

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 Insurance Company of Callaway County as of December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Callaway County for the period ending 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 Insurance Company of Callaway 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 23rd day of April, 2012.

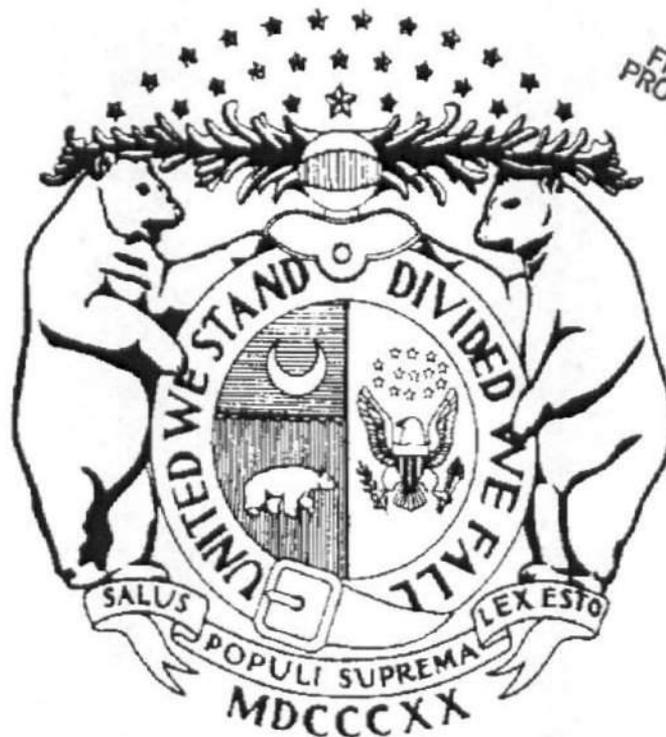


A handwritten signature in cursive script, reading "John M. Huff".

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

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMER'S MUTUAL INSURANCE COMPANY OF
CALLAWAY COUNTY

AS OF
DECEMBER 31, 2010



FILED
APR 23 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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December 2, 2011
Fulton, 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

FARMER'S MUTUAL INSURANCE COMPANY OF CALLAWAY COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 201 St. Louis Avenue, Fulton, Missouri 65251, telephone number (573) 642-3006. This examination began on November 28, 2011, and was concluded on December 2, 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

The comments, recommendations, and notes of the previous examination report dated December 31, 2005, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Policy and Procedures Manual

Comment: It was recommended the Company draft and approve a written policy and procedures manual. The manual should include policies on investments, conflict of interest, check signing, employee expenses, agent underwriting, claims payment, agent compensation, inspection process and job descriptions.

Company Response: The Company is in the process of developing a written policies and procedures manual.

Current Findings: The Company is developing, but has not completed a Board approved, written policies and procedures manual.

Fidelity Bond Coverage

Comment: It was recommended the Company increase its fidelity bond coverage to a minimum of \$100,000 as suggested in the guidelines promulgated by the NAIC.

Company Response: The Company increased its fidelity bond coverage to \$100,000.

Current Findings: The Company's current fidelity bond coverage level appeared adequate per the NAIC guidelines.

Guaranty Fund Balance

Comment: The Company's guaranty fund balance exceeded the required amount per Section 381.271 RSMo by \$795,478 as the minimum guaranty fund balance of \$150,000 was sufficient based on the Company's net in-force amounts. Company should utilize in-force amounts net of reinsurance in future guaranty fund calculations.

Company Response: None.

Current Findings: The Company correctly reported a guaranty fund balance of \$150,000 based on net in-force amounts.

HISTORY

General

The Company was incorporated on October 22, 1895, as Farmers Mutual Fire and Lightning Insurance Company of Callaway County. On February 16, 1980, the Company amended its Articles of Incorporation changing its name to Farmers Mutual Insurance Company of Callaway County.

The Company has a Certificate of Authority dated January 16, 1997, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual 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 Thursday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called 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 not permitted.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. The President is compensated \$300 per month, while other Board members receive \$200 per month. All Directors are compensated \$100 per each special meeting attended. The Company also purchases a \$20,000 life insurance policy for each Board member and will pay 75% of each Board member's health insurance premium if they participate in the Company's group health plan.

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> |
|-------------------------------|--------------------------|-------------------|
| Jerry Austin Fulton, MO | Insurance Agent / Farmer | Term expires 2011 |
| Arthur Clingman Mokane, MO | Insurance Agent | Term expires 2012 |
| Gary Crawford Auxvasse, MO | Insurance Agent / Farmer | Term expires 2012 |
| David Guerrant Fulton, MO | Insurance Agent / Farmer | Term expires 2012 |

| | | |
|------------------------------------|--------------------------|-------------------|
| Gary Linnenbringer Auxvasse, MO | Insurance Agent / Farmer | Term expires 2011 |
| Kathy Mealy Holts Summit, MO | Insurance Agent | Term expires 2013 |
| Roy Rohrbach Fulton, MO | Insurance Agent / Farmer | Term expires 2011 |
| Larry Smith Fulton, MO | Insurance Agent / Farmer | Term expires 2013 |

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary. The Secretary may also serve as the Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2010, were as follows:

| | |
|-----------------|---------------------|
| Gary Crawford | President |
| Larry Smith | Vice-President |
| Pamela Crawford | 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 potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 29, 2011, the Articles of Incorporation were amended to change the date of the annual meeting of the members to the third Thursday in February.

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. It was noted, the Company does not have a Board approved, written policy and procedures manual.

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 \$100,000 and \$125,000 in coverage.

The Company carries liability coverage for their directors and officers with an aggregate limit of \$3,000,000. The Company carries errors and omissions liability coverage for its agents with an aggregate limit of \$1,000,000. The Company carries property insurance coverage on its home office and equipment, as well as business liability insurance. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees and two part-time employees. The Company provides life, health, and accidental death and dismemberment benefits to full-time employees. The Company contributes 6% of each full-time employee's gross salary into fully vested individual retirement accounts. Each year, full-time employees receive ten paid sick days plus an additional thirty days at one-half pay if needed, as well as two to four weeks of paid vacation, depending upon years of service. The Company appears to have made adequate provisions in the financial statement for these employee benefits.

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 coverage. The Company's policies are sold by eight licensed producers, who are also Directors of the Company. The producers receive a 15% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Director/producers.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

| | Admitted Assets | Liabilities | Gross Premiums | Gross Losses | Investment Income | Underwriting Income | Net Income |
|------|--------------------|-------------|-------------------|-----------------|----------------------|------------------------|---------------|
| 2010 | 7,539,127 | 1,250,293 | 2,458,630 | 1,777,140 | 167,337 | (738,708) | (567,972) |
| 2009 | 7,957,426 | 1,054,407 | 2,360,407 | 1,358,596 | 236,353 | (74,576) | 154,381 |
| 2008 | 7,696,577 | 947,938 | 2,272,285 | 2,148,268 | 310,280 | (632,553) | (143,219) |
| 2007 | 8,159,580 | 1,267,722 | 2,204,184 | 754,388 | 342,034 | 155,462 | 383,101 |
| 2006 | 7,406,691 | 897,934 | 2,113,570 | 1,834,282 | 308,165 | (397,529) | 16,479 |

At year-end 2010, 4,802 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>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---------|------------------|------------------|------------------|------------------|------------------|
| Direct | 2,458,630 | 2,360,407 | 2,272,285 | 2,204,184 | 2,113,570 |
| Assumed | 3,439 | 2,699 | 2,535 | 1,972 | 3,366 |
| Ceded | <u>581,035</u> | <u>529,337</u> | <u>492,700</u> | <u>522,566</u> | <u>449,767</u> |
| Net | <u>1,881,034</u> | <u>1,833,769</u> | <u>1,782,120</u> | <u>1,683,590</u> | <u>1,667,169</u> |

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 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 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 0.01% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single reinsurance contract for fire, wind, and liability risks. The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus

loadings, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2010 was \$1,853,785 and the annual premium paid was \$0.5672 per \$1,000 of adjusted gross fire risks in force. Property risks ceded under the agreement are limited to \$1,000,000 for dwellings, commercial and public property, livestock, poultry, horse operations, and farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the provisions of the agreement. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis.

The agreement also provides for liability risk and equipment breakdown coverage. The Company cedes 100% of these risks and premium to the reinsurer and receives a 20% 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. David J. Shively, CPA performs financial statement compilation, Annual Statement, and tax preparation services for the Company.

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 | \$4,314,270 |
| Stocks | 223,933 |
| Real Estate | 875,135 |
| Cash on Deposit | 2,048,346 |
| Other Investments | 28,628 |
| Reinsurance Recoverable on Paid Losses | 4,010 |
| Interest Due and Accrued | 44,805 |
| | ----- |
| Total Assets | <u><u>\$7,539,127</u></u> |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

| | |
|-------------------------------|---------------------------|
| Losses Unpaid | \$214,663 |
| Ceded Reinsurance Payable | 46,150 |
| Unearned Premium | 988,442 |
| Payroll Benefits Payable | 1,037 |
| | ----- |
| Total Liabilities | \$1,250,293 |
| | ----- |
| Guaranty Fund | \$150,000 |
| Other Surplus | 6,138,834 |
| | ----- |
| Total Surplus | 6,288,834 |
| | ----- |
| Total Liabilities and Surplus | <u><u>\$7,539,127</u></u> |

STATEMENT OF INCOME
For the Year Ending December 31, 2010

| | |
|--|-------------|
| Net Premiums Earned | \$1,835,816 |
| Other Insurance Income | 33,631 |
| Net Losses & Loss Adjustment Expenses Incurred | (1,892,585) |
| Other Underwriting Expenses Incurred | (715,570) |
| | ----- |
| Net Underwriting Income (Loss) | \$(738,708) |
| | ----- |
| Investment Income | \$167,337 |
| Other Income | 3,400 |
| | ----- |
| Gross Profit (Loss) | \$(567,972) |
| Federal Income Tax | 0 |
| | ----- |
| Net Income (Loss) | \$(567,972) |
| | ===== |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

| | |
|---|-------------|
| Policyholders' Surplus, December 31, 2009 | \$6,903,019 |
| Net Income (Loss) | (567,972) |
| Correction of Prior Year Errors – E&O / D&O Pool Investment | (46,213) |
| | ----- |
| Policyholders' Surplus, December 31, 2010 | \$6,288,834 |
| | ===== |

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 4)

The Company does not have a Board approved, written policy and procedures manual. It is recommended the Company draft and approve a written policy and procedures manual, which should be made available to all Company officials and employees.

SUBSEQUENT EVENTS

None

