

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Central Farmers Mutual Fire Insurance Company as of
December 31, 2010

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, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

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) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 12th day of December, 2011.



A handwritten signature in black ink, appearing to read "John M. Huff".

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Central Farmers Mutual Fire Insurance Company

AS OF
DECEMBER 31, 2010

FILED
DEC 12 2011
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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September 16, 2011
Saint Charles, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope 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". The Company's home office and principal place of business is located at 5065 N. Highway 94, Saint Charles, Missouri 63301, telephone number (636)250-4155. This examination began on September 12, 2011, and was concluded on September 16, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006 through December 31, 2010, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration.

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 by the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the state of Missouri prevailed.

Comments-Previous Examination Report

The general comments and/or recommendations of the previous examination report dated December 31, 2005, are listed below followed by the Company's response and the current examination findings regarding such general comments and/or recommendations.

Management and Control

Comment: It was recommended the Company amend its Articles of Incorporation and Bylaws to reflect the board consists of seven directors.

Company Response: The Company will restate the Articles of Incorporation, and amend the Bylaws.

Current Findings: The Restated Articles of Incorporation and amended Bylaws were approved by the Board of Directors at a Special Meeting held on January 18, 2007. The Restated Articles of Incorporation were filed with the Missouri Secretary of State.

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

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

The Board consisted of the following members as of December 31, 2010:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
James Leonhard 6250 North Highway 94 Portage Des Sioux, MO 63373	Farmer and Insurance Agent	2008-2011
Martin Orf 4706 Highway P Wentzville, MO 63385	Farmer and Insurance Agent	2008-2011
Rose Marie Leonhard 6200 North Highway 94 Portage Des Sioux, MO 63373	Retired Insurance Agent	2009-2012
James Hanley 1709 Renoir Drive O'Fallon, MO 63368	Retired Security Supervisor and Insurance Agent	2009-2012
Claude Boschert 5288 Blasé Station Road St. Charles, MO 63304	Farmer	2008-2011
Gary Dyer 1793 Highway Y St. Paul, MO 63366	Farmer	2009-2012
Gerard Orf 4389 Flint Stone Drive Wentzville, MO 63385	Paramedic and Farmer	2010-2013

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, 2010, were as follows:

James B. Leonhard	President
Martin J. Orf	Vice-President
Carol R. Leonhard	Secretary-Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed for the period under examination. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its March 03, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage for the secretary-treasurer position providing a liability limit of \$25,000 from Allied Insurance Company. This meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook (Handbook) for the Company's level of exposure. It is recommended in the Handbook that those who have the ability to authorize wire transfers, write checks and those who can buy, sell, or transfer investments be bonded. Four individuals have been granted this authority in addition to Carol Leonhard, Secretary-Treasurer.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of \$2 million.

Each of the Company's agents is required to purchase Errors and Omissions Liability insurance. The Company reimburses the agents, up to \$400 annually, for the coverage. While the policies have various limits of liability, \$1,000,000 is the minimum amount of coverage.

EMPLOYEE BENEFITS

The Company has one employee, Carol Leonhard, who serves as the Company's secretary-treasurer. The Company's office is maintained at Leonhard Insurance Agency and she receives compensation equaling 10% of the premiums written. No other benefits or pension plan is provided.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.601 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 Saint Charles and surrounding counties. Insurance is provided on a non-assessable basis.

Policy Forms and Underwriting Practices

The Company writes policies for a one-year period. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses forms from the American Association of Insurance Services, along with internally developed forms that have been filed with the Missouri DIFP, and forms from its liability reinsurer, Cameron Mutual Insurance Company. Insurance products are sold by four independent agents. The agents receive a 15% commission on new business and a 10% commission on renewal business.

An onsite inspection is made by the agent prior to the issuance of policies. Renewals are inspected every fifth year. The majority of claims are handled by outside independent adjusters. Occasionally, the Company will assign an agent to adjust and settle simple claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2010	\$1,579,782	\$ 113,379	\$ 258,650	\$ 36,153	\$ 58,727	\$ 78,674	\$ 137,515
2009	1,437,596	108,708	222,314	79,210	57,449	4,872	62,513
2008	1,366,915	100,540	208,950	41,181	58,478	41,303	101,605
2007	1,258,277	93,507	185,088	76,231	59,168	(34,358)	26,453
2006	1,226,332	88,014	184,890	76,251	46,085	(117,929)	(71,844)

At year-end 2010, there were 383 policies in-force.

REINSURANCE

General

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct	\$ 184,890	\$ 185,088	\$ 208,950	\$ 222,314	\$ 258,650
Assumed	0	0	0	0	0
Ceded	<u>(79,735)</u>	<u>(83,180)</u>	<u>(57,219)</u>	<u>(67,396)</u>	<u>(68,513)</u>
Net	<u>\$ 105,155</u>	<u>\$ 101,908</u>	<u>\$ 151,731</u>	<u>\$ 154,918</u>	<u>\$ 190,137</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has a property reinsurance agreement with Wisconsin Reinsurance Corporation (WRC). The following coverage is provided under this agreement.

Per Risk Excess of Loss

The Company retains the first \$50,000 of business written for fire or wind losses. WRC's limit of liability under the first layer is \$150,000. Under the second layer, WRC's limit of liability is \$400,000. Therefore, the capacity level is \$600,000. The premium for this coverage is 6.50% and 3.00% for the first and second layers, respectively.

Aggregate Excess of Loss

This section provides coverage in two layers above an attachment point of 80% of net written premium. The annual aggregate attachment point is estimated to be \$143,292. WRC's limit of liability under the first layer is 100% of 45% of net premium written in excess of the attachment point. Under the second layer, WRC is liable for 100% of losses in excess of 125% of net written premium. The premium for this coverage is 9.00% and 4.00% for the first and second layers, respectively.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage. The majority of the Company's larger risks (in excess of \$600,000) are covered through facultative agreements.

The Company has a liability reinsurance agreement with Cameron Mutual Insurance Company. The following coverage is provided under this agreement.

Liability Reinsurance

The Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 22% of the subject net written premiums.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The Company uses the accrual basis method of accounting. Premium information and claims are maintained on a personal computer using a software package developed by Rural Computer Consultants. The Company uses QuickBooks to record other financial data. The CPA firm of T.A. Ohlms & Company, P.C. prepares the Company's Annual Statement and issues a compilation report.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, 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.

ANALYSIS OF ASSETS
December 31, 2010

Bonds	58,170
Cash on Deposit	1,513,796
Interest Due and Accrued	5,423
Other Assets	2,393

Total Assets	<u><u>\$1,579,782</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Losses	\$ 2,769
Unpaid Loss Adjustment Expenses	634
Unearned Premium	108,520
Other Liabilities	1,456

Total Liabilities	\$ 113,379

Guaranty Fund	\$ 150,000
Other Surplus	1,316,403

Total Surplus	1,466,403

Total Liabilities and Surplus	<u><u>\$1,579,782</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$ 177,324
Other Insurance Income	5,494
Net Losses & Loss Adjustment Expenses Incurred	(31,729)
Other Underwriting Expenses Incurred	(72,415)

Net Underwriting Income (Loss)	\$ 78,674

Investment Income	\$ 58,727
Other Income	114

Gross Profit (Loss)	\$ 137,515
Federal Income Tax	0

Net Income (Loss)	\$ 137,515
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$ 1,328,888
Net Income (Loss)	137,515

Policyholders' Surplus, December 31, 2010	\$ 1,466,403
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 4)

The Company should provide fidelity bond coverage for all those who have the ability to authorize wire transfers, write checks and those who can buy, sell, or transfer investments as recommended by the NAIC Financial Condition Examiners Handbook.

SUBSEQUENT EVENTS

Lisa Day, Insurance Agent, was elected Assistant Secretary at the March 05, 2011 meeting of the Board of Directors.

