

DEPARTMENT OF COMMERCE & INSURANCE

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

ORDER

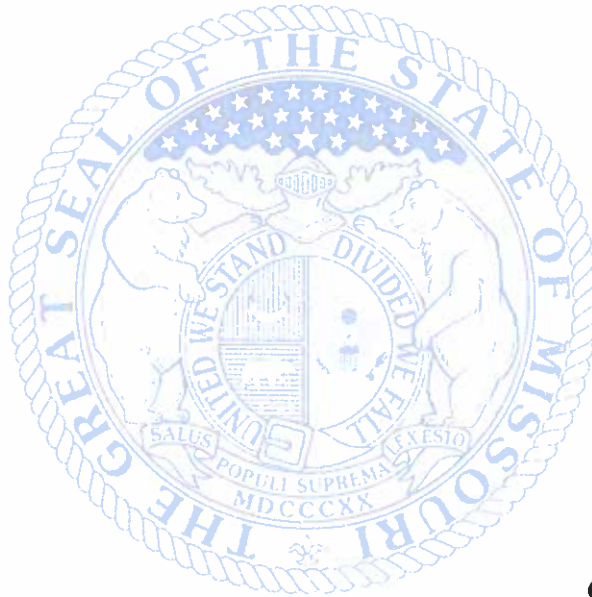
After full consideration and review of the report of the financial examination of Farmers' and Laborers' Mutual Insurance Company for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and 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 Farmers' and Laborers' Mutual 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 19th day of December, 2019.


Chlora Lindley-Myers, Director
Department of Commerce and Insurance





FILED
DEC 19 2019
DIRECTOR OF
MISSOURI DEPARTMENT OF
COMMERCE AND INSURANCE

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS' AND LABORERS' MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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October 3, 2019
Montgomery City, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce & Insurance
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' AND LABORERS' MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 232 South Sturgeon Street, Montgomery City, Missouri 63361, telephone number (573) 564-3200. This examination began on September 10, 2018, was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Farmers' and Laborers' Mutual Insurance Company. The last examination covered the period of January 1, 2009 through December 31, 2013. The current full-scope examination covers the period from January 1, 2014, through December 31, 2018.

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 Missouri Department of Commerce & Insurance (DCI) and statutes of the State of Missouri prevailed.

HISTORY

General

The Company was originally organized and incorporated on October 23, 1891, as Farmers' and Laborers' Mutual Insurance Company of Montgomery County, Missouri. On September 24, 2005, the Company changed its name to Farmers' and Laborers' Mutual Insurance Company. On January 1, 2006, Monroe Mutual Insurance Company was merged with the Company, with the Company being the surviving entity.

The Company has a Certificate of Authority dated December 1, 1988, 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 second Saturday of March at the home office of the Company or at such other place as may be designated by the Board of Directors. 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 six members, serving staggered three-year terms. All directors must be policyholders of the Company. The Board of Directors meets twenty-four times each year, and each director is compensated \$150 per meeting.

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 End</u>
Mark Stevens Montgomery City, Missouri	Agent/Farmer	2019
Kent Hall New Florence, Missouri	Agent/Farmer	2019
Derrick Cochran Middletown, Missouri	Agent/Farmer	2020
Randy Todd Wellsville, Missouri	Agent/Farmer	2020
Keely Uthlaut New Florence, Missouri	Agent/Accountant	2021
Becky Powers High Hill, Missouri	Agent	2021

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>
Randy Todd	President
Mark Stevens	Vice-President
Georgina Giessinger	Secretary
Keely Uthlaut	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 noted no significant potential conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made 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 \$175,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$100,000 and \$125,000.

The Company carries liability coverage for its directors and purchases errors and omissions coverage for its agents. The Company insures its home office and has commercial liability insurance with an outside carrier.

EMPLOYEE BENEFITS

The Company has four full-time employees. The benefits package offered by the Company to its employees includes dental, health, and short-term disability insurance. The employees also receive paid time off and participate in a retirement plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DCI 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 eight licensed agents.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and MAMIC policy forms. The policies are continuously renewed on an annual basis. Property inspections are completed by the Company's employees and adjusting functions are performed by a third party. 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	\$5,875,093	\$1,527,712	\$3,401,734	\$1,954,827	\$ 88,248	\$ (56,462)	\$ 29,047
2017	5,708,386	1,376,548	3,345,965	2,771,674	96,515	(38,702)	52,671
2016	5,695,009	1,417,821	3,393,552	1,318,555	103,770	310,031	281,554
2015	5,505,090	1,497,738	3,436,712	4,432,042	128,242	1,772	133,024
2014	5,335,637	1,452,405	3,321,124	3,019,777	140,954	(293,259)	(113,993)

At year-end 2018, 3,535 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	\$ 3,292,276	\$ 3,409,688	\$ 3,365,023	\$ 3,318,885	\$ 3,373,890
Assumed	28,848	27,024	28,529	27,080	27,844
Ceded	<u>(1,247,952)</u>	<u>(1,434,874)</u>	<u>(1,290,404)</u>	<u>(1,321,552)</u>	<u>(1,263,628)</u>
Net	<u>\$ 2,073,172</u>	<u>\$ 2,001,838</u>	<u>\$ 2,103,148</u>	<u>\$ 2,024,413</u>	<u>\$ 2,138,106</u>

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. The policy risks insured by MAMIC for these products are pooled and ceded to participating mutual insurance companies. The Company assumes a 5% share of the interests and liabilities of the MAMIC pooled risks.

Ceded

The Company cedes business to Farmers Mutual Reinsurance Company of Missouri (Farmers Re), Factory Mutual Insurance Company (Factory Mutual), and through Guy Carpenter and Company, LLC (Guy Carpenter) as an intermediary. For the peril of fire, the Company has an agreement with Farmers Re. For the peril of wind and liability, the Company utilizes Guy Carpenter for its reinsurance. For its equipment breakdown coverage that it offers, the Company utilizes Factory Mutual.

The Company's fire coverage is reinsured with Farmers Re on a per risk excess of loss and aggregate excess of loss basis. Under the per risk excess of loss section of the agreement, the Company retains \$75,000 of property losses per risk, and Farmers Re's maximum limit is \$1,000,000. Under the aggregate excess section of the agreement, Farmer Re 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 and liability coverage is brokered through Guy Carpenter on a per risk excess of loss, catastrophe excess of loss, aggregate excess of loss, casualty quota share, property facultative pro rata, and umbrella facultative basis. Under the per risk excess of loss agreement, the Company retains \$75,000 of the ultimate net losses for each loss, and the reinsurers are liable up to \$925,000 for each loss and \$1,850,000 for each loss occurrence. Under the catastrophe excess of loss

agreement, the Company is responsible for the first \$475,000 of each loss occurrence, and the reinsurers are responsible for up to \$3,000,000 of each loss occurrence. Under the aggregate excess of loss agreement, the Company is responsible for losses up to 85% of its gross net earned premiums, and the reinsurers are liable for 100% of the losses in excess of the Company's retention. Under the casualty quota share agreement, the Company cedes 100% of its premiums and losses to the reinsurers and receives a 25% ceding commission. Under the property facultative pro rata agreement, the Company cedes 96% of the premiums and losses to the reinsurers on a facultative basis and receives a 27.5% ceding commission. The Company retains 4% of both the premiums and losses with a minimum retention of \$40,000. The agreement applies to individual risks exceeding \$1,000,000. The reinsurers participating in the per risk excess of loss, catastrophe excess of loss, aggregate excess of loss, casualty quota share, and property facultative agreements during 2018 consisted of a panel of reinsurers which are all rated "A-" or higher by AM Best. The reinsurer with the highest participation in 2018 was Swiss Reinsurance America Corporation, which took a 20% participation and was rated "A+" by AM Best.

Under the umbrella facultative reinsurance, the Company cedes 95% of the premiums and losses to the reinsurers on the first \$1,000,000 and receives a 31% ceding commission. The reinsurers' maximum liability pursuant to the agreement is \$10,000,000. The reinsurers participating in the umbrella facultative agreement during 2018 consisted of a panel of reinsurers which are all rated "A" or higher by AM Best. The reinsurer with the highest participation in 2018 was Swiss Reinsurance America Corporation, which took a 40% participation.

Under the Company's equipment breakdown reinsurance with Factory Mutual, the Company cedes 100% of the premiums and losses to Factory Mutual and receives a 35% ceding commission. Depending on the type of business, Factory Mutual's maximum liability pursuant to the agreement is up to \$25,000,000.

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 a modified cash basis. The CPA firm of Van de Ven, LLC performs an annual compilation of the Company's financial statements and prepares the annual statement and federal tax filings.

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

Bonds	\$ 1,885,794
Mutual Funds	671,048
Real Estate	258,500
Cash on Deposit	1,825,531
Other Investments	311,433
Reinsurance Recoverable on Paid Losses	732,416
Computer Equipment	2,998
Federal Income Tax Recoverable	2,357
Interest Due and Accrued	63,385
Accounts Receivable	57,362
Prepaid Expenses	54,996
Ceded Reinsurance Premium Receivable	<u>9,273</u>
Total Assets	<u>\$ 5,875,093</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2018

Unpaid Losses	\$ 217,154
Unearned Premium	1,140,422
Accounts Payable (Other)	112,939
Prepaid Premiums	<u>57,197</u>
Total Liabilities	\$ 1,527,712
Guaranty Fund	\$ 150,000
Other Surplus	<u>4,197,381</u>
Total Surplus	<u>\$ 4,347,381</u>
Total Liabilities and Surplus	<u><u>\$ 5,875,093</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2018

Net Premiums Earned	\$ 2,121,031
Other Insurance Income	289,251
Net Losses & Loss Adjusting Expenses Incurred	(1,496,672)
Other Underwriting Expenses Incurred	<u>(970,072)</u>
 Net Underwriting Income (Loss)	 \$ (56,462)
Net Investment Income	88,248
Other Income	<u>184</u>
 Gross Profit (Loss)	 \$ 31,970
Federal Income Tax	<u>(2,923)</u>
 Net Income (Loss)	 <u>\$ 29,047</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus, Beginning of Year	\$3,992,800	\$3,883,232	\$4,007,352	\$4,277,188	\$4,331,838
Net Income	(113,993)	133,024	281,554	52,671	29,047
Change in Net Unrealized Gains (Losses)	<u>4,425</u>	<u>(8,904)</u>	<u>(11,718)</u>	<u>1,979</u>	<u>(13,504)</u>
Change in Capital and Surplus for the Year	<u>(109,568)</u>	<u>124,120</u>	<u>269,836</u>	<u>54,650</u>	<u>15,543</u>
Capital and Surplus, End of Year	<u><u>\$3,883,232</u></u>	<u><u>\$4,007,352</u></u>	<u><u>\$4,277,188</u></u>	<u><u>\$4,331,838</u></u>	<u><u>\$4,347,381</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

None.

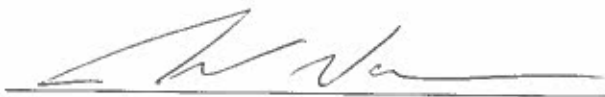
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

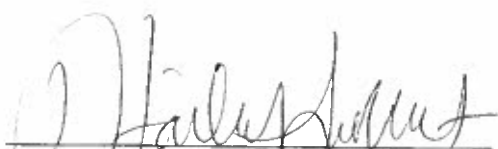
I, Joshua R. Nash, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony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

Sworn to and subscribed before me this 3rd day of December, 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 Examiner
Missouri Department of Commerce & Insurance