

# 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 Clinton 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 Clinton 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 Insurance Company of Clinton 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 20<sup>th</sup> day of January 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  
**FARMERS MUTUAL INSURANCE COMPANY OF  
CLINTON 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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December 12, 2011  
Plattsburg, 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 INSURANCE COMPANY OF CLINTON COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 202 Maple, Plattsburg, Missouri, telephone number (816) 539-2104. This examination began November 14, 2011, and concluded on November 15, 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 or recommendations in the previous examination report dated December 31, 2005.

## HISTORY

### General

The Company was originally organized in December 1891 and incorporated on January 13, 1892, as The Farmers Mutual Fire Insurance Company of Clinton County. On February 28, 1984, the name was changed to Farmers Mutual Insurance Company of Clinton County.

The Company has a Certificate of Authority dated July 1, 1991, 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 Thursday 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 not permitted.

The management of the Company is vested in the Board of Directors, which is 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, and the directors are compensated \$100 per each meeting attended.

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>
Vance G. Bodenhausen Gower, Missouri	Farmer/Insurance Agent	2010-2013
Brant Downey Plattsburg, Missouri	Insurance Agent	2008-2011
Robert Moore Lathrop, Missouri	Retired	2008-2011
Ralph C Schmude Holt, Missouri	Insurance Agent	2009-2012
Richard McCauley Stewartsville, Missouri	Retired	2009-2012

I.D. Smith Lathrop, Missouri	Retired	2010-2013
James Ocker Cameron, Missouri	Insurance Agent	2008-2011
Chad Cornelius Agency, Missouri	Adjuster/American Family	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, 2010, were as follows:

Vance Bodenhausen	President
Brant Downey	Vice President
I. D. Smith	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. A review of the signed statements noted four of the eight directors disclosed they are also agents for the Company.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

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 \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for their directors and officers. The Company's agents are responsible for purchasing errors and omissions coverage.

The Company also carries general liability, home office building and office contents coverage.

The insurance coverage appears adequate.

### EMPLOYEE BENEFITS

The Company has two full-time and one part-time employees. The benefits package offered to the employees includes health 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's policies are sold by fourteen agents. Agents are paid a 14% commission.

#### Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually and renewal billings mailed directly to the insured. Property inspections are performed by the agents, and adjusting services are performed by the agents and independent adjusters. Rates are determined by the Board of Directors.

### GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2010	\$1,265,030	\$529,571	\$1,077,045	\$497,615	\$44,702	\$ (175,167)	\$(136,693)
2009	1,291,909	419,599	937,139	470,315	54,222	(167,698)	(120,740)
2008	1,363,312	369,304	864,039	244,580	57,758	91,485	141,359
2007	1,301,024	448,776	913,568	250,407	49,472	74,062)	117,119
2006	1,166,038	431,474	915,367	362,868	46,662	(134,512)	(82,955)

At year-end 2010, 1,546 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	\$915,367	\$913,568	\$864,039	\$937,139	\$1,077,045
Assumed	0	0	4,963	5,018	5,437
Ceded	<u>(436,961)</u>	<u>(393,319)</u>	<u>(313,255)</u>	<u>(339,304)</u>	<u>(330,354)</u>
Net	<u>\$ 478,406</u>	<u>\$ 520,249</u>	<u>\$ 555,747</u>	<u>\$ 602,853</u>	<u>\$ 752,128</u>

### **Assumed**

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MAMIC. MAMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.

### **Ceded**

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a per risk excess of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains \$50,000 for each loss and the reinsurer's limits are \$600,000 per exposure.

Under the aggregate excess of loss section of the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 70% of the Company's net written premium for the year. The reinsurer is liable for 100% of losses in excess of this retention.

Under the casualty quota share section of the agreement, the Company cedes 100% of the risk and premium for liability policies, and receives a 25% 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 modified cash basis. The outside CPA firm, Van de Ven, LLC, conducted an annual agreed-upon compilation of the Company's Annual Statement and tax filings for all years under examination.

## **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	\$ 445,414
Stocks	5,475
Real Estate	16,445
Cash on Deposit	735,182
Other Investments	51,232
Computer Equipment	836
Federal Income Taxes Recoverable	1,011
Interest Due and Accrued	9,435
Total Assets	\$ 1,265,030

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2010**

Losses Unpaid	\$ 53,396
Ceded Reinsurance Premium Payable	22,128
Unearned Premium	429,454
Liability Write-Ins	24,593
Total Liabilities	\$ 529,571
Guaranty Fund	\$ 150,000
Other Surplus	585,459
Total Surplus	\$ 735,459
Total Liabilities and Surplus	\$ 1,265,030

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2010**

Net Premiums Earned	\$ 692,111
Other Insurance Income	61,721
Net Losses & Loss Adjustment Expenses Incurred	(595,550)
Other Underwriting Expenses Incurred	(333,430)
Net Underwriting Income (Loss)	\$ (175,148)
Investment Income	44,702
Other Income	56
Gross Profit (Loss)	\$ (130,390)
Federal Income Tax	(6,303)
Net Income (Loss)	<u>(136,693)</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2010**

Policyholders' Surplus, December 31, 2009	\$ 872,310
Net Income (Loss)	(136,693)
Unrealized Gain (Loss) on Marketable Securities	(158)
Policyholders' Surplus, December 31, 2010	<u>\$ 735,459</u>

**NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.

