

STATE OF MISSOURI



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 Central Farmers Mutual Fire Insurance Company for the period ended December 31, 2020, 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 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.

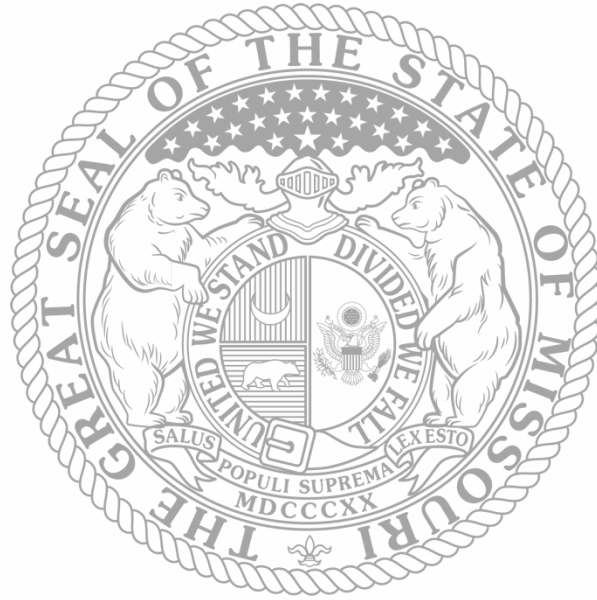
Based on such findings and conclusions, I hereby ORDER Central Farmers Mutual Fire Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition 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 05th day of January, 2022.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

CENTRAL FARMERS MUTUAL FIRE INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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Saint Charles, MO
November 15, 2021

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

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

CENTRAL FARMERS MUTUAL FIRE INSURANCE COMPANY

hereinafter referred to as such or as the Company. Its administrative office is located at 17 Point West Blvd, Suite A, St. Charles, Missouri 63301, telephone number (636)242-1896. The fieldwork for this examination began on October 18, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Central Farmers Mutual Fire Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2011, through December 31, 2015. The current examination covers the period of January 1, 2016, through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

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 Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the 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 the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no adverse findings, significant non-compliance issues, or material changes to the financial statements during the examination.

COMPANY HISTORY

General

The Company was originally organized in 1896 and was granted a Certificate of Incorporation on February 4, 1896. On November 26, 1984, the Company amended its Articles of Incorporation and was issued a Certificate of Authority by the Missouri Division of Insurance. The Articles of Incorporation and Bylaws were amended again in 1987 to comply with Sections 380.201 to 380.591 RSMo (Extended Missouri Mutual Insurance Companies). In 1988, a new Certificate of Authority was issued by the Missouri Department of Insurance. On April 26, 2004 the Articles of Incorporation and Bylaws were amended to make the Company an Extended Missouri Mutual Company under Sections 380.201 to 380.651 and to make the Company non-assessable.

MANAGEMENT AND CONTROL

The Company is managed by a board of five directors, serving staggered, three-year terms. Directors must be policyholders and are elected at the annual member meetings held on the second Wednesday of every March. Eight members constitute a quorum at annual member meetings, and proxy voting is not allowed. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. Each director receives \$100 per meeting.

The Board of Directors elected and serving as of December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Carol Leonhard Portage Des Sioux, Missouri	Retired Secretary/Manager	2021
Gerard Orf Wentzville, Missouri	Fire Fighter/Paramedic & Farmer	2022
Lisa Day Winfield, Missouri	Insurance Agency Owner	2022
James Leonhard Portage Des Sioux, Missouri	Retired Insurance Agent & Farmer	2023
Claude Boschert St. Charles, Missouri	Retired Farmer	2023

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, 2020, were as follows:

<u>Name</u>	<u>Office</u>
James Leonhard	President
Claude Boschert	Vice-President
Gina Nelsen	Treasurer/Secretary

Conflicts of Interest

The Company's directors and officers sign conflict of interest statements on an annual basis. A review of the executed conflict of interest statements noted no material potential 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 amended during the examination period to reduce the number of directors from seven to five, to update the date and time of the annual membership meeting, and to eliminate the requirement of an Executive Committee. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has one full-time employee. The employee receives a fixed annual salary and paid time off with no additional benefits.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$25,000. This coverage meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook for the Company's level of exposure.

The Company carries liability coverage for its directors and officers and requires its agency to purchase errors and omissions insurance.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Commerce and Insurance 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 fire, windstorm, and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in St. Charles and the immediate surrounding counties. Insurance is provided on a non-assessable basis.

Policy Forms and Underwriting Practices

The Company primarily uses American Association of Insurance Services (AAIS) policy forms, along with internally developed forms that have been filed with the Department. The Company writes policies for a one-year period. Policy rates are approved by the Board of Directors based on internal recommendations. Insurance products are sold by one independent agency, which receives a commission of 15% for new business and 10% for renewal business.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company’s premium writings and writing ratios for the period under examination:

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2020	\$1,292,571	\$280,130	\$530,593	\$271,885	\$35,502	(\$158,604)	(\$122,581)
2019	1,376,930	241,908	482,637	271,523	36,472	(154,489)	(118,017)
2018	1,474,057	221,018	495,514	81,844	37,815	78,075	115,890
2017	1,382,559	245,409	532,515	302,971	38,494	(71,008)	(32,514)
2016	1,446,912	277,248	489,201	308,600	40,862	(129,512)	(88,650)

At year-end 2020, there were 428 policies in force.

REINSURANCE

General

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

Premium Type	2016	2017	2018	2019	2020
Direct Premiums Written	\$ 504,292	\$ 542,182	\$ 517,521	\$ 491,247	\$ 537,929
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	(182,612)	(196,954)	(215,719)	(188,508)	(205,764)
Net Premiums Written	\$ 321,680	\$ 345,228	\$ 301,802	\$ 302,739	\$ 332,165

Assumed Reinsurance

The Company does not assume any reinsurance.

Ceded Reinsurance

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) through a reinsurance agreement that provides per risk excess of loss and aggregate excess of loss coverage for property risks, as well as quota share coverage for liability and earthquake risks.

Under the per risk property excess of loss arrangement, the Company retains \$50,000 per risk, and the reinsurer’s limit is \$950,000 per risk. There is also an annual deductible of \$25,000. Under the aggregate excess of loss agreement, the Company’s annual aggregate net retention, or attachment point, is equal to 70% of net premium. The reinsurer is responsible for 100% of losses in excess of this attachment point. The attachment point for 2020 was \$385,834.

For liability and earthquake coverage, the Company cedes 100% of premiums and losses and receives a 25% and 15% ceding commission, respectively.

The Company also has an option to cede specific risks under a facultative reinsurance arrangement. Rates are determined on a case-by-case basis. Risks ceded are those in excess of \$1 million. Maximum cession accepted is \$9 million.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that the assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained on a modified cash basis by the Company. The Certified Public Accounting firm of T.A. Ohlms, LLC, of St. Charles, Missouri, prepares the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Central Farmers Mutual Fire Insurance Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

ASSETS

As of December 31, 2020

Cash	\$ 1,286,284
Premiums/Assessments/Agent's Balances Uncollected	1,049
Interest due and accrued	3,543
Security deposit	625
Fixed assets, Net	1,025
Refundable payroll taxes	45
TOTAL ASSETS	\$ 1,292,571

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Gross losses unpaid	\$ 29,262
Unearned premium	220,101
Accounts payable (other)	19,907
Advanced premiums	10,861
TOTAL LIABILITIES	\$ 280,130
Guaranty fund	150,000
Other surplus	862,441
TOTAL POLICY HOLDER SURPLUS	\$ 1,012,441
TOTAL LIABILITIES AND SURPLUS	\$ 1,292,571

STATEMENT OF INCOME

For the Year Ended December 31, 2020

Net Earned Assessment/Premium Income	\$ 302,515
Other Insurance Income	18,286
Net Losses & Loss Adjustment Expense	(308,253)
Underwriting Expenses	(171,152)
Underwriting Income (Loss)	\$ (158,604)
Investment Income	35,502
Investment Expenses	0
Net Investment Gain (Loss)	\$ 35,502
Other Income	521
Gross Profit or Loss	\$ (122,581)
Federal Income Tax	0
NET INCOME (LOSS)	\$ (122,581)

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2016 to December 31, 2020

(\$000s omitted)

	2016	2017	2018	2019	2020
Beginning Policyholder's Surplus	\$ 1,258	\$ 1,169	\$ 1,137	\$ 1,253	\$ 1,135
Net Income (Loss)	(89)	(32)	116	(118)	(123)
Ending Policyholder's Surplus	\$ 1,169	\$ 1,137	\$ 1,253	\$ 1,135	\$ 1,012

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. As of the date of this report, significant uncertainty remains regarding the effect that the pandemic will have on the economy and insurance industry at large, and on the Central Farmers Mutual Fire Insurance Company, specifically. The examination team considered the potential impact of COVID-19 on the Company throughout examination testing and procedures. At this point, it does not appear that COVID-19 has had a significant impact on the Company. The Department is monitoring the impact of the pandemic on the Company and will take necessary actions if a solvency concern arises.


ACKNOWLEDGMENT

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

VERIFICATION


State of Missouri)
)
City of St. Louis) ss

I, Ken Tang, CFE, 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 Central Farmers Mutual Fire 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.



Ken Tang, CFE
Certified Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 8 day of December, 2021.

My commission expires: 03-08-2024 

Notary Public

ANTOINETTE C. LANG
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: March 08, 2024
Commission Number: 16787761

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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance