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 Reinsurance Company of Missouri for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Reinsurance Company of Missouri for the period ended December 31, 2012, 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 Reinsurance Company of Missouri 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 4th day of September 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL REINSURANCE COMPANY OF MISSOURI

AS OF
DECEMBER 31, 2012

FILED
SEP 05 2013
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Subject	Page
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	3
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	4
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	5
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
SUBSEQUENT EVENTS	10
SUMMARY OF RECOMMENDATIONS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

June 12, 2013
New Florence, 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 REINSURANCE COMPANY OF MISSOURI

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 733 Highway J, New Florence, Missouri 63363, telephone number (573) 564-2765. This examination began and was completed on June 12, 2013, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2007, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2008, through December 31, 2012, 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 prior examination comments and recommendations.

HISTORY

General

The Company was originally organized and incorporated on February 22, 1922, solely to provide reinsurance to other Missouri mutual insurance companies. At one time, the Company reinsured more than sixty companies. As of December 31, 2012, the Company reinsured five companies.

The Company operates under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in January, at a place selected by the Board of Directors. Membership consists of companies that have reinsurance contracts with the Company. Special meetings of the members may be called by the Board of Directors at any time. Quorum requirements and proxy voting are not addressed in the Articles of Incorporation.

The management of the Company is vested in the Board of Directors, which consists of nine members, serving staggered, three-year terms. All directors must be members of one of the companies reinsured by the Company. The Board of Directors meets approximately every quarter, and each director is compensated $250 per meeting attended.

Members serving on the Board of Directors as of December 31, 2012, were as follows:

Name and Address	Occupation	Term
Melvin Eggerman Lockwood, Missouri	Farmer	2010-2013
John Hall New Florence, Missouri	Farmer & Insurance Agent	2010-2013
Artie Whelan Monroe City, Missouri	Farmer	2010-2013

Mark McMillin Monett, Missouri	Insurance Agent	2011-2014
Garnett M. Peters III Liberty, Missouri	Insurance Agent	2011-2014
James Westermier Sedalia, Missouri	Farmer	2011-2014
Leroy Cochran Middletown, Missouri	Insurance Agent & Farmer	2012-2015
Clell Furnell Sedalia, Missouri	Insurance Agent	2012-2015
Dane Kendrick Paris, Missouri	Insurance Agent & Farmer	2012-2015

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, 2012, were as follows:

Melvin Eggerman	President
Dane Kendrick	Vice-President
John Hall	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 completed conflict of interest statements noted no material potential conflicts.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles were not amended during the examination period. On January 22, 2009, the Board of Directors approved an amendment to the Bylaws which limits the number of directors from each member company to two. However, the actual Bylaws document was not physically changed to reflect this amendment.

The minutes of the membership and 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 $250,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $50,000.

The Company carries liability coverage for its directors and officers.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one part-time employee. The Company does not provide any employee benefits over and above employee's salary.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as a Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies). The Company operates as a reinsurer of property risks for fire perils for five other Missouri mutual insurance companies. The Company also reinsures property risks for the peril of wind for one of these mutuals. The Company's territory includes any county in Missouri in which the ceding companies operate.

Policy Forms and Underwriting Practices

The Company operates under individual reinsurance contracts with each of the five mutual insurance companies that it reinsures. Reinsurance rates and retentions are approved annually by the Board of Directors, and reinsurance contracts are amended accordingly.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2012	$1,997,902	$ 0	$434,728	$470,924	$ 54,975	$ (206,635)	$ (153,660)
2011	2,151,562	0	459,115	462,222	76,997	10,708	87,705
2010	2,031,442	0	398,970	271,600	86,279	(69,115)	17,164
2009	1,988,247	0	430,953	210,758	89,070	42,986	132,056
2008	1,826,701	0	330,185	328,699	99,066	(137,190)	(38,124)

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2008	2009	2010	2011	2012
Direct	$ 0	$ 0	$ 0	$ 0	$ 0
Assumed	330,185	430,953	398,970	459,115	434,728
Ceded	(205,750)	(216,267)	(265,625)	(281,277)	(306,177)
Net	$ 124,435	$ 214,686	$ 133,345	$ 177,838	$ 128,551

Assumed

The Company assumes business from five Missouri mutual insurance companies under five individual per risk excess of loss with annual aggregate limit contracts, which are summarized below.

The contract with Farmers Mutual Insurance Company of Clay County (FMIC) covers the perils of wind and fire. For the peril of wind, FMIC retains $35,000 per risk and cedes the excess, limited to $500,000 per occurrence, to the Company. The Company's liability for wind peril losses is limited to $1 million per contract year. For the peril of fire, FMIC retains $40,000 per risk and cedes the excess, limited to $650,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for FMIC fire peril losses which exceed 80% FMIC's annual fire premium income, limited to $1 million per contract year.

The contract with Farmers' & Laborers' Mutual Insurance Company (FLMIC) covers the peril of fire only. FLMIC retains $60,000 per risk and cedes the excess, limited to $650,000 per risk, to the

Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of FLMIC's annual fire premium income, limited to $1,000,000 per contract year.

The contract with Monroe County Farmers Mutual Insurance Company (MCFM) covers the peril of fire only. MCFM retains $45,000 per risk and cedes the excess, limited to $650,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of MCFM's annual fire premium income, limited to $1,000,000 per contract year.

The contract with Pettis County Farmers Mutual Insurance Company (PCFM) covers the peril of fire only. PCFM retains $40,000 per risk and cedes the excess, limited to $650,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of PCFM's annual fire premium income, limited to $1,000,000 per contract year.

The contract with Lutheran Fire and Lightning Insurance Company (LFLIC) covers the peril of fire only. LFLIC retains $30,000 per risk and cedes the excess, limited to $650,000 per risk, to the Company. Under the aggregate excess provisions of the agreement, the Company is liable for losses in excess of 80% of LFLIC's annual fire premium income, limited to $1,000,000 per contract year.

Ceded

The Company's property reinsurance program is placed by broker Guy Carpenter & Company, LLC with various reinsurers (the reinsurer) under property per risk, catastrophe, and aggregate excess contracts. The lead reinsurer under the program is QBE Reinsurance Corporation, with a 25% share in the interest and liabilities of the contract.

Under the fire losses only property per risk excess of loss agreement, the Company retains $125,000 for each fire peril loss, each risk, and the reinsurer's limits are $525,000 per risk and $1,050,000 per occurrence.

Under the wind losses only (including earthquake) property per risk excess of loss agreement, the Company retains $35,000 for each wind peril loss, each risk, and the reinsurer's limits are $500,000 per risk and $1,000,000 per occurrence.

Under the wind losses only (including earthquake) catastrophe excess of loss agreement the Company retains $50,000 per loss occurrence and the reinsurer is liable for 95% of the excess losses, limited to 95% of $500,000 per occurrence.

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 manually by the Company on a modified cash basis. The firm of Steven P. Thurmon, CPA, performs an annual audit of the Company's financial statements and prepares the Annual Statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, 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.

ASSETS
December 31, 2012

Bonds	$ 1,252,460
Cash on Deposit	745,442
Total Assets	$ 1,997,904

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2012

Total Liabilities	$ 0
Guaranty Fund	$ 0
Other Surplus	1,997,904
Total Surplus	1,997,904
Total Liabilities and Surplus	$ 1,997,904

STATEMENT OF INCOME
For the Year Ending December 31, 2012

Net Premiums Earned	$ 128,551
Net Losses & Loss Adjusting Expenses Incurred	(303,240)
Other Underwriting Expenses Incurred	(33,946)
Net Underwriting Income (Loss)	$ (208,635)
Net Investment Income	54,975
Gross Profit (Loss)	$ (153,660)
Federal Income Tax	(0)
Net Income (Loss)	$ (153,660)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2012

Policyholders' Surplus, December 31, 2011	$ 2,151,564
Net Income (Loss)	(153,660)
Policyholders' Surplus, December 31, 2012	$ 1,997,904

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

Effective January 1, 2013, 20 CSR 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements) requires all companies operating under Section 380 RSMo to obtain aggregate excess reinsurance coverage to cover 100% of losses in excess of an attachment point which would prevent an annual loss to the company of greater than 20% of policyholder surplus. The Company's 2013 reinsurance program does not meet the minimum requirements of the regulation. The Company was granted an exception to the rule for 2013 under the provisions contained in the regulation.

SUMMARY OF RECOMMENDATIONS

Corporate Records – Page 3

It is recommended the Company restate its Bylaws to reflect the amendment regarding Board composition which was approved at the January 22, 2009 Board of Directors meeting.

Subsequent Events – Page 10

The Company is directed to obtain reinsurance which meets the minimum requirements of 20 CSR 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements) in future contract years subsequent to 2013.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Reinsurance Company of Missouri during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Shannon W. Schmoeger 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.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 18th day of June, 2013.

My commission expires:

March 5, 2017

Tammy S Rodieck
Notary Public

TAMMY S. RODIECK
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: March 05, 2017
Commission Number: 13751697

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, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP

Rodieck, Tammy

From: John & Darla Hall <jdjhall@hughes.net>
Sent: Thursday, August 22, 2013 8:21 AM
To: Rodieck, Tammy
Subject: RESPONSE TO RECOMMENDATIONS CONTAINED IN THE INSURANCE EXAM FOR FARMERS MUTUAL REINSURANCE COMPANY OF MISSOURI

FARMERS MUTUAL RE-INSURANCE COMPANY OF MISSOURI
JOHN L. HALL, SECRETARY
733 HWY. J
NEW FLORENCE, MO 63363
573-564-2765
jdjhall@hughes.net

Response to recommendations contained in the Examination Report of Farmers Mutual Re-Insurance Company of Missouri for the period ending December 31, 2012.

Corporate Records

The Bylaws have been updated to reflect the amendment regarding Board composition which was approved at the January 22, 2009, Board of Directors' meeting.

Subsequent Events

The company is diligently seeking to obtain a reinsurance contract for 2014, which will meet the minimum requirements of 20 CSR 200-12.030. The company will notify the Department of Insurance at the earliest possible date on the success of obtaining this coverage.

John L. Hall
Secretary-Treasurer