2017, were as follows:

<u>Name</u>	<u>Office</u>
Mark McMillin	President
Clell Furnell	Vice-President
John Hall	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 requires its directors and officers to sign conflict of interest statements on an annual basis. A review of the completed conflict of interest statements noted no material conflicts disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not 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 \$250,000. The Company also carries liability coverage for its directors and officers.

## EMPLOYEE BENEFITS

The Company has one part-time employee. The Company does not provide any employee benefits in addition to the employee's salary.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed by the DIFP as a Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo (Missouri Mutual Insurance Companies). The Company operates as a reinsurer of property risks for fire perils for three other Missouri Mutual Insurance Companies. The Company's territory includes any county in Missouri in which the ceding companies operate.

### Policy Forms and Underwriting Practices

The Company operates under individual reinsurance contracts with each of the three mutual insurance companies that it reinsures. Reinsurance rates and retentions are approved annually by the Board of Directors, and reinsurance contracts are amended accordingly.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2017	\$1,524,894	\$ 0	\$ 471,977	\$ 619,287	\$ 37,833	\$ (94,688)	\$ (56,835)
2016	1,581,729	0	533,252	33,769	37,193	98,715	135,908
2015	1,445,821	0	496,209	1,534,878	45,849	(117,460)	(400,650)
2014	1,800,622	0	457,808	678,425	33,778	(189,625)	(155,847)
2013	1,956,469	0	461,555	649,250	59,561	(100,995)	(41,434)

At year-end 2017, three assumed reinsurance contracts were in force.

## REINSURANCE

### General

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Direct	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Assumed	459,964	457,808	496,209	533,252	471,977
Ceded	<u>(313,408)</u>	<u>(299,173)</u>	<u>(307,500)</u>	<u>(367,500)</u>	<u>(367,500)</u>
Net	<u>\$ 146,556</u>	<u>\$ 158,635</u>	<u>\$ 188,709</u>	<u>\$ 165,752</u>	<u>\$ 104,477</u>

### Assumed

The Company assumes business from three Missouri Mutual Insurance Companies under individual per risk excess of loss with annual aggregate limit contracts, which are summarized below.

The contract with Farmers' & Laborers' Mutual Insurance Company (FLMIC) covers the peril of fire only. FLMIC retains \$75,000 per risk and cedes the excess, limited to \$1,000,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of FLMIC's annual fire premium income, limited to \$1,000,000 per contract year.

The contract with Pettis County Farmers Mutual Insurance Company (PCFM) covers the peril of fire only. PCFM retains \$50,000 per risk and cedes the excess, limited to \$1,000,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of PCFM's annual fire premium income, limited to \$1,000,000 per contract year.

The contract with Lutheran Fire and Lightning Insurance Company (LFLIC) covers the peril of fire only. LFLIC retains \$40,000 per risk and cedes the excess, limited to \$1,000,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of LFLIC's annual fire premium income, limited to \$1,000,000 per contract year.



## Ceded

The Company retrocedes business through a per risk excess of loss and an aggregate excess of loss agreement. The Company has all of its agreements through intermediary Guy Carpenter. The reinsurers participating in these agreements and their share of the interest and liabilities are as follows:

Hannover Rück SE	7.00%
Swiss Reinsurance America Corporation	20.00%
The Toa Reinsurance Company of America	16.50%
American Agricultural Insurance Company	18.50%
Berkley Insurance Company	14.00%
Employers Mutual Casualty Company	15.25%
Farmers Mutual Hail Insurance Company of Iowa	8.75%

Under the per risk excess of loss agreement, the Company retains the first \$150,000 of losses and the reinsurers' combined limits are \$850,000 per risk and \$1,700,000 per loss occurrence. The annual premium paid to the reinsurers for the per risk excess of loss coverage in 2017 was \$360,000.

Under the aggregate excess of loss agreement, the Company retains the first \$400,000 of net losses. The reinsurers are responsible for 100% of losses exceeding the Company's retention. The annual premium paid to the reinsurers for the aggregate excess of loss coverage in 2017 was \$7,500.

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 manually by the Company on a modified cash basis. The firm of Steven P. Thurmon, CPA, 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	\$ 454,256
Cash on Deposit	1,070,638
	<hr/>
Total Assets	\$ 1,524,894
	<hr/>

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

Total Liabilities	\$ 0
	<hr/>
Guaranty Fund	\$ 0
Other Surplus	1,524,894
	<hr/>
Total Surplus	\$ 1,524,894
	<hr/>
Total Liabilities and Surplus	\$ 1,524,894
	<hr/>

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

Net Premiums Earned	S	104,477
Other Insurance Income		0
Net Losses & Loss Adjusting Expenses Incurred		(163,933)
Other Underwriting Expenses Incurred		(35,212)
		_____
Net Underwriting Income (Loss)	S	(94,688)
Net Investment Income		37,833
Other Income		0
		_____
Gross Profit (Loss)	S	(56,835)
Federal Income Tax		0
		_____
Net Income (Loss)	S	(56,835)
		_____

**RECONCILIATION OF SURPLUS**  
**Changes from January 1, 2013 to December 31, 2017**  
(\$000's omitted)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Policyholder Surplus, Beginning of Year	\$1,997	\$1,956	\$1,801	\$1,446	\$1,582
Net Income	<u>(41)</u>	<u>(155)</u>	<u>(355)</u>	<u>136</u>	<u>(57)</u>
<b>Policyholder Surplus, End of Year</b>	<b><u>\$1,956</u></b>	<b><u>\$1,801</u></b>	<b><u>\$1,446</u></b>	<b><u>\$1,582</u></b>	<b><u>\$1,525</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

None.

**SUBSEQUENT EVENTS**

None.

**SUMMARY OF RECOMMENDATIONS**

None.


**ACKNOWLEDGMENT**

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

**VERIFICATION**

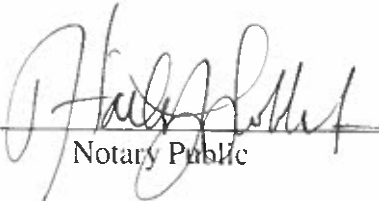
State of Missouri            )  
  )  
County of Cole                )

I, Joshua R. Nash, 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.

  
Joshua R. Nash, CPA  
Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 5<sup>th</sup> day of August, 2019.

My commission expires:  
March 30, 2023

  
\_\_\_\_\_  
Notary Public



**HAILEY LUEBBERT**  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15834366

## 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 'Shannon Schmoeger', is written over a horizontal line.

Shannon Schmoeger, CFE, ARe  
Chief Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration