

STATE OF MISSOURI



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 as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Citizens 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 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 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 16th day of June 2011.



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, 2009



FILED
JUN 16 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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May 12, 2011
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 (P.O. Box 618), Columbia, Missouri 65202, telephone number (573) 474-6193. This examination began on May 9, 2011, and concluded on May 12, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company 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, 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 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 and recommendation in the previous examination report dated December 31, 2005.

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. The Company was incorporated in the State of Missouri on December 27, 1932, as Citizens Mutual Fire Insurance Company. In January of 1970, the Company merged with Bollinger County Farmers Mutual Aid, with the Company remaining as the surviving entity. In October of 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 the affiliated 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, 2009, 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	2007-2010
Roger D. Birdsong Columbia, Missouri	Sr. Vice President Columbia Insurance Group	2009-2012
Jon R. Erickson Columbia, Missouri	Vice President – Claims Columbia Insurance Group	2009-2012
A. Ben Galloway Columbia, Missouri	Sr. Vice President- Asset Management Columbia Insurance Group	2008-2011
Robert A. Gerding Boonville, Missouri	President Gerding, Korte & Chitwood, CPAs	2008-2011
Betty J. Schuster Columbia, Missouri	Agent Principal Financial Group	2008-2011
Gary W. Thompson Columbia, Missouri	President & Chief Operating Officer Columbia Insurance Group	2007-2010
Robert J. Wagner Columbia, Missouri	Chairman and CEO Columbia Insurance Group	2009-2012
Alan G. Wills Jackson, Missouri	Owner Gene E. Wills Insurance Agency	2007-2010

The Board of Directors appoints for a term of one year, the Chairman of the Board, Chief Executive Officer, President and Secretary of the Company. The Board of Directors or the Chief Executive Officer appoints the remaining officers for a term of one year. The officers of the Company serving at December 31, 2009, were as follows:

Robert J. Wagner	Chairman of Board & Chief Executive Officer
Gary W. Thompson	President & Chief Operating Officer
Roger D. Ballard	Senior VP and Treasurer and Chief Financial Officer
Roger D. Birdsong	Senior Vice President – Columbia Branch Manager
A. Ben Galloway	Senior Vice President – Asset Management
Gina D. Boone	Vice President – Secretary & General Counsel
Jon R. Erickson	Vice President – Claims

James R. Beerman	Vice President – CIG Omaha Branch Manager
Stephen B. Lubbering	Vice President – Human Resources
Dianne R. Morris	Vice President – CIG Austin Branch Manager
Robert K. O'Reilly, Jr	Vice President – CIG Atlanta Branch Manager
Rory Reed	Vice President – Information Technology
Dennis D. Roth	Vice President – Change Management
Dwight P. Tully	Vice President – CIG 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 no significant conflict disclosures.

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. The Bylaws were amended three times during and once subsequent to the examination period. On June 22, 2007, the Bylaws were amended to require proxies to be registered ten days prior to the meeting at which they are voted, to set the membership meeting quorum requirement at eight members, and to delete the requirement of a director meeting within a week of the annual membership meeting. On March 7, 2008, the Bylaws were amended to prohibit directors from serving past their seventy-first birthday. On August 7, 2009, the Bylaws were amended to move the home office from Cape Girardeau County to Columbia, Missouri, to reduce the proxy filing deadline from ten to seven days, to change the number of directors from nine to a minimum of five and a maximum of thirteen, and to add director resignation provisions. On March 12, 2010, the Bylaws were amended to set staggered, three-year terms for directors and to reinstate a prohibition of directors from serving past 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. (CIG), 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, 2009 and subsequent periods are outlined below.

- 1. Type:** Personnel and Service Agreement

Parties: CMIC, CIG, CNIC, CIT

Effective: January 1, 2007 to December 31, 2010 (replaced by a new agreement effective January 1, 2011, as described in item 5 below)

Terms: CIG employees will perform all functions necessary or appropriate to manage CMIC, CNIC, and CIT. CIG will provide the physical facilities and equipment necessary to transact the insurance business of the affiliates. CMIC, CNIC, and CIT will reimburse CIG for its actual expenses incurred to provide the management services.

- 2. Type:** Intercompany Reinsurance Agreement

Parties: CMIC, CNIC, GCSC, ACIC, CIT

Effective: January 1, 2009 (replaced a prior agreement effective since January 1, 2006)

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.

- 3. Type:** Personnel and Services Agreement

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

Effective: January 1, 2011 (replaced a prior agreement described in item 1. above)

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.

- 4. 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

As of December 31, 2009, CIT and its affiliates had a \$1,000,000 self-insured fidelity bond to cover losses resulting from fraudulent or dishonest acts of an employee. The \$1,000,000 limit of the self-insured policy was below the suggested \$1,250,000 minimum amount of fidelity insurance according to NAIC guidelines for the Group. The Company purchased a fidelity bond issued by an external insurance company, effective June 1, 2011, to replace the self-insured fidelity bond. The new fidelity bond has a liability limit of \$1,250,000 with a \$100,000 deductible, which meets the minimum coverage that is recommended by the NAIC. The Company's affiliates are also named insureds on this bond.

The Company is a named insured on other self-insured commercial policies issued either by CMIC or its subsidiaries, ACIC and GCSC. The self-insured policies are as follows: property, general liability, umbrella liability, automobile physical damage, and automobile liability. The Company or its affiliate, CIG, are named insureds on the following policies issued by non-affiliates: errors and omissions, director's and officer's liability, worker's compensation, and employment practices liability.

EMPLOYEE BENEFITS

CIT does not have any direct employees. The employees of an affiliate, Columbia Insurance Group, Inc. (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 (CMIC, CNIC, GSCS, and ACIC). At the end of 2010, CIG had 313 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 a profit sharing plan. Salary and benefit costs for CIG employees are charged to the Company, pursuant to a Personnel and Service Agreement that is described in the Affiliated Transactions 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 agencies. 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 renewed annually. 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. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$4,852,037	\$2,968,258	\$3,131,658	\$6,550,142	\$131,359	\$(139,681)	\$(13,081)
2008	4,272,831	2,372,178	2,925,168	2,722,758	141,650	(266,031)	(77,210)
2007	4,174,709	2,163,616	2,717,123	1,300,284	142,232	121,214	183,663
2006	3,880,805	2,085,241	2,513,491	1,621,143	130,910	119,513	170,431

At year-end 2009, 5,337 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:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 2,513,491	\$ 2,717,123	\$ 2,925,168	\$ 3,131,658
Assumed	1,886,405	1,907,872	1,930,993	2,451,005
Ceded	<u>(2,513,491)</u>	<u>(2,717,123)</u>	<u>(2,925,168)</u>	<u>(3,131,658)</u>
Net	<u>\$ 1,886,405</u>	<u>\$ 1,907,872</u>	<u>\$ 1,930,993</u>	<u>\$ 2,451,005</u>

Assumed

The Company has an intercompany pooling 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. The Company's assumption percentage is 1% of the pool.

Ceded

The Company cedes 100% of its business to CMIC under the intercompany pooling 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, 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	\$ 3,729,469
Cash and Short-Term Investments	364,978
Investment Income Due & Accrued	36,153
Uncollected Premiums & Agent's Balances	232,741
Deferred Premiums	359,466
Amounts Recoverable From Reinsurers	6,969
Funds Held By Reinsurers	168
Other Amounts Recoverable From Reinsurers	32,295
Net Deferred Tax Asset	83,302
Guaranty Funds Receivable	6,496

Total Assets	<u><u>\$ 4,852,037</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Losses	\$ 1,242,114
Reinsurance Payable on Paid Losses	5,081
Loss Adjustment Expenses	419,078
Commissions Payable	67,616
Taxes, Licenses & Fees	34,123
Current Federal Income Taxes	14,465
Unearned Premiums	1,071,236
Advance Premiums	27,970
Ceded Reinsurance Premiums Payable	22,433
Funds Held Under Reinsurance	2,620
Remittances and Items Not Allocated	834
Payable to Parent, Subsidiaries and Affiliates	56,083
Liability Write-Ins	4,605

Total Liabilities	\$ 2,968,258
Unassigned Funds (Note 1)	1,883,779

Surplus as Regards Policyholders	1,883,779

Total Liabilities and Surplus	\$ 4,852,037
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STATEMENT OF INCOME
For the Year Ending December 31, 2009

Premiums Earned	\$ 2,265,743
Losses Incurred	(1,468,428)
Loss Adjustment Expenses Incurred	(225,553)
Other Underwriting Expenses Incurred	(711,443)

Net Underwriting Income (Loss)	\$ (139,681)
Net Investment Gain	131,359
Other Income	9,788

Net Income Before Federal Income Tax	\$ 1,466
Federal Income Tax	(14,547)

Net Income (Loss)	\$ (13,081)
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008	\$ 1,900,653
Net Income (Loss)	(13,081)
Change in Net Deferred Income Tax	31,268
Change in Non-Admitted Assets	(35,061)

Policyholders' Surplus, December 31, 2009	\$ 1,883,779
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Unassigned Funds

The Unassigned Funds Balance of \$1,883,779 includes a guaranty fund balance of approximately \$400,000, in accordance with Section 380.271 RSMo (Financial Reinsurance Requirements). The 2009 Property & Casualty Statement filed by the Company does not contain a guaranty fund line in its format. The DIFP approved the Company's filing of this statement in lieu of the Missouri Mutual Annual Statement.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

