

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 Fire Insurance Company of Shelby County
as of December 31, 2010.

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Fire Insurance Company of Shelby County for the period ended December 31, 2010, 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 Fire Insurance Company of Shelby 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 20th day of January 2012.



A handwritten signature in black ink, appearing to read "John M. Huff".

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

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL FIRE INSURANCE COMPANY OF
SHELBY COUNTY

AS OF
DECEMBER 31, 2010

FILED
JAN 20 2012
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 28, 2011
Shelbina, Missouri

Honorable John 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 Fire Insurance Company of Shelby County

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at 105 E. Chestnut, Shelbina, Missouri 63468 telephone number (573) 588-7648. This examination began on October 24, 2011, and was concluded on October 28, 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, 2010, 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, and notes of the previous examination report dated December 31, 2005.

HISTORY

General

The Company was organized in October 1896 as a Farmers Mutual Fire Association of Shelby County. On December 7, 1896, the Company received a Certificate of Incorporation from the Missouri Secretary of State. On October 21, 1972, the Company reorganized and changed its name to Farmers Mutual Fire Insurance Company of Shelby County, Missouri. The Company received a certificate of authority from the Missouri Department of Insurance and changed to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo).

Management

A board of nine directors provides oversight of the Company. Each director serves a three-year term with three directors elected each year. Directors are elected at annual member meetings held on the second Saturday in February. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Ten members constitute a quorum at annual member meetings and proxy voting is allowed.

Members serving on the Board of Directors as of December 31, 2010, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Raymond Clem, President 408 South Broad Clarence, MO 63437	Teacher	2008-2011
George M. Wilt, Vice-President 5010 Shelby 2340 Shelbyville, Mo 63469	Farmer	2010-2013

Charles Kirby, Secretary/Treasurer 8124 Shelby 358 Shelbina, MO 63468	Farmer	2008-2011
Paul Jarboe 8067 Highway 151 Clarence, MO 63437	Farmer	2009-2012
Marion Smoot 102 Central Avenue Shelbina, MO 63468	Farmer	2009-2012
Dwain Marquette 349 Shelby 159 Bethel, MO 63434	Farmer	2008-2011
Kenny Latimer 8960 Shelby 364 Hunnewell, MO 63443	Farmer	2009-2012
Bert Greenwell 102 East Mill Street Shelbina, MO 63468	Farmer	2010-2013
Ronald Parsons 3852 Highway M Shelbyville, MO 63469	Farmer	2010-2013

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, 2010, were as follows:

Raymond E. Clem	President
George M. Wilt	Vice-President
Charles Kirby	Secretary/Treasurer

In addition, Lordeen Requet is the Company agent and manager.

Conflict of Interest

Signed conflict of interest statements were obtained from all directors. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On April 9, 2002, the Articles of Incorporation were amended to address sources on income and a safety fund. The Bylaws 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. Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. The Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged the previous examination report during its October 18, 2006 meeting. Attendance at the Board and annual meetings appears to be satisfactory.

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 in coverage.

The Company carries liability coverage for their directors and officers. In addition, the Company purchases errors and omissions liability insurance coverage for its agent.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time employee and one part time employee. The Company's manager is also the agent for the Company and is compensated through commissions. The full-time employee receives two weeks paid vacation and six days of sick leave. The full-time employee and agent/manager receive health insurance. The Company has no retirement plan.

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, windstorm, and liability coverage throughout the state but writes primarily in Shelby and surrounding counties. A single agent produces business for the Company and receives a 20% commission on all new, renewal and increases in premiums. The Company advertises in local newspapers and through various promotional activities in the community.

Policy Forms and Underwriting Practices

The Company uses policy forms from the Missouri Association of Mutual Insurance Companies (MAMIC) and the American Association of Insurance Services (AAIS). Inspections and underwriting are performed by the agent. The Company issues three-year renewable policies. All policies are issued with semi-annual payments, although the policyholder may elect to make annual payments.

Initial fire and wind claim reviews are performed by the Company's agent. All liability claims are adjusted by the reinsurer. The Company uses outside adjusters or inspectors on large or suspicious fire claims. Records of claim filings are kept in the policy file and are recorded in the computer claims system. The amount of the loss is determined and the claim paid when proof of loss is received.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2010	\$4,191,213	\$290,895	\$933,025	\$566,312	\$114,737	\$ (87,833)	\$12,416
2009	4,131,149	243,247	698,125	265,266	133,122	70,430	181,924
2008	3,922,359	216,381	676,854	512,439	150,843	(120,998)	2,702
2007	3,920,827	217,551	666,261	210,043	165,328	73,327	208,277
2006	3,721,321	226,322	656,068	266,957	146,207	(57,988)	63,561

At year-end 2010, 984 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>	<u>2010</u>
Direct	\$ 542,232	\$ 666,248	\$ 676,854	\$ 698,125	\$717,528
Assumed	0	0	0	0	0
Ceded	<u>(218,268)</u>	<u>(213,236)</u>	<u>(208,919)</u>	<u>(223,684)</u>	<u>(242,999)</u>
Net	<u>\$ 323,964</u>	<u>\$ 453,012</u>	<u>\$ 467,935</u>	<u>\$ 474,441</u>	<u>\$ 474,529</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has its property and catastrophe reinsurance through intermediary Guy Carpenter. The reinsurers for the contracts with the intermediary include Allied World Reinsurance Company, Arch Reinsurance Company, Employers Mutual Casualty Company, Lloyd's Underwriting Syndicate, QBE Reinsurance Corporation, and The Toa Reinsurance Company of America (reinsurers).

The property per risk excess of loss reinsurance contract covers first and second properties. For first property, the Company retains \$60,000 per loss occurrence and the reinsurer is responsible for \$100,000 in excess of the retention subject to limit of liability to the reinsurer of \$200,000 each loss occurrence. For the second property, the Company retains \$160,000 per loss occurrence and the reinsurer is responsible for \$400,000 in excess of the retention subject to a limit of liability to the reinsurer of \$800,000 each loss occurrence. The premiums for the reinsurance are based on the Company's Gross Net Written Premium Income. First property premiums are calculated at a rate of 5.15% of Gross Net Written Premium Income and second property premiums are calculated at a rate of 2.10% of Gross Net Written Premium Income.

The property catastrophe excess of loss reinsurance contract is also through intermediary Guy Carpenter and the reinsurers for the contracts are the same as above. The Company retains \$154,000 each loss occurrence on first excess. The Reinsurer is liable for 95% of each loss occurrence above the Company's retention subject to a limit of liability to the reinsurer of \$950,000 each loss occurrence. On second excess, the net retention is \$1,154,000 each occurrence and the reinsurer is liable for all excess above this amount subject to a limit of liability to the reinsurer of \$2,000,000 loss occurrence. Unlimited Aggregate Excess of Loss

Reinsurance covers unlimited in excess of 80% of Gross Net Earned Premium Income. Premiums for the reinsurance are based on the Gross Net Written Premium Income and are calculated at a rate of 6.65% for first excess, 3.0% for second excess and 7.5% for unlimited aggregate excess of loss.

The Company has a liability quota share reinsurance contract with Cameron Mutual Insurance Company. The authorized liability lines are farm liability, personal liability, homeowner's liability and general liability. The Company does not have any retention and receives a 22% ceding commission for the insurance. The rates are set by the reinsurer with rate manual furnished to the Company.

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 Company maintains financial records primarily on an automated system. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from IMT, a software company in Des Moines, Iowa. Premium receipts are also manually recorded to a ledger. Claim documentation is kept in the policyholders' files.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Van de Ven, LLC, is used to prepare the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis and included an unearned premium reserve.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, 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, 2010

Bonds	\$ 2,007,347
Stocks	0
Real Estate	61,989
Cash on Deposit	2,034,051
Other Investments	0
Premium/Assessments/Agent's Balances Uncollected	10,504
Reinsurance Recoverable on Paid Losses	41,985
Federal Income Tax Recoverable	0
Interest Due and Accrued	23,460
Prepaid Insurance	4,285
Funds Held by Reinsurer	7,592

Total Assets	<u><u>\$4,191,213</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Losses	\$42,195
Unpaid Loss Adjustment Expense	755
Ceded Reinsurance Premium Payable	11,420
Unearned Premium	203,129
Federal Income Tax Payable	9,466
Payroll Taxes Payable	1,286
Prepaid Policy Premiums	22,644

Total Liabilities	\$ 290,895

Guaranty Fund	\$ 150,000
Other Surplus	3,750,318

Total Surplus	3,900,318

Total Liabilities and Surplus	\$4,191,213
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$	467,712
Other Insurance Income		29,361
Net Losses & Loss Adjustment Expenses Incurred		(375,451)
Other Underwriting Expenses Incurred		(209,455)

Net Underwriting Income (Loss)	\$	(87,833)

Investment Income	\$	114,727
Other Income		357

Gross Profit (Loss)	\$	27,251
Federal Income Tax		(14,835)

Net Income (Loss)	\$	12,416
		=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009		\$3,887,902
Net Income (Loss)		12,416

Policyholders' Surplus, December 31, 2010		\$3,900,318
		=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financials.

EXAMINATION CHANGES

There were no examination changes made during this examination.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations made during this examination.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Farmers Mutual Fire Insurance Company of Shelby County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Shelby)

I, Amy E. Snyder 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.

Amy E. Snyder, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this _____ day of _____, 2011.

My commission expires:

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.

Michael Shadowens, CFE
Examiner In Charge
Missouri DIFP

