

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Drake-Beemont Mutual Insurance Company December 31, 2009

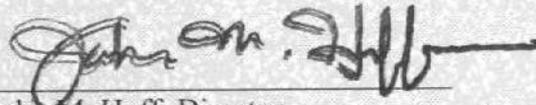
### ORDER

After full consideration and review of the report of the financial examination of Drake-Beemont 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 Drake-Beemont 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 17<sup>th</sup> day of June 2011.



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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
DRAKE – BEEMONT MUTUAL INSURANCE  
COMPANY

AS OF  
DECEMBER 31, 2009



FILED  
JUN 17 2011  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

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	2
Management	2
Conflict of Interest	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	3
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
GENERAL COMMENTS AND/OR RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

April 28, 2011  
Owensville, 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

### **DRAKE - BEEMONT MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 North First Street, Owensville, Missouri 65066, telephone number (573) 437-4625. This examination began on April 28, 2011, concluded on the same date, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company 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 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 or recommendation in the previous examination report dated December 31, 2004.

## HISTORY

### General

The Company was originally organized on July 29, 1911, as Drake-Beemont Mutual Aid Society. On November 1, 1984, the Company was incorporated in the State of Missouri as Drake-Beemont Mutual Insurance Company.

The Company has a Certificate of Authority dated September 12, 1988, 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 second Tuesday 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not 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 approximately every month, and the directors receive \$40 per each meeting attended.

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>
Charles H. Gross Owensville, Missouri	Retired	2009-2012
Kay Schneider Mt. Sterling, Missouri	Store Manager	2008-2011

Lyle L. Scheible Berger, Missouri	Farmer	2009-2012
Craig Dozier Bland, Missouri	Construction	2007-2010
Jeffrey Nolting Chamois, Missouri	Truck Driver	2008-2011
Wm. Steve Helterbrand Bland, Missouri	Cartographer	2007-2010
Harold Roethemeyer Gerald, Missouri	Retired	2007-2010
Nolan Hesemann Owensville, Missouri	Farmer	2009-2012
Debbie Winters New Haven, Missouri	Banker	2008-2011

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:

Charles H. Gross	President
Wm. Steve Helterbrand	Vice-President
Lyle L. Scheible	Secretary
Kaye Schneider	Treasurer
Harold Roethemeyer	Investment Officer

### **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. On April 12, 2005, the Bylaws were amended to create the office of "Investment Officer," charged with developing, implementing and maintaining the investment portfolio of the Company. The Articles of Incorporation were not amended during the examination period.

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.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$75,000.

The Company carries liability coverage for their directors and officers. Agents are required to purchase their own errors and omissions coverage.

The Company also carries general liability, office contents and workers compensation coverage.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has four full-time employees. The employee benefits plan includes employer-subsidized health and life insurance and paid time off.

### **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 seven licensed agencies, who receive a 15% commission and are eligible for up to an additional 3% commission, contingent upon loss ratios attained by each individual agency.

### **Policy Forms and Underwriting Practices**

The Company utilizes Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Inspections and claims adjusting are performed by Company inspector/adjusters. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2009	\$1,468,403	\$56,274	\$2,106,686	\$1,130,818	\$60,646	\$ 85,694	\$ 112,670
2008	1,348,710	49,251	2,020,515	1,035,461	52,263	(5,517)	45,624
2007	1,358,538	117,288	2,011,382	820,872	65,920	85,923	143,197
2006	1,212,900	114,847	1,940,895	775,321	66,145	(58,942)	53,850
2005	1,291,916	72,619	1,747,123	631,904	34,669	322,127	392,395

At year-end 2009, 3,519 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 1,747,123	\$ 1,940,895	\$ 2,011,382	\$ 2,020,515	\$2,106,686
Assumed	0	0	0	0	0
Ceded	<u>(306,939)</u>	<u>(596,308)</u>	<u>(594,829)</u>	<u>(627,434)</u>	<u>(664,767)</u>
Net	<u>\$ 1,440,184</u>	<u>\$ 1,344,587</u>	<u>\$ 1,416,553</u>	<u>\$ 1,393,081</u>	<u>\$ 1,441,919</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer). The individual occurrence of loss and aggregate excess sections of the agreement cover property risks. Under the individual occurrence of loss section of the agreement, the Company retains \$75,000 per risk and the reinsurer is liable for the excess, limited to \$1,000,000 per risk. Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2009 was \$892,807.

The Company markets liability coverages on behalf of the reinsurer under an organizational agreement. The Company receives a 20% commission on policies sold under the agreement.

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 a modified cash basis. The accounting firm of Johnson & Associates compiles the Annual Statement and prepares the tax filings.

## **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	\$ 712,661
Stocks (Note 1)	50,026
Cash on Deposit	650,716
Other Investments	55,000
	-----
Total Assets	\$ 1,468,403
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2009**

Net Losses Unpaid	\$ 52,696
Liability Write-Ins	3,578
	-----
Total Liabilities	\$ 56,274
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,262,129
	-----
Total Surplus	1,412,129
	-----
Total Liabilities and Surplus	\$ 1,468,403
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2009**

Net Assessments Earned	\$ 1,441,919
Other Insurance Income	62,954
Net Losses & Loss Adjustment Expenses Incurred	(821,743)
Other Underwriting Expenses Incurred	(597,436)
	-----
Net Underwriting Income (Loss)	\$ 85,694
Investment Income	60,646
Other Income	64
	-----
Gross Profit (Loss)	\$ 146,404
Federal Income Tax	(33,734)
	-----
Net Income (Loss)	\$ 112,670
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2009**

Policyholders' Surplus, December 31, 2008	\$ 1,299,459
Net Income (Loss)	112,670
	-----
Policyholders' Surplus, December 31, 2009	\$ 1,412,129
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 – Stocks**

Stocks are not an approved form of investment under the provisions of 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). In addition, the Company's request to allow for the investment in stocks has been previously denied in writing by the DIFP. The Company is directed to either dispose of its stock investments or non-admit the related asset on future Annual Statement filings.

### **EXAMINATION CHANGES**

There were no examination changes.

### **GENERAL COMMENTS AND RECOMMENDATIONS**

#### **Notes to the Financial Statements (Page 10)**

The Company should either dispose of its stock investments or non-admit the related asset on future Annual Statement filings.

### **SUBSEQUENT EVENTS**

None.

