

# STATE OF MISSOURI



MDCCLXX

## 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 Linn 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 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.

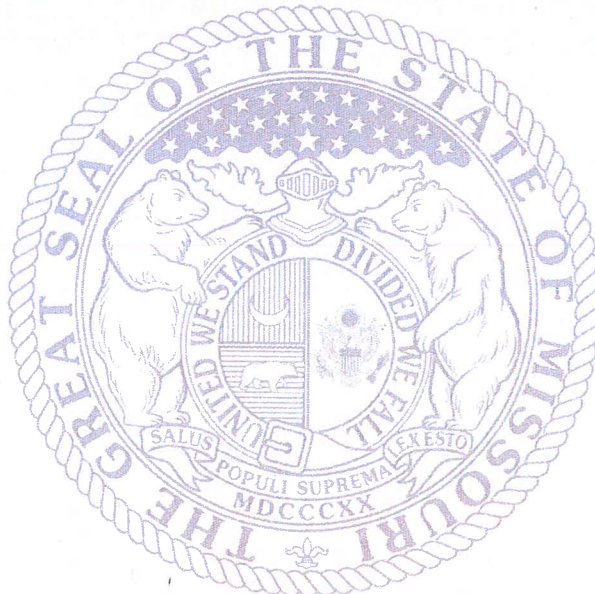
Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Linn County to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition 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 07<sup>th</sup> day of April, 2020.



*Chlora Lindley-Myers*

Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF THE  
FINANCIAL EXAMINATION OF

# FARMERS MUTUAL INSURANCE COMPANY OF LINN COUNTY

AS OF  
DECEMBER 31, 2018

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>1</b>
<b>COMPANY HISTORY.....</b>	<b>2</b>
GENERAL.....	2
<b>MANAGEMENT AND CONTROL.....</b>	<b>2</b>
BOARD OF DIRECTORS .....	2
SENIOR OFFICERS .....	3
CONFLICT OF INTEREST.....	3
CORPORATE RECORDS.....	3
<b>EMPLOYEE BENEFITS .....</b>	<b>3</b>
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>3</b>
<b>INSURANCE PRODUCTS AND RELATED PRACTICES .....</b>	<b>4</b>
TERRITORY AND PLAN OF OPERATIONS.....	4
POLICY FORMS AND UNDERWRITING PRACTICES.....	4
<b>GROWTH OF COMPANY AND LOSS EXPERIENCE.....</b>	<b>4</b>
<b>REINSURANCE.....</b>	<b>4</b>
GENERAL.....	4
ASSUMED REINSURANCE .....	4
CEDED REINSURANCE.....	5
<b>ACCOUNTS AND RECORDS .....</b>	<b>5</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>5</b>
ASSETS.....	6
LIABILITIES, SURPLUS AND OTHER FUNDS.....	6

UNDERWRITING AND INVESTMENT EXHIBIT .....	7
GAIN OR LOSS IN SURPLUS .....	7
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS .....</b>	<b>8</b>
<b>FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION .....</b>	<b>8</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>8</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>8</b>
<b>ACKNOWLEDGMENT .....</b>	<b>9</b>
<b>VERIFICATION.....</b>	<b>9</b>
<b>SUPERVISION .....</b>	<b>10</b>

Meadville, MO  
February 11, 2020

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

### **FARMERS MUTUAL INSURANCE COMPANY OF LINN COUNTY**

hereinafter referred to as such, as FMIC of Linn County, or as the Company. Its administrative office is located at 211 South Macon, Meadville, Missouri 64659, telephone number (660) 938-4415. The fieldwork for this examination began on February 5, 2020, 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 Farmers Mutual Insurance Company of Linn County. The last examination of the Company by the Department covered the period of January 1, 2009 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2018, 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 separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

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

**COMPANY HISTORY**

**General**

The Company was originally established on December 16, 1893, and was incorporated on March 3, 1894, as Farmers Mutual Fire Insurance Company. On March 9, 1979, the Company changed its name to Farmers Mutual Insurance Company of Linn County.

The Company has a Certificate of Authority dated July 1, 1991, 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 AND CONTROL**

**Board of Directors**

In accordance with the Articles of Incorporation, the annual meeting of the Company’s members is held on the first Monday in March at the home office of the Company or at such place as may be designated by the management. 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 not permitted.

The management of the Company is vested in a Board of Directors, who are elected by 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 every other month. Directors receive \$100 for each meeting attended.

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

<b><u>Name and Address</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Term Expires</u></b>
Anthony C. Mundell Brookfield, Missouri	Farmer	2021
Garry C. Amen New Boston, Missouri	Farmer	2021
James Maxwell Brookfield, Missouri	Fabricator/Farmer	2020
Johnny Anderson Linneus, Missouri	Farmer	2021
Alicia Rojas New Boston, Missouri	Speech Therapist	2019
Danny McIntyre Meadville, Missouri	Carpenter	2019
William Brockman Brookfield, Missouri	Farmer	2019
Jerry Ervie Marceline, Missouri	Retired Farm Machinery Salesman	2020

Jerry Crookshanks  
Meadville, Missouri

Retired Postal Carrier

2020

**Senior Officers**

The Board of Directors appoints for a term of one year, the officers of the Company. The officers serving, as of December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Anthony C. Mundell	President
Garry C. Amen	Vice-President
Dean R. Sayre	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’s 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 were disclosed.

**Corporate Records**

The Company's Articles of Incorporation and Bylaws were reviewed. There were no revisions to either document during the examination period. The minutes of the membership and the Board were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect and approve corporate transactions and events.

**EMPLOYEE BENEFITS**

The Company has two full-time employees and one part-time employee. The benefits package offered by the Company to all employees includes contributions to individual retirement accounts and paid holidays. Full-time employees also receive paid health insurance and paid time off.

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$75,000 and no deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers. The Company requires its agents to carry errors and omissions insurance and provide evidence of such coverage to the Company. Other coverages carried by the Company include property insurance on its home office and contents, business liability insurance, and workers compensation and employer’s liability insurance.

**INSURANCE PRODUCTS AND RELATED PRACTICES**

**Territory and Plan of Operations**

The Company is licensed by the Department of Commerce and Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual 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 four licensed independent agencies and the Company-owned agency, which receive a commission of 15% on all policies written.

**Policy Forms and Underwriting Practices**

The Company utilizes American Association of Insurance Services (AAIS) policy forms. The policies are written on a continuous basis and renewed annually. Property inspections are performed by agents. Adjusting functions are performed by Company Manager and independent adjusters. Rates are determined by the Board of Directors.

**GROWTH OF COMPANY AND LOSS EXPERIENCE**

*(\$000s omitted)*

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2018	\$4,537	\$ 43	\$951	\$339	\$31	\$184	\$205
2017	4,325	36	927	154	9	396	403
2016	3,972	85	926	129	6	410	415
2015	3,598	127	876	179	3	248	251
2014	3,331	112	866	399	1	(3)	(2)

At year-end 2018, there were 938 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:

*(\$000s omitted)*

Premium Type	2014	2015	2016	2017	2018
Direct Premiums Written	\$ 860	\$ 871	\$ 921	\$ 921	\$ 945
Reinsurance Assumed	6	5	6	5	6
Reinsurance Ceded	(240)	(236)	(247)	(247)	(253)
<b>Net Premiums Written</b>	<b>\$ 626</b>	<b>\$ 640</b>	<b>\$ 680</b>	<b>\$ 679</b>	<b>\$ 698</b>

**Assumed Reinsurance**

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 1% share in the interests and liabilities of the pool.



**Ceded Reinsurance**

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance agreement for property and casualty risks. The agreement includes per risk excess of loss and aggregate excess of loss coverages for property risks and quota share coverage for casualty risks.

Under the per risk excess of loss coverage, the Company retains \$100,000 per property risk, and the reinsurer's limit is \$900,000 per property risk. Under the aggregate excess of loss coverage, the Company's annual aggregate net retention, or attachment point, is equal to 65% of net premium. The reinsurer is responsible for 100% of losses in excess of this attachment. The estimated attachment point for 2018 was \$483,343.

Under the casualty quota share section of the agreement, the Company cedes 100% of the casualty risk and premium to the reinsurer and receives a 25% ceding commission.

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

**ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Van de Ven, LLC, of Cape Girardeau, Missouri, performs an annual compilation of the Company's financial statements and 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 Farmers Mutual Insurance Company of Linn County for the period ending December 31, 2018. 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 workpapers for each individual key activity.

**ASSETS**

As of December 31, 2018

Bonds	\$	600,381
Stocks		149,603
Real Estate – Book Value		13,051
Cash on Deposit		3,670,736
Other Investments		83,073
Computer Equipment (Hardware Only)		494
Interest Due and Accrued		19,649
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>4,536,987</b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

As of December 31, 2018

Gross Losses Unpaid Less Reinsurance Recoverable	\$	24,746
Ceded Reinsurance Premium Payable		2,041
Federal Income Tax Payable		8,300
Payroll Tax		2,619
Accounts Payable (Other)		46
Accrued Sick Leave		5,280
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>43,032</b>
Guaranty Fund		150,000
Other Surplus		4,343,955
<b>TOTAL POLICYHOLDER SURPLUS</b>	<b>\$</b>	<b>4,493,955</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$</b>	<b>4,536,987</b>

**UNDERWRITING AND INVESTMENT EXHIBIT**

For the Year Ended December 31, 2018

Net Earned Assessment/Premium Income	\$ 697,549
Other Insurance Income	163,867
Net Losses & Loss Adjustment Expense	(342,255)
Underwriting Expenses	(334,849)
<b>Underwriting Income (Loss)</b>	<b>\$ 184,312</b>
Investment Income	68,889
Investment Expenses	(37,541)
<b>Net Investment Income</b>	<b>\$ 31,348</b>
<b>Gross Profit or Loss</b>	<b>\$ 215,660</b>
Federal Income Tax	10,620
<b>NET PROFIT OR (LOSS)</b>	<b>\$ 205,040</b>

**GAIN OR LOSS IN SURPLUS**

Changes from January 1, 2014 to December 31, 2018

(\$000s omitted)

	2014	2015	2016	2017	2018
Beginning Policyholder's Surplus	\$ 3,222	\$ 3,220	\$ 3,471	\$ 3,886	\$ 4,289
Net Profit or (Loss)	(2)	251	415	403	205
<b>Ending Policyholder's Surplus</b>	<b>\$ 3,220</b>	<b>\$ 3,471</b>	<b>\$ 3,886</b>	<b>\$ 4,289</b>	<b>\$ 4,494</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

There were no significant subsequent events noted from December 31, 2018, through the date of the report.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri                    )  
                                                  )    ss  
County of Cole                    )

I, Brian D. Hammann, CPA, AFE, 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 Farmers Mutual Insurance Company of Linn County, 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.

*Brian Hammann*

\_\_\_\_\_  
Brian D. Hammann, CPA, AFE  
Financial Examiner  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 20<sup>th</sup> day of March, 2020.

My commission expires: March 30, 2023 *Hailey Luebbert*  
\_\_\_\_\_  
Notary Public



HAILEY LUEBBERT  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #1563436

**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.

A handwritten signature in black ink, appearing to read "Levi N. Nwasoria", written over a horizontal line.

Levi N. Nwasoria, CPA, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance