

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 Warren 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 Warren 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 Warren 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 12th day of December, 2011.



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

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

Department of Insurance
Jeremiah W. (Jay) Nixon
Governor
State of Missouri



Financial Institutions
and Professional Registration
John M. Huff, Director

December 12, 2011

James B. Leonhard, President
Central Farmers Mutual Fire Insurance Company
5065 N. Highway 94
St. Charles, MO 63301

Dear Mr. Leonhard:

This letter is to inform you that as of this date the Missouri Department of Insurance, Financial Institutions and Professional Registration is filing a copy of the Examination Report of Central Farmers Mutual Fire Insurance Company for the period ending December 31, 2010 in this office as a public document. The Department is issuing the Examination Report pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II].

Please be reminded that you are responsible to fully implement each item mentioned in the General Comments and/or Recommendation section of the Examination Report. Verification of compliance with the items in the General Comments and/or Recommendation section must be received by the Department within ninety (90) days of the date of this letter.

You are requested to submit copies of this Examination Report to the members of the Board of Directors at its next regularly scheduled meeting. After this has been accomplished, you should send to this office a signed copy of the minutes of the meeting which should reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

Sincerely,

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

A handwritten signature in black ink that reads "Frederick G. Heese".

By: Frederick G. Heese, CFE, CPA
Chief Financial Examiner & Division Director

JMH/FGH/tsr

Certified Mail
Return Receipt Requested

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September 29, 2011
Warrenton, 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 Warren County

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 109 East Booneslick Road, Warrenton, Missouri 63383, telephone number (636)456-3629. This examination began on September 26, 2011, and was concluded on September 29, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination 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 by 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 general comments and/or recommendations 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 general comments and/or recommendations.

Management and Control

Comment: It was recommended the Company amend its Bylaws to reflect that eight members constitute a quorum for the transaction of business at meetings.

Company Response: The Company will amend its Bylaws.

Current Findings: The amended Bylaws were approved by the Board of Directors at a meeting held on May 18, 2006.

HISTORY

General

The Company was organized on April 24, 1875, as the Private Benevolent Association No. 2 of Warren County. In 1890, the Company reorganized and changed its name to Farmers Mutual Fire Insurance Company of Warren County, Missouri. On September 7, 1939, the Company reorganized and received a Certificate of Incorporation from the Missouri Secretary of State.

The Company has participated in several mergers over the years. The first of the mergers occurred in October 1973, when Femme-Osage Mutual and New Hope Mutual Fire Insurance Company merged with the Company. In November 1977, the Holstein Private Benevolent Association merged with the Company and subsequently, in May 1978, the New Melle-Weldon Springs Company merged with the Company. On December 31, 2001 the Benevolent Association Mutual Insurance Company of Rhineland, Missouri merged with the Company.

On April 9, 1990, the Company amended its Articles of Incorporation to change to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo). At that time, the Company received a Certificate of Authority from the Missouri Division of Insurance. On August 11, 2004 the Company amended its Articles of Incorporation to change the date and time of the annual meeting. On February 17, 2005, the Company amended its Articles of Incorporation to change the number of board members. The Company's Articles of Incorporation were amended on May 17, 2007 to change the number of board members from ten to nine.

Management

The Company is managed by a board of nine directors; serving staggered, three-year terms. Directors are elected at annual member meetings held on the third Thursday of every February. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. Eight members constitute a quorum at annual meetings. Absentee ballot voting is not permitted, but members may vote by proxy. The directors meet monthly plus any special meetings and at the annual meeting. Each director receives \$100 to attend board, committee, and official meetings or trips of the Company, with the exception of the president, who receives \$150. Mileage is reimbursed at a rate of \$0.50 per mile. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2010:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Bruce Groeper 16997 Highway M Warrenton, MO 63383	Barber	2008-2011
Wendell Massmann 581 Foristell Road Wentzville, MO 63385	Farmer	2008-2011
Robert Nieder 16470 Garden Drive Marthasville, MO 63357	Retired	2009-2011
Gerald Schulze 35239 Schulze Road Warrenton, MO 63383	Farmer	2009-2012
Glenn Ridder 16777 Ridder Road Marthasville, MO 63357	Farmer	2009-2012
Howard Lauer 168 Leech Branch Road Rhineland, MO 65069	Farmer	2009-2012
Paul Krieg 311 Evergreen Court Troy, MO 63379	Retired	2010-2013

Norbert Struckhoff
401 Nona Heights
Augusta, MO 63332

Farmer

2010-2013

Severian Elsenraat
207 Bluff Street
Rhineland, MO 65069

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:

Norbert Struckhoff
Robert Nieder
Fred Vahle

President
Vice-President
Secretary-Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed for the period under examination. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its September 21, 2006 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$100,000 from Travelers Casualty & Surety Company. This meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook (Handbook) for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through the Missouri Association of Mutual Insurance Companies (MAMIC) with an aggregate limit of liability of \$2 million.

Each of the Company's agents is required to purchase Errors and Omissions Liability insurance. While the policies have various limits of liability, \$300,000 is the minimum amount of coverage. The Company has property and liability insurance coverage for its office building through

Grinnell Mutual Reinsurance Company (Grinnell) with limits of \$133,880 on the property, \$50,000 on the personal property and liability limits of \$500,000 per occurrence and \$1 million aggregate.

The Company has a workers compensation and employers liability policy through Missouri Employers Mutual Insurance Company. The workers compensation insurance applies to the Workers Compensation Laws of the state of Missouri. The employers liability insurance has a limit of liability for bodily injury by accident of \$100,000 each accident and limits of liability for bodily injury by disease of \$100,000 per employee and a policy limit of \$500,000.

EMPLOYEE BENEFITS

The Company has three full-time employees, the manager, a clerk, and an administrative assistant; and two part-time employees, both inspectors. Benefits provided for qualifying employees include life and health insurance benefits as well as paid vacation and sick leave, holidays, a cafeteria plan, and a Simple IRA Plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Warren and surrounding counties. Insurance is provided on a non-assessable basis. The Company advertises through newspaper and radio, community involvement and with other promotional items such as pens, caps and calendars. The Company also has a web site at www.fmiwc.com.

Policy Forms and Underwriting Practices

The Company writes continuous renewable policies. Policy rates are approved by the Board of Directors based on internal recommendations. The Company primarily uses forms from the American Association of Insurance Services (AAIS) supplemented with forms from Grinnell and MAMIC. Insurance products are sold by five independent agents. The agents receive a 20% commission on new business and a 12% commission on renewal business. An onsite inspection is made by the Company's inspector prior to the issuance of policies. Renewals are inspected

every third year. The Company contracts with Grinnell to adjust claims.

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	\$6,967,623	\$ 711,015	\$ 1,455,889	\$828,139	\$ 259,749	\$ (284,751)	\$ 45,145
2009	6,829,869	618,407	1,350,156	522,656	261,611	78,266	281,706
2008	6,554,474	624,718	1,342,142	509,771	250,598	159,991	312,888
2007	6,237,565	620,696	1,295,567	434,373	239,198	77,806	244,547
2006	6,029,217	656,895	1,242,115	512,127	228,512	131,605	265,032

At year-end 2010, there were 2,631 policies 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	\$ 1,242,115	\$ 1,295,567	\$ 1,335,690	\$ 1,343,633	\$ 1,448,883
Assumed	0	0	6,452	6,523	7,006
Ceded	<u>(363,760)</u>	<u>(392,363)</u>	<u>(358,658)</u>	<u>(367,423)</u>	<u>(391,284)</u>
Net	<u>\$ 878,355</u>	<u>\$ 903,204</u>	<u>\$ 983,484</u>	<u>\$ 982,733</u>	<u>\$ 1,064,605</u>

Assumed

The Company participates in a reinsurance pool with MAMIC. The agreement pertains to errors and omissions policies and directors' and officers' liability policies written by MAMIC. MAMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance producers' errors and omissions insurance and 95% of the first \$3,000,000 each claim and in aggregate on all directors' and officers' liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% share in the interests and liabilities of the pool.

Ceded

The Company has a reinsurance agreement with Grinnell. The following coverage is provided under this agreement.

Individual Occurrence of Loss Excess

The Company retains the first \$200,000 of fire or wind losses, each risk, and each occurrence. Grinnell is liable for 100% of losses above the retention. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year. The fire component of the premium is also subject to an experience rating adjustment based on the loss ratio for the most recent five-year period.

Aggregate Excess of Loss

This provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2010 contract year was \$859,450. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to Grinnell by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage. The Company's larger risks (in excess of \$1,000,000) are covered through facultative agreements.

Earthquake Reinsurance

The Company cedes all earthquake premiums to Grinnell, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

Liability Reinsurance

The Company cedes all liability premiums to Grinnell, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The Company uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on a personal computer using a software package developed by Rural Computer Consultants. The Company uses Microsoft Excel to record other financial data. The CPA firm of Tochtrop & Associates, P.C. performs a yearly audit of the Company's financial statements and prepares its tax returns, and the Annual Statement.

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	\$ 4,650,431
Real Estate	81,967
Cash on Deposit	2,023,538
Federal Income Tax Recoverable	70,098
Interest Due and Accrued	56,131
Other Assets	85,460

Total Assets	<u><u>\$ 6,967,623</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Losses	\$ 94,310
Ceded Reinsurance Payable	27,351
Unearned Premium	575,366
Other Liabilities	13,988

Total Liabilities	<u>\$ 711,015</u>

Guaranty Fund	\$ 762,905
Other Surplus	5,493,702

Total Surplus	6,256,608

Total Liabilities and Surplus	<u><u>\$ 6,967,623</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$ 1,020,811
Other Insurance Income	23,886
Net Losses & Loss Adjustment Expenses Incurred	(940,262)
Other Underwriting Expenses Incurred	(389,187)

Net Underwriting Income (Loss)	\$ (284,751)

Investment Income	\$ 259,748
Other Income	50

Gross Profit (Loss)	\$ (24,952)
Federal Income Tax	70,098

Net Income (Loss)	\$ 45,145
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$ 6,211,462
Net Income (Loss)	45,145

Policyholders' Surplus, December 31, 2010	\$ 6,256,607
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

