STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of CFM Insurance, Inc. for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of CFM Insurance, Inc. 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 CFM Insurance, Inc. 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 30th day of April 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

CFM INSURANCE, INC.

AS OF
DECEMBER 31, 2011

FILED
APR 30 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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November 26, 2012
Concordia, 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

CFM INSURANCE, INC.

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1202 East 1st Street (P.O. Box 968), Concordia, Missouri 64020, telephone number (660) 463-2223. This examination began on November 12, 2012, and was concluded on November 26, 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.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2006, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Stocks and Other Investments

Comment: It was recommended the Company report mutual fund investments as "Stocks" in future Annual Statement Filings.

Company Response: The Company will report mutual fund investments as "Stocks" on all future financial statements.

Current Findings: The Company properly reported mutual fund investments as "Stocks" through 2010. In 2011, the Annual Statement blank was amended to allow for the separate reporting of stocks and mutual funds. Mutual funds were properly reported in 2011 on line 3 of the Annual Statement.

HISTORY

General

The Company was originally organized in 1869 and was incorporated in 1930 as Freedom Farmers Insurance Company. On March 30, 1938, the Company changed its name to Concordia Farmers Mutual Insurance Company. On May 17, 2010, the Company changed its name to CFM Insurance, Inc. On July 1, 2010, Central Mutual Insurance Company merged into the Company, with CFM Insurance, Inc. being the surviving entity.

The Company has a Certificate of Authority dated June 7, 2010, 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 third 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 shall be called at any time by a majority vote of the Board of Directors or upon petition of five percent of the membership or 500 members, whichever is lesser. 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 eleven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and directors are compensated $400 per each meeting attended.

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

Name and Address	Occupation	Term
Dale Dieckhoff Concordia, Missouri	Retired/Information Systems Manager	2010 - 2012
David Wiedeman Sedalia, Missouri	Realtor	2010 - 2012
George Zimmerschied Higginsville, Missouri	Farm Equipment Manufacturer District Manager	2010 - 2012
Marla Zirkle Oak Grove, Missouri	Radio Broadcast Group Market Controller	2010 - 2012
Edward Dysart Marshall, Missouri	Retired	2010 - 2013
James Joyner Warrensburg, Missouri	Insurance Agent	2010 - 2013
John Meehan Sedalia, Missouri	County Commissioner	2010 - 2013
Kenneth Nierman Concordia, Missouri	Farmer	2010 - 2013
Todd Hartley Marshall, Missouri	Business Owner	2011 - 2014
Wayne Lindemann Concordia, Missouri	Retired	2011 - 2014
Phillip Woods Warrensburg, Missouri	Business Owner	2011 - 2014

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:

John Meehan	Chairman
Dale Dieckhoff	Vice-Chairman
Connie Costigan	President
Cindy Tolias	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. While it was noted that two directors were also agents, one director did not properly disclose this potential conflict in the conflict of interest statement.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles and Bylaws were amended on May, 17, 2010. The amendments to the Articles and Bylaws included changing the name of the Company to CFM Insurance, Inc., specified the number of required directors to be no less than five but no more than twelve, allowed for proxy voting by members, and limited the age of directors to seventy.

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 does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is between $200,000 and $225,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of $3,000,000 and a $5,000 deductible in aggregate for each claim.

The Company utilizes independent agents, which are required to obtain errors and omissions coverage and provide evidence of such coverage to the Company.

The Company carries property insurance on its home office and contents, commercial liability, commercial liability umbrella, commercial automobile, employment practices liability and workers compensation insurance coverage.

The insurance coverage appears adequate, with the exception of the Company's fidelity bond coverage.

EMPLOYEE BENEFITS

The Company has fifteen full-time employees and one part-time employee. The Company provides group health, life, long-term disability and long-term care insurance to its employees. Employees are also eligible to participate in a 401(k) retirement plan, to which the Company contributes a percentage of each employee's salary. Employees also receive paid vacation and sick leave. The Company appears to have made adequate provisions for the benefits in the financial statements.

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, liability, and other insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverage. The Company's policies are sold by approximately 84 independent licensed agencies that receive a 15% commission. Individual agents are eligible for a contingent commission if certain profitability criteria are met.

Policy Forms and Underwriting Practices

The Company uses AAIS and Grinnell Mutual Reinsurance Company forms. The policies are written on a continuous period and renewed annually with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by an independent third party inspection services provider. Claim adjusting is performed by both staff adjusters and independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$13,927,226	$6,041,661	$11,551,843	$7,826,631	$520,761	$39,185	$506,229
2010	14,546,179	6,881,200	8,123,414	4,423,379	507,060	(1,373,167)	(722,509)
2009	7,224,729	3,164,945	4,855,814	2,379,325	259,353	90,311	353,182
2008	6,330,242	2,724,779	4,783,540	3,419,464	257,146	(640,954)	(298,325)
2007	6,665,555	2,681,287	4,451,335	2,978,946	243,404	(222,637)	102,741

At year-end 2011, 15,302 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:

	2007	2008	2009	2010	2011
Direct	$4,451,335	$4,783,540	$4,855,814	$8,123,414	$11,551,843
Assumed	400,860	418,432	435,327	0	0
Ceded	(942,840)	(1,173,444)	(1,223,288)	(1,669,422)	(2,532,140)
Net	$3,909,355	$4,028,528	$4,067,853	$6,453,992	$9,019,703

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 89% of the first $2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 89% of the first $3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 5% share in the interests and liabilities of the pool.

Ceded

The Company has reinsurance coverage through Grinnell Mutual Reinsurance Company ("Grinnell") under an individual occurrence of loss excess with aggregate excess reinsurance agreement. The individual excess of loss section of the agreement covers property risks. The Company retains $300,000 for each loss occurrence and Grinnell's limits are $1,000,000 per exposure. Risks in excess of these limits may be ceded to Grinnell on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by Grinnell on an individual basis.

The aggregate excess section of the agreement covers property risks. 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. Grinnell is liable for 100% of losses in excess of this retention. The attachment point for 2011 was $5,524,924.

The agreement also provides for liability risk coverage. The Company retains $10,000 per occurrence and cedes 100% of the excess risk to Grinnell. The Company receives a 40% ceding commission.

The Company also has an equipment breakdown quota share reinsurance contract with Factory Mutual Insurance Company ("FMIC") brokered by Guy Carpenter. The Company cedes 100% of the risk and premium to FMIC and receives a 35% 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 an accrual basis. The CPA firm of Marberry & Eagle P.C. performs an annual audit of the Company's financial statements and prepares the annual statement and federal 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

Bonds	$ 10,353,538
Mutual Funds	879,855
Real Estate	167,329
Cash on Deposit	1,364,914
Other Investments	259,701
Premium Receivable	352,616
Reinsurance Recoverable on Paid Losses	348,433
Computer Equipment	1,305
Federal Income Tax Recoverable	121,707
Interest Due and Accrued	58,922
Other Assets	18,906
Total Assets	$ 13,927,226

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Net Losses Unpaid	$ 325,880
Net Loss Adjustment Expense Unpaid	19,000
Ceded Reinsurance Premium Payable	200,599
Unearned Premium	4,930,272
Other Liabilities	565,910
Total Liabilities	$ 6,041,661
Guaranty Fund	$ 1,600,000
Other Surplus	6,285,565
Total Surplus	$ 7,885,565
Total Liabilities and Surplus	$ 13,927,226

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 8,774,970
Other Insurance Income	643,101
Net Losses & Loss Adjustment Expenses Incurred	(5,650,180)
Other Underwriting Expenses Incurred	(3,728,706)
Net Underwriting Income (Loss)	$ 39,185
Investment Income	520,761
Other Income	49,009
Gross Profit (Loss)	$ 608,955
Federal Income Tax	(102,726)
Net Income (Loss)	$ 506,229

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 7,664,979
Net Income (Loss)	506,229
Change in Non-Admitted Assets	(291,017)
Change in Unrealized Investment Gains	5,374
Policyholders' Surplus, December 31, 2011	$ 7,885,565

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Conflict of Interest Statements (Page 4)
It is recommended that members of the Board of Directors and officers disclose all potential conflicts of interest in future conflict of interest statements.

Fidelity Bond Coverage (Page 4)
It is recommended the Company increase its fidelity bond coverage to meet the minimum amount suggested in the guidelines promulgated by the NAIC.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of CFM Insurance, Inc. during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Jackson)

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

Sworn to and subscribed before me this 23rd day of January, 2013.

My commission expires:

04-14-2016

Notary Public

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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 CPA, CFE
Audit Manager – Kansas City
Missouri DIFP

1202 SE 1st Street
Concordia, MO 64020

CFM INSURANCE
... since 1869

(660) 463-2223
FAX (660) 463-2766

April 8, 2013

Honorable John M. Huff, Director
MO Depart of Insurance
301 West High Street, room 530
Jefferson City, Mo. 65101

Mr. Huff,

This letter is in response to the Examination Report, and letter dated March 22, 2013 concerning the examination CFM Insurance Inc. The Summary of Recommendations list two items that we need to address.

1. Conflict of Interest Statements: We have an agent/director who holds a life insurance license. In the past, he had not been disclosing that potential conflict of interest on the annual conflict of interest statement. He is not currently active as an insurance producer. His license was left with CFM from years prior. We now have a signed statement from him withdrawing his agency license from CFM and we will ask that he disclose his license on Annual Conflict of Interest Statements in the future.
2. Fidelity Bond Coverage: It was noted that CFM did not meet the minimum guidelines of NAIC. This coverage was increased to $250,000, effective Dec, 2012.

CFM has complied with all recommendations from the 2012 Examination. We wish this letter of response to be included in the report as a public document.

Sincerely,

Connie Costigan

Connie Costigan, Pres.
CFM Insurance Inc
Concordia, Mo. 64020