



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 Insurance Company of Pettis County for the period ended December 31, 2018, 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 Insurance¹ 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 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) 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 30th day of September, 2019.

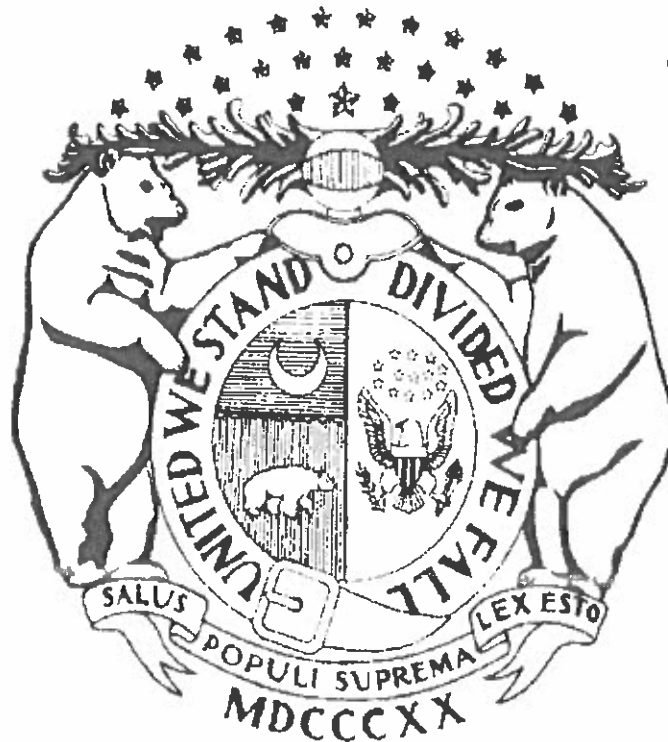


Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance

¹ 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 INSURANCE COMPANY OF
PETTIS COUNTY

AS OF
DECEMBER 31, 2018



FILED
SEP 30 2019
DIRECTOR OF
MISSOURI DEPARTMENT OF
COMMERCE AND INSURANCE

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 8, 2019
Sedalia, 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

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 S. Lamine Avenue, Sedalia, Missouri 65301, telephone number (660) 826-6964. This examination began on August 6, 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, 2013, 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, 2014, through December 31, 2018, 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 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 quarterly, and each director is compensated \$100 per meeting attended. The President receives an additional \$600 annually.

Members serving on the Board of Directors, as of December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Lawrence Adams Smithton, Missouri	Farmer	2021
Lloyd Shireman Houstonia, Missouri	Farmer	2021
Larry Avey Mora, Missouri	Farmer	2019
Walter Clark Sedalia, Missouri	Builder	2021
Gail Demand Smithton, Missouri	Farmer	2021
Richard Mergen Sedalia, Missouri	Farmer	2020

Michael Simon Sedalia, Missouri	Farmer	2020
Delmar Cornine Houstonia, Missouri	Farmer	2019
James Stever Sedalia, Missouri	Farmer	2019
Ronald Bohlken Sedalia, Missouri	Farmer	2019
James Westermier Sedalia, Missouri	Farmer	2020
David White Sedalia, Missouri	Landlord	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, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Lawrence Adams	President
Lloyd Shireman	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 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 \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agent. The Company also carries a business owner's policy that includes coverage on the Company's personal property and liability.

EMPLOYEE BENEFITS

The Company has one full-time employee. Other than wages, the only benefit provided to the employee by the Company is 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 is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. 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 and MAMIC forms. The Company's fire and wind policies are renewed every three years. The Company's homeowner and liability policies are renewed annually. Property inspections and adjusting functions are primarily performed by the agent. 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
2018	\$595,187	\$2,283	\$185,795	\$ 39,504	\$9,484	\$ (8,830)	\$ 654
2017	594,574	2,324	198,989	48,258	9,117	(21,715)	(12,598)
2016	607,202	2,353	204,242	10,836	8,018	22,450	30,468
2015	576,543	2,163	206,081	44,693	4,987	26,397	31,384
2014	544,960	1,964	200,730	104,056	2,431	(60,888)	(58,457)

At year-end 2018, 357 policies 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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Direct	\$200,733	\$206,081	\$204,242	\$198,989	\$185,795
Assumed	0	0	0	0	0
Ceded	<u>(85,043)</u>	<u>(72,088)</u>	<u>(95,168)</u>	<u>(99,012)</u>	<u>(82,446)</u>
Net	<u>\$115,690</u>	<u>\$133,993</u>	<u>\$109,074</u>	<u>\$ 99,977</u>	<u>\$103,349</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company's reinsurance is provided by three different facilities for fire, wind, and liability coverage.

The Company's fire coverage is reinsured by Farmer's Mutual Reinsurance Company of Missouri on an excess of loss and aggregate basis. Under the per risk excess of loss section of the agreement, the Company retains \$50,000 of property losses per risk, and the reinsurer's maximum limit is \$1,000,000 per risk. Under the aggregate excess section of the agreement, the reinsurer is liable for 100% of the property losses in excess of 80% of the Company's aggregate premiums, with a limit of \$1,000,000 per contract year.

The Company's wind coverage is reinsured on a per risk excess of loss and aggregate excess of loss basis through intermediary Guy Carpenter. The reinsurers participating in these agreements and their share in the interest and liabilities for 2018 were as follows:

American Agricultural Insurance Company	18.50%
Aspen Insurance UK Limited	2.50%
Berkley Re America	14.00%
Hannover Rück SE	7.00%
Renaissance Reinsurance U.S. Incorporated	4.00%
Swiss Reinsurance America Corporation	20.00%
The Toa Reinsurance Company of America	10.00%
Employers Mutual Casualty Company	15.25%
Farmers Mutual Hail Insurance Company of Iowa	8.75%

Under the per risk excess of loss section of the agreement, the Company retains the first \$40,000 of property losses per risk, and the reinsurers' maximum liability is \$490,000 per risk. Under the aggregate excess section of the agreement, the reinsurers are liable for 100% of the property losses in excess of 75% of the Company's gross net earned premium income.

The Company's liability coverage in 2018 was reinsured by Cameron Mutual Insurance Company. The Company ceded 100% of its liability premiums and losses to the reinsurer, and received a 22% ceding commission. The reinsurer's liability was unlimited. Beginning in 2019, the Company's liability coverage was provided through intermediary Guy Carpenter. Lead participating reinsurers in the coverage are Swiss Reinsurance America Corporation and American Agricultural Insurance Company, each with an 18.5% participation in the agreement. The Company continues to cede 100% of its liability premiums and losses to the reinsurers, and receives a 20% ceding commission. The agreement is subject to a maximum cession of \$1,000,000 that includes amounts due for extra contractual obligations and losses in excess of the policy limits.

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 primarily utilizes paper files and hard copies for its recordkeeping. Cochran, Head, Vick & Company completes an annual audit and prepares tax filings for the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2018, 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, 2018

Cash on Deposit	\$ 595,187
	<hr/>
Total Assets	\$ 595,187
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2018

Payroll Tax	\$ 1,540
City Fire Tax Payable	743
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Total Liabilities	\$ 2,283
Guaranty Fund	\$ 150,000
Other Surplus	\$ 442,904
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Total Surplus	\$ 592,904
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Total Liabilities and Surplus	\$ 595,187
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STATEMENT OF INCOME
For the Year Ending December 31, 2018

Net Premiums Earned	\$ 103,349
Net Losses & Loss Adjusting Expenses Incurred	(37,885)
Other Underwriting Expenses Incurred	(74,294)

Net Underwriting Income (Loss)	\$ (8,830)
Net Investment Income	9,484

Gross Profit (Loss)	\$ 654

Net Income (Loss)	\$ 654

RECONCILIATION OF SURPLUS
Changes from January 1, 2014 to December 31, 2018

	2014	2015	2016	2017	2018
Capital and Surplus, Beginning of Year	\$601,453	\$542,996	\$574,380	\$604,848	\$592,250
Net Income	(58,457)	31,384	30,468	(12,598)	654
Capital and Surplus, End of Year	<u>\$542,996</u>	<u>\$574,380</u>	<u>\$604,848</u>	<u>592,250</u>	<u>\$592,904</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

None.

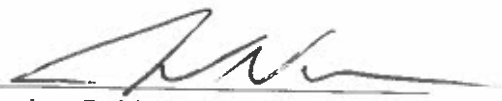
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

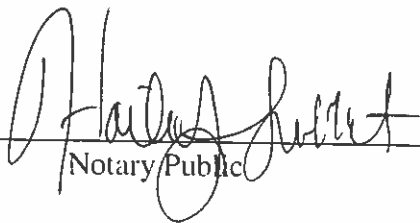
I, Joshua R. Nash, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony 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, AFE
Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 12th day of September, 2019.

My commission expires:

March 30, 2023

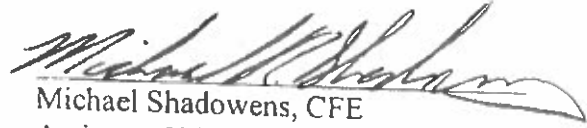

Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366

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.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration