

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

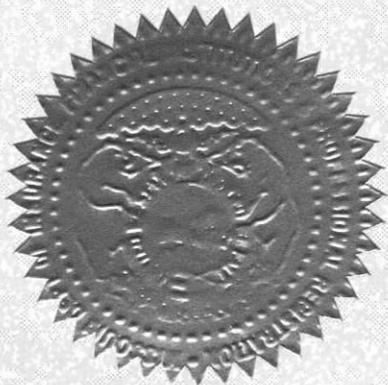
RE: Examination Report of Century Mutual Insurance Company as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Century Mutual Insurance Company for the period ended December 31, 2009, 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 Century 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) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations 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 10th Day of November, 2010.



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

REPORT OF THE
FINANCIAL EXAMINATION OF
Century Mutual Insurance Company
AS OF
DECEMBER 31, 2009



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	4
Management	4
Conflict of Interest	5
Corporate Records	5
FIDELITY BOND AND OTHER INSURANCE	6
EMPLOYEE BENEFITS	6
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	6
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	7
REINSURANCE:	
General	7
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS:	
Analysis of Assets	10
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Capital and Surplus Account	11
NOTES TO THE FINANCIAL STATEMENTS	12
EXAMINATION CHANGES	12
GENERAL COMMENTS AND/OR RECOMMENDATIONS	12
SUBSEQUENT EVENTS	12
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	13

September 13, 2010
St. 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

Century Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 5118 Blase Station Road, St. Charles, Missouri, telephone number (636)250-4100. This examination began on August 23, 2010, and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005 through December 31, 2009, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (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 by 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.

Comments-Previous Examination Report

The previous examination report included five general comments and recommendations. In a letter from the Director to the President of the Company dated April 24, 2006 the Company was reminded that it is responsible to fully implement each item mentioned in the General Comments and/or Recommendations section of the examination report. The Company was also informed that verification of compliance with the items in the General Comments and/or Recommendations section must be received by the Department within 90 days of the issuance of the report. No written response to the previous examination report comments was submitted by the Company.

The Company is directed to submit a written response to the items in the General Comments and Recommendations section to the DIFP within 90 days of the issuance of this examination report.

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. Comment:

The Company recorded certificate of deposit investments as bonds. The Company should record all certificates of deposit as cash for all future reporting periods.

Company Response:

The Company did not submit a written response to the previous examination report comments.

Current Findings:

The Company properly recorded certificate of deposit investments as cash on deposit throughout the examination period.

2. Comment:

As a Part II Extended Missouri Mutual insurance company, the Company is required to comply with the provisions of RSMo 380.271 "Financial Reinsurance Requirements." The Company needs to establish and record a guaranty fund reserve for all future reporting periods.

Company Response:

The Company did not submit a written response to the previous examination report comments.

Current Findings:

The Company properly recorded a guaranty fund reserve throughout the examination period.

3. Comment:

The current Bylaws are issued in a prior name of the company. The Company should amend or re-issue the company Bylaws in the name of Century Mutual Insurance Company.

Company Response:

The Company did not submit a written response to the previous examination report comments.

Current Findings:

Bylaws were reissued in the name of Century Mutual Insurance Company.

4. Comment:

The Company does not take attendance at the quarterly board meetings or the annual membership meetings. In order to quantify a quorum at each company meeting, the Company should record the attendance at each board meeting and/or membership meeting in the minutes.

Company Response:

The Company did not submit a written response to the previous examination report comments.

Current Findings:

Attendance is now taken at board meetings and documented in the minutes. However, no documentation of attendance is included in the annual membership meeting minutes.

The Company should ensure that a quorum is met at each of its annual membership meetings and document the attendance at each meeting in the minutes

5. Comment:

As noted in the prior examination report, the Company has little documentation of internal policies and procedures. The Company is instructed to develop a written internal policy and procedure manual to provide specific guidance and direction in the future operation of the company. This policy manual should include (but is not limited to) procedures for an investment policy, conflict of interest statement policy, check signing policy, expense voucher policy, agents underwriting policy, claims payment policy, inspection process, and agent payment process.

Company Response:

The Company did not submit a written response to the previous examination report comments.

Current Finding:

The Company developed a detailed policies and procedures manual effective March 1, 2008.

HISTORY

General

The Company was organized February 12, 1881 as the Weldon Spring Insurance Company. On December 14, 1921, the name was changed to the Cottleville Mutual Private Fire Insurance Association of Cottleville, Missouri. On October 27, 1984, the Company voted to amend the Bylaws and Articles of Incorporation to operate as a Missouri Mutual under Section 380.011 to 380.151 RSMo. (Part I Mutual). On September 19, 2000, the name was changed to Century Mutual Insurance Company. The Company was changed to an Extended Missouri Mutual on November 30, 2000 and is currently operating as such under Sections 380.201 to 380.601 RSMo (Part II Mutual).

Management

The Company is managed by a board of six directors, each serving a staggered, three year term. Directors are elected at annual meetings held the first Saturday of March. Eight members constitute a quorum at annual meetings. Presently, the Board meets quarterly and board members receive \$100 per meeting. In addition, the president receives \$250 per year. The Secretary/Treasurer, also acting as a company agent, receives \$325 per month.

The Board consisted of the following members as of December 31, 2009:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Jerome J. Schulte 8191 N. Hwy 94 West Alton, Mo. 63386	Farmer	2007-2010
Dennis G. Dunkmann 5560 Barwise Rd. St. Charles, Mo. 63301	Farmer	2008-2011
Wayne B. Boschert 5118 Blasé Station Rd. St. Charles, Mo. 63101	Farmer	2008-2011

John C. Bethmann 987 Silvers Rd. St. Peters, Mo. 63376	Farmer	2007-2010
Raymond F. Boschert 5535 Blasé Station Rd. St. Charles, Mo. 63101	Retired Farmer	2009-2011
Bill Wehmeier 5321 N. Hwy 94 St. Charles, Mo. 63101	Farmer	2009-2011

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, 2009, were as follows:

Jerome J. Schulte	President
Dennis D. Dunkmann	Vice-President
Wayne B. Boschert	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. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation and Bylaws were reviewed. During the review of the Articles of Incorporation it was noted that Article XI incorrectly requires a seal of Century Mutual Private Fire Insurance Association, Inc. Also the Company could not locate a current signed and dated copy of either the Articles or Bylaws.

The Company should update the Articles of Incorporation to reflect the proper name of the Company in Article XI. The updated Articles should be filed with the Department of Insurance, Financial Institutions and Professional Registration in accordance with Section 380.241 RSMo. The Company should also ensure that a copy of the most recent signed and dated Articles of Incorporation and Bylaws are maintained on file at the Company.

The minutes from the annual membership meetings and Board of Directors meetings were also reviewed. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board meetings appears satisfactory. However, no documentation of attendance is included in the annual membership meeting minutes.

The Company should ensure that a quorum is met at each of its annual membership meetings and document the attendance at each meeting in the minutes.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$25,000. This coverage meets the minimum amount of \$25,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by Western Surety Company.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with a limit of liability of \$2,000,000 per claim and aggregate.

The Company's sole agent carries errors and omissions coverage. The policy is through MAMIC Mutual Insurance Company and has a \$1 million limit of liability.

The Company has a commercial liability policy with Employers Mutual Casualty Company. The policy has a \$1 million limit of liability per claim and aggregate.

The Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three employees, the Secretary/Treasurer/Manager, a part-time Secretary and a part-time Assistant Secretary. The Company does not provide employee benefits.

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 380.601 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties, although the business is primarily written in St. Charles and St. Louis counties. Insurance is provided on an assessable basis. Advertising is done through the internet yellow pages and through participation in promotional activities involving local organizations.

Policy Forms and Underwriting Practices

The Company uses policy forms from the American Association of Insurance Services. The Company writes one-year renewable policies. The primary agent, also serving as

Secretary/Treasurer for the Company, performs property inspections and minor claims adjusting services. An outside party performs claims adjusting on larger claims. The agent receives a commission of 20% on all business written. The Board of Directors establishes, monitors and revises all insurance rates charged to policyholders.

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>
2009	\$760,922	\$ 20,369	\$150,828	\$59,332	\$67,919	\$(34,790)	\$(9,111)
2008	761,170	11,505	140,955	141,977	43,468	(52,333)	(8,452)
2007	761,744	3,626	142,271	46,725	35,718	8,524	45,069
2006	736,511	23,463	139,508	89,998	30,550	(74,412)	(36,958)
2005	733,566	12,598	134,105	24,788	14,383	(11,846)	2,623

At year-end 2009, there were 228 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 134,105	\$ 139,508	\$ 142,271	\$ 140,955	\$ 150,828
Assumed	0	0	0	0	0
Ceded	<u>(33,875)</u>	<u>(31,414)</u>	<u>(35,185)</u>	<u>(62,416)</u>	<u>(82,909)</u>
Net	<u>\$ 100,230</u>	<u>\$ 108,094</u>	<u>\$ 107,086</u>	<u>\$ 78,540</u>	<u>\$ 67,919</u>

Assumed

None.

Ceded

The Company has four reinsurance agreements with Farmers Mutual Hail Insurance Company of Iowa (the Reinsurer). The following is a description of coverage provided by these agreements.

Per Risk Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer indemnifies the Company 100% for each loss in excess of \$25,000. The limit of liability to the Reinsurer is \$75,000. At the second layer, the Reinsurer indemnifies the Company 100% of net losses in excess of \$100,000. The limit of liability to the Reinsurer is \$150,000. The per occurrence limit is \$187,500 for the first layer and \$300,000 for the second layer.

Aggregate Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer is liable for 100% of losses in excess of 200% of net written premium. The limit of liability to the Reinsurer is equal to 500% of net written premium. For the second layer, the Reinsurer is liable for 100% of losses in excess of 700% of net written premium. The limit of liability to the Reinsurer is the lesser of 1,300% of net written premium or \$963,300.

Property Facultative Pro Rata Agreement

The Company cedes 100% of its property risks in excess of \$1,000,000 to the Reinsurer.

Liability Quota Share Reinsurance

The Company cedes 100% of its liability business to the Reinsurer.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The Company maintains its accounting records on a cash basis. Insurance policies are administered on a personal computer based system. A general ledger is maintained through the use of Peachtree accounting software. Hardcopies of all insurance policies are kept in a fire proof cabinet, and policy backup tapes are kept offsite.

Premiums received are recorded in a journal which summarizes premium activity for each month. The agent remits gross premiums on a monthly basis, which the Company deposits and then generates commission payments to the agent. As an assessable mutual insurance company, the Company is not required to maintain an unearned premium reserve. A review of the Company's financial statements is performed by the CPA firm Bauers, Hawkins and Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, 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, 2009

Bonds	1,500
Cash on Deposit	754,919
Premiums/Assessments/Agents Balances Uncollected	2,268
Computer Equipment	150
Interest Due and Accrued	2,085

Total Assets	\$760,922
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Ceded Reinsurance Premiums Payable	7,646
Other Liabilities	12,722

Total Liabilities	\$ 20,368

Guaranty Fund	\$ 150,000
Other Surplus	590,554

Total Surplus	740,554

Total Liabilities and Surplus	\$ 760,922
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2009

Net Premiums Earned	\$ 67,919
Other Insurance Income	3,174
Net Losses & Loss Adjustment Expenses Incurred	(42,342)
Other Underwriting Expenses Incurred	(63,541)

Net Underwriting Income (Loss)	\$ (34,790)

Investment Income	\$ 24,130
Other Income	1,548

Gross Profit (Loss)	\$ (9,111)
Federal Income Tax	0

Net Income (Loss)	\$ (9,111)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008	\$749,665
Net Income (Loss)	(9,111)

Policyholders' Surplus, December 31, 2009	\$740,554
	=====

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

1. Comments-Previous Examination

The Company is directed to submit a written response to the items in the General Comments and Recommendations section to the DIFP within 90 days of the issuance of this examination report.

2. Corporate Records

The Company should update the Articles of Incorporation to reflect the proper name of the Company in Article XI. The updated Articles should be filed with the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration in accordance with Section 380.241 RSMo. The Company should also ensure that a copy of the most recent signed and dated Articles of Incorporation and Bylaws are maintained on file at the Company.

3. Corporate Records

The Company should ensure that a quorum is met at each of its annual membership meetings and document the attendance at each meeting in the minutes.

SUBSEQUENT EVENTS

None.

