



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Citizens Mutual Insurance Company for the period ended
December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Citizens Mutual Insurance Company for the period ended December 31, 2013, 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 Citizens 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 Summary 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 24th day of July, 2015.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
CITIZENS MUTUAL INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2013**

FILED

JUL 24 2015

**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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June 11, 2015
Columbia, 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

CITIZENS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company" or "CIT". The Company's administrative office is located at 2102 White Gate Drive, Columbia, Missouri 65202, telephone number (573) 777-4021. This examination began on April 21, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2013, 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 in the Financial 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.

Comments-Previous Examination Report

There were no comments, recommendations, or notes in the previous examination report dated December 31, 2009.

HISTORY

General

The Company was originally organized on May 11, 1901, as Citizens Mutual Fire and Lightning Insurance Society in Applecreek Township, Cape Girardeau County, Missouri, and was incorporated on December 27, 1932, as Citizens Mutual Fire Insurance Company. In 1970, the Company merged with Bollinger County Farmers Mutual Aid, with the Company remaining as the surviving entity. In 1971, the Company changed its name to Citizens Mutual Insurance Company.

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

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Friday after the first Saturday in March at the home office of the Company or at such other place as may be designated by the Board of Directors. 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. Eight members shall constitute a quorum at any membership meeting. Proxy voting is 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets at least once per year. Directors who are not also employees of affiliate Columbia Insurance Group, Inc. (CIG) receive an annual fee of \$600. CIG employee-directors do not receive additional compensation for serving on the Board.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Roger D. Ballard Columbia, Missouri	Sr. Vice President/Treasurer/CFO Columbia Insurance Group	2013-2016
Michele J. DeVore Columbia, Missouri	VP Columbia Branch Manager Columbia Insurance Group	2013-2016
Jon R. Erickson Columbia, Missouri	Sr. VP & Chief Claims Officer Columbia Insurance Group	2012-2015
A. Ben Galloway Columbia, Missouri	Sr. Vice President- Chief Risk Officer Columbia Insurance Group	2011-2014
Robert A. Gerding Columbia, Missouri	President Gerding, Korte & Chitwood, CPAs	2011-2014
Betty J. Schuster Columbia, Missouri	Agent Principal Financial Group	2011-2014
Gary W. Thompson Columbia, Missouri	President & Chief Executive Officer Columbia Insurance Group	2013-2016
Gina D. Boone Columbia, Missouri	VP, General Counsel, & Secretary Columbia Insurance Group	2012-2015
Alan G. Wills Jackson, Missouri	Owner Gene E. Wills Insurance Agency	2013-2016

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, 2013, were as follows:

Gary W. Thompson	Chairman of the Board, President, & Chief Executive Officer
Roger D. Ballard	Senior VP, Treasurer, & Chief Financial Officer
Jon R. Erickson	Senior VP & Chief Claims Officer
A. Ben Galloway	Senior VP & Chief Risk Officer
Gina D. Boone	Vice President, Secretary, & General Counsel
Mark R. Dale	Vice President – Omaha Branch Manager
Michele J. DeVore	Vice President – Columbia Branch Manager
Stephen B. Lubbering	Vice President – Human Resources
Robert K. O'Reilly, Jr	Vice President – Atlanta Branch Manager
Rory Reed	Vice President – Information Technology
Byron C. Smith	Vice President – Austin Branch Manager
Dwight P. Tully	Vice President – Salina Branch Manager

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 signed statements noted various potential conflicts of interest disclosed, which were addressed by the Board of Directors and documented in the board meeting minutes.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. On March 12, 2010, the Bylaws were amended to set staggered, three-year terms for directors and to prohibit directors from serving beyond their seventy-first birthday.

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.

Affiliated Transactions

Six of the nine directors of the Company are employees of Columbia Insurance Group, Inc., a wholly owned subsidiary of Columbia Mutual Insurance Company (CMIC), a Missouri property and casualty insurer. The Company and CMIC also have the same officers. CMIC owns three insurance companies including Columbia National Insurance Company (CNIC), Georgia Casualty and Surety Company (GCSC) and Association Casualty Insurance Company (ACIC). As such, the Company is affiliated with the aforementioned companies by means of being controlled by the same management team.

The Company's agreements with related parties that were in effect, as of December 31, 2013 and subsequent periods are outlined below.

1. Type: Intercompany Reinsurance Agreement

Parties: CMIC, CNIC, GCSC, ACIC, CIT

Effective: January 1, 2009

Terms: The total net risks from all insurance and reinsurance policies written by CNIC, GCSC, ACIC, and CIT (the "Affiliated Companies") shall be ceded 100% to CMIC. All premiums, losses, assets and liabilities pertaining to the policies reinsured will be assigned and transferred to CMIC. The business assumed from the Affiliated Companies is pooled with the direct business of CMIC. External reinsurance is obtained for the gross pooled business of the Group and the remaining net pooled risks will be assumed by the Affiliated Companies, based upon the following percentages: CNIC – 17%, ACIC – 9%, GCSC – 7%, CIT – 1%. CMIC retains the remaining 66% of the net pooled business. The settlement of all assumed and ceded transactions between CMIC and the Affiliated Companies, pursuant to the Agreement, will be made on a monthly basis within 90 days after the end of each month.

2. Type: Personnel and Services Agreement

Parties: CMIC, CIG, CNIC, GCSC, ACIC, CIT

Effective: January 1, 2011

Terms: CIG will provide the employees necessary or appropriate to conduct all business operations of CMIC, CNIC, GCSC, ACIC and CIT. CIG will be responsible for the wages, salaries, employee benefits, payroll taxes, and all other similar costs and expenses of the employees. Any employee and benefit costs that are directly attributable to an individual entity will be billed and reimbursed to CIG by the entity in which the cost is related. Any employee and benefit costs that are attributable to the Group, as a whole, will be allocated and reimbursed to CIG based upon each entity's specific pooling percentage from the Intercompany Reinsurance Agreement.

- 3. Type:** Facilities and Services Agreement
- Parties:** CMIC, CIG, CNIC, GCSC, ACIC, CIT
- Effective:** January 1, 2011
- Terms:** CMIC will provide various facilities and services necessary to conduct the business operations of CNIC, GCSC, ACIC and CIT. The facilities and services to be provided will include: office space, equipment, supplies, data processing, telecommunications, information technology services, investment services, and several other services. Costs incurred by CMIC to provide the facilities and services will be exclusive of the payroll and benefit costs that are subject to the Personnel and Service Agreement. Any expense that is directly attributable to an individual entity will be billed and reimbursed to CMIC by the entity in which the cost is related. Any expense that is attributable to the Group, as a whole, will be allocated and reimbursed to CMIC based upon each entity's specific pooling percentage from the Intercompany Reinsurance Agreement.

FIDELITY BOND AND OTHER INSURANCE

CIT and its affiliates are named insureds on a financial institution bond to cover losses resulting from fraudulent or dishonest acts of an employee. The bond has a liability limit of \$1,250,000 with a \$100,000 deductible, which meets the minimum amount suggested in the guidelines promulgated by the NAIC.

CIT is a named insured on self-insured commercial policies issued either by CMIC or its subsidiaries, ACIC and CNIC. The self-insured policies pertain to the following coverages: property, general liability, and umbrella liability. The Company or its affiliate, CIG, are named insureds on the following policies issued by non-affiliates: insurance company professional liability, director's and officer's liability, commercial auto liability, worker's compensation and employer's liability, employment practices liability, and cyber risk liability.

EMPLOYEE BENEFITS

CIT does not have any direct employees. The employees of affiliate CIG perform all of the operational and administrative functions of the Company. The CIG employees are located in the Columbia, Missouri home office and branch offices in Atlanta, Georgia, Austin, Texas, Omaha, Nebraska, and Salina, Kansas. The employees also work on the operations of the Company's four affiliated insurers (CMI, CNIC, GSCS, and ACIC). At the end of 2013, CIG had 300 total employees.

A variety of standard benefits are provided to the CIG employees. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, disability insurance, vacation, sick leave, and tuition reimbursement. Employees are also provided with a 401(k) savings / retirement plan and short-term incentive plan. Salary and benefit costs for CIG employees are charged to the Company, pursuant to the Personnel and Service Agreement that is described in the Intercompany Agreements section of this report.

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 writes fire, wind and liability coverages. The Company's policies are marketed by thirty licensed producers. Commissions paid to producers vary from ten to fifteen percent, depending upon the line of business.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and ISO policy forms. The policies are written on a continuous basis. Property inspections are performed by CIG employees, the writing agent or independent inspectors. Claims adjusting is performed by CIG adjusters. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Direct Gross Premiums	Direct Gross Losses	Investment Income	Underwriting Income	Net Income
2013	\$4,855,149	\$3,448,334	\$3,792,468	\$1,472,072	\$ 67,200	\$ 22,203	\$ 89,522
2012	4,799,635	3,496,164	3,811,395	4,157,867	88,484	(438,326)	(349,842)
2011	4,676,872	3,066,053	3,553,302	3,482,810	92,896	(532,314)	(389,853)
2010	4,834,257	2,886,178	3,385,941	2,410,339	107,861	(26,582)	70,926

At year-end 2013, 4,394 policies were 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:

	2013	2012	2011	2010
Direct	\$ 3,792,468	\$ 3,811,395	\$ 3,553,302	\$ 3,385,941
Assumed	2,256,610	2,605,351	2,416,465	2,306,738
Ceded	(3,792,468)	(3,811,395)	(3,553,302)	(3,385,941)
Net	\$ 2,256,610	\$ 2,605,351	\$ 2,416,465	\$ 2,306,738

Assumed

The Company has an intercompany reinsurance agreement with CMIC, CNIC, GSCS and ACIC that was previously described in the Affiliated Transactions section of this report. CMIC assumes 100% of the net direct and assumed business of these affiliated insurers, pursuant to the terms of the agreement. The affiliates then assume business back from the pool, net of outside reinsurance, at percentages stated in the contract. The Company's assumption percentage is 1% of the pool.

Ceded

The Company cedes 100% of its direct business to CMIC under the intercompany reinsurance agreement. CMIC obtains reinsurance on the pool of business assumed under the agreement. In general, CMIC retains a maximum exposure of \$1,000,000 per risk on property losses and \$1,000,000 per occurrence on casualty losses. CMIC also carries various catastrophe and facultative coverages.

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 an accrual basis. The Company's Annual Statement and tax filings are prepared by employees of CIG under the Personnel and Services Agreement, which was previously described in the Affiliated Transactions section of this report.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Bonds	\$ 3,734,003
Cash	211,512
Agent's Balances Uncollected	679,823
Reinsurance Recoverable on Paid Losses	14,540
Interest Due & Accrued	14,873
Net Deferred Tax Asset	183,048
Other Assets	17,350
	<hr/>
Total Assets	\$ 4,855,149
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	\$ 1,576,418
Net Loss Adjusting Expense Unpaid	424,112
Ceded Reinsurance Payable	162,256
Unearned Premium	912,632
Accounts Payable to Agents	94,331
Other Accounts Payable	41,585
Other Liabilities	237,000
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Total Liabilities	\$ 3,448,334
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Guaranty Fund	\$ 400,000
Other Surplus	1,006,815
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Total Surplus	\$ 1,406,815
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Total Liabilities and Surplus	\$ 4,855,149
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STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 2,590,201
Other Insurance Income	21,803
Net Losses & Loss Adjusting Expenses Incurred	1,922,663
Other Underwriting Expenses Incurred	<u>667,138</u>
 Net Underwriting Income (Loss)	 \$ 22,203
Net Investment Income	67,200
Other Income	<u>119</u>
 Gross Profit (Loss)	 \$ 89,522
Federal Income Tax	<u>0</u>
 Net Income (Loss)	 <u>\$ 89,522</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 1,303,471
Net Income (Loss)	89,522
Change in Net Deferred Income Tax	(31,038)
Change in Nonadmitted Assets	<u>44,860</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 1,406,815</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Citizens Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Emily Pennington, examiner for the Missouri DIFP, participated in this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Shannon Schmoeger, 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.

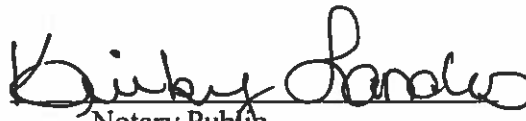


Shannon Schmoeger, CFE, ARe
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 24 day of June, 2015.

My commission expires:

May 18, 2016



Notary Public

KIMBERLY LANDERS
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: May 18, 2016
Commission Number: 12558402

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.



Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP