

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Farmers Mutual Protective Association of Benton County for the period ended December 31, 2011

### ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Protective Association of Benton County for the period ended December 31, 2011, 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 Farmers Mutual Protective Association of Benton County 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 18<sup>th</sup> day of April 2013.

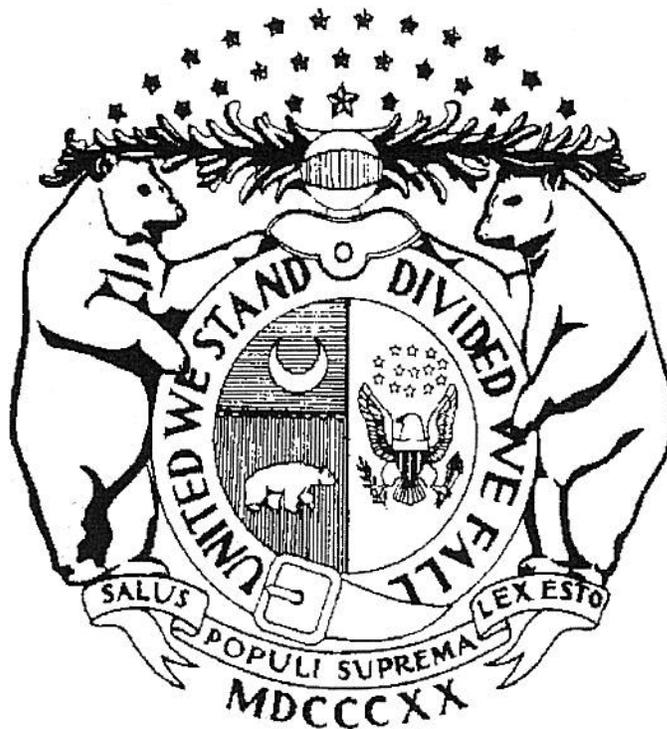


John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS MUTUAL PROTECTIVE ASSOCIATION  
OF BENTON COUNTY

AS OF  
DECEMBER 31, 2011

**FILED**  
APR 18 2013  
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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October 17, 2012  
Lincoln, 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

### **FARMERS MUTUAL PROTECTIVE ASSOCIATION OF BENTON COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 445 North Highway 65 (P.O. Box 11), Lincoln, Missouri 65338, telephone number (660) 547-2323. This examination began on October 15, 2012, and was concluded on October 17, 2012, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2006, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2007, through December 31, 2011, 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.

## HISTORY

### General

The Company was originally organized on May 20, 1882 and incorporated on November 7, 1935, as Farmers Mutual Protective Association of Benton County.

The Company has a Certificate of Authority dated June 15, 2004, 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 Wednesday in February 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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and the directors are compensated \$75 per each attended meeting.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
David Aery Warsaw, Missouri	Farmer/Angling Supply Manufacturer	2010-2013
Ernest Burnett Lincoln, Missouri	Farmer/Insurance Agent	2011-2014
Paul Meyer Warsaw, Missouri	Farmer/Agricultural Exchange Employee	2011-2014
Charles Garrison Lincoln, Missouri	Farmer	2010-2013
George Keightley Cole Camp, Missouri	Farmer	2009-2012

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, 2011, were as follows:

David Aery	President
Ernest Burnett	Vice-President
Cathy Burton	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, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. At the February 10, 2010 annual membership meeting, the Articles of Incorporation were amended and restated to change the date of the annual meeting to the second Wednesday in February. No other amendments were made 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 between \$25,000 and \$50,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$750,000 and a \$5,000 deductible in aggregate for each claim.

The Company purchases errors and omissions coverage for each of its two agents with an aggregate limit of \$750,000 for each agent and a \$1,000 per claim deductible.

The Company carries business owners insurance which provides limits of \$190,100 for the home office building, \$27,300 for contents and \$2,000,000 for general liability.

The insurance coverage appears adequate.

## EMPLOYEE BENEFITS

The Company has one full-time and two part-time employees. The full-time employee receives a monthly medical allowance, three weeks of vacation, and ten days of sick leave each year. One part-time employee receives two weeks of vacation and ten days of sick leave each year, while the other part-time employee receives no benefits.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 sold by two licensed agents, who receive a commission of 15%.

### Policy Forms and Underwriting Practices

The Company uses AAIS forms. The policies are written for a continuous period with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and claim adjusting services are performed by the agents. Claims adjudication is performed by independent adjusters, at the discretion of the Company Manager.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessments</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	Net <u>Income</u>
2011	\$933,996	\$350,007	\$604,864	\$472,615	\$8,714	(\$10,203)	(\$1,489)
2010	917,174	331,695	548,577	338,058	15,289	(91,618)	(76,329)
2009	930,493	268,685	531,184	312,613	23,128	(88,932)	(86,814)
2008	1,019,283	270,660	517,053	271,394	27,939	(21,565)	40,466
2007	978,535	270,379	514,203	154,414	28,762	27,778	56,540

At year-end 2011, 993 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Direct	\$ 514,203	\$ 517,053	\$ 531,184	\$ 548,577	\$ 604,864
Assumed	0	0	0	0	0
Ceded	<u>(188,085)</u>	<u>(172,880)</u>	<u>(197,943)</u>	<u>(203,172)</u>	<u>(189,301)</u>
Net	<u>\$ 326,118</u>	<u>\$ 344,173</u>	<u>\$ 333,241</u>	<u>\$ 345,405</u>	<u>\$ 415,563</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) under per risk, aggregate excess of loss and facultative arrangements for property risks and quota share coverage for casualty risks.

Under the per risk coverage, the company retains \$45,000 per risk and the reinsurer is liable for 100% of the excess, limited to \$355,000 per risk and \$437,500 per occurrence. Risks ceded under the contract are limited to \$400,000. Risks in excess of \$400,000 are ceded under the facultative section of the agreement. The Company is responsible for a \$500 per claim deductible on business ceded under the facultative provisions.

Under the aggregate excess coverage, the Company retains annual losses equal to 75% of gross net written premium. The reinsurer is responsible for all losses in excess of the retention.

The Company cedes 100% of its casualty premium and risk under the casualty quota share provisions of the agreement and receives an 18% ceding commission.

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 cash basis. The Company prepares its annual statement and statutory filings. Sharon Johnson's Accounting and Tax Service prepares the Company's tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2011, 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, 2011**

Real Estate	\$ 186,562
Cash and Short-Term Investments	747,434
	-----
Total Assets	\$ 933,996
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2011**

Losses Unpaid	\$ 25,000
Unearned Premium	325,007
	-----
Total Liabilities	\$ 350,007
	-----
Guaranty Fund	\$ 150,000
Other Surplus	433,989
	-----
Total Surplus	583,989
	-----
Total Liabilities and Surplus	\$ 933,996
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2011**

Premiums Earned	\$ 371,351
Other Insurance Income	20,801
Net Losses & Loss Adjustment Expenses Incurred	(220,363)
Other Underwriting Expenses Incurred	(181,992)
	-----
Net Underwriting Income (Loss)	\$ (10,203)
Investment Income	8,714
Other Income	0
	-----
Net Income Before Tax	\$ (1,489)
Federal Income Tax	(0)
	-----
Net Income (Loss)	\$ (1,489)
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2011**

Policyholders' Surplus, December 31, 2010	\$ 585,478
Net Income (Loss)	(1,489)
	-----
Policyholders' Surplus, December 31, 2011	\$ 583,989
	=====

**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Farmers Mutual Protective Association of Benton County during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri )  
  )  
County of Jackson )

I, Scott Rennick 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.

Scott L. Rennick  
Scott Rennick MBA, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 23<sup>rd</sup> day of January, 2013.

My commission expires:

BEVERLY M. WEBB  
My Commission Expires  
April 14, 2016  
Clay County  
Commission #12464070

04-14-2016

Beverly M. Webb  
Notary Public



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