

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Texas County Mutual Insurance Company as of December 31, 2008

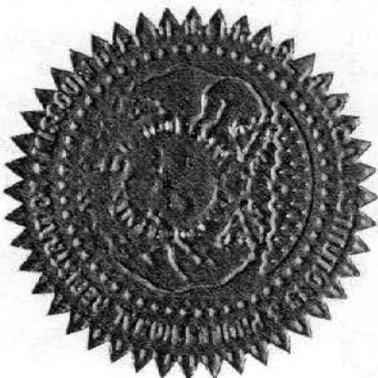
### ORDER

After full consideration and review of the report of the financial examination of Texas County Mutual Insurance Company for the period ended December 31, 2008, 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 Texas County Mutual Insurance Company, 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 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 December 15, 2009

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



REPORT OF THE  
FINANCIAL EXAMINATION OF

Texas County Mutual Insurance Company

AS OF  
DECEMBER 31, 2008

**FILED**  
DEC 15 2009  
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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June 15, 2009  
Licking, 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

**Texas County Mutual Insurance Company**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 117 Main Street (P.O. Box 415), Licking, Missouri, telephone number (573)674-3125. This examination began on June 1, 2009, and concluded on the above date, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2003, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, and was conducted by an examiner 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, 2003.

## HISTORY

### General

The Company was originally organized on May 30, 1904, as Texas County Farmers Mutual Fire and Lightning Insurance Company. The Company was incorporated on June 4, 1904. On January 12, 1985, the Company changed its name to Texas County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMO (Extended Missouri Mutual Companies).

### Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in March, 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 management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, each of whom serves a three-year term. All directors must be policyholders of the Company. The Board generally meets every other month, and directors are compensated \$100 plus mileage per meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Charles Van Zyverden Plato, Missouri	Retired/Farmer	2009
Judith K. Goins Licking, Missouri	Company Office Manager	2009
Gail Van Zyverden Plate, Missouri	Homemaker	2010

David L. Branson Houston, MO	Company President/Agent	2011
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Julie Moore Cabool, MO	Agent	2010
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The Board of Directors elects for a term of one year the officers of the Company. Officers serving at December 31, 2008 were:

David L. Branson	President
Charles Van Zyverden	Vice-President
Judith K. Goins	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. No amendments were made to the Articles of Incorporation or Bylaws during the examination period.

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 named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an aggregate limit of \$3,000,000.

Each of the Company's agents carries errors and omissions coverage. The liability limit varies for each agent; however, each agent has an aggregate limit of at least \$1 million.

Other insurance coverages carried by the Company include property insurance on the home office and contents, commercial liability and workers compensation.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has six full-time employees. The employees receive health insurance benefits, annual leave and several paid holidays.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the Missouri DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMO. (Extended Missouri Mutual 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 approximately ten agents. All agents of the Company are licensed. Commissions range from 12% to 20% based on the individual agent and type of business written.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS policy forms provided by the Missouri Association of Mutual Insurance Companies. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. The Company employs a full-time inspector and a full-time adjuster.

## 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>
2008	\$1,289,870	\$396,450	\$1,419,511	\$2,471,237	\$12,178	\$(124,357)	\$(112,179)
2007	1,553,308	552,311	1,544,164	639,973	62,540	(18,651)	44,389
2006	1,468,774	492,989	1,575,473	796,111	46,943	828	54,300
2005	1,476,491	587,894	1,466,970	708,956	49,791	(111,157)	(53,532)
2004	1,465,007	515,741	1,233,226	613,563	33,892	(184,845)	(156,763)

The totals on this table are the amounts reported by the Company on the respective annual statements and do not reflect any examination changes.

At year-end 2008, 2,595 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct	\$ 1,233,226	\$ 1,466,970	\$ 1,575,473	\$ 1,544,164	\$ 1,419,511
Assumed	0	0	0	0	0
Ceded	<u>(133,929)</u>	<u>(300,046)</u>	<u>(330,136)</u>	<u>(330,969)</u>	<u>(358,946)</u>
Net	<u>\$ 1,099,297</u>	<u>\$ 1,166,924</u>	<u>\$ 1,245,337</u>	<u>\$ 1,213,195</u>	<u>\$ 1,060,565</u>

### Assumed

The Company does not assume any reinsurance.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single contract for fire, wind and liability risks.

The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$100,000 per loss occurrence, and the reinsurer is liable for the excess. The reinsurer's limit is \$1,000,000 per risk, and risks in excess of this limit are eligible for additional

facultative coverage under the terms of the agreement.

The aggregate excess section of the agreement also 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 a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2008 was \$897,645.

Under the comprehensive personal liability and farmers comprehensive personal liability section of the agreement, the Company cedes 100% of liability risk 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 an accrual basis. Marberry & Company, P.C. performed a review of the Company's 2008 financial statements and prepared the Company's 2008 Annual Statement.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, 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, 2008**

Bonds	\$ 566,729
Stocks	62,888
Real Estate	158,775
Cash on Deposit	467,114
Reinsurance Recoverables	16,748
Computer Equipment	2,988
Interest Due and Accrued	6,404
Other Assets	8,224
	-----
Total Assets	\$1,289,870
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2008**

Ceded Reinsurance Payable	\$ 30,654
Unearned Premiums (Note 1)	530,283
Other Liabilities	4,571
	-----
Total Liabilities	\$ 565,508
	-----
Guaranty Fund	\$ 150,000
Other Surplus	574,362
	-----
Total Surplus	724,362
	-----
Total Liabilities and Surplus	\$ 1,289,870
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2008**

Net Premiums Earned	\$ 1,097,564
Other Insurance Income	183,734
Net Losses & Loss Adjustment Expenses Incurred	(784,737)
Other Underwriting Expenses Incurred	(620,918)
	-----
Net Underwriting Income (Loss)	\$ (124,357)
Investment Income	\$ 12,178
Other Income	0
	-----
Gross Profit (Loss)	\$ (112,179)
Federal Income Tax	0
	-----
Net Income (Loss)	\$ (112,179)
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2008**

Policyholders' Surplus, December 31, 2007	\$ 1,020,174
Net Income (Loss)	(112,179)
Adjustment for Non-Admitted Assets	(14,575)
Examination Change (Note 1)	(169,058)
	-----
Policyholders' Surplus, December 31, 2008	\$ 724,362
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Unearned Premiums

The Company was unable to provide the calculation and support for the unearned premium balance reported on the 2008 Annual Statement. The examiners recalculated an estimated unearned premium balance based on premium figures reported on the Annual Statement. As a result of the calculation, it appeared the unearned premium liability was understated by \$169,058. An examination change of \$169,058 was made to increase the unearned premium liability to the level as calculated during the examination. The Company should ensure the reported unearned premium liability in future Annual Statement filings is adequate and calculated in accordance with the Missouri Mutual Annual Statement Instructions. Furthermore, the Company should retain such calculations to be made available upon request of the DIFP.

### EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2008			\$893,420
	Increase in Surplus	Decrease in Surplus	
Unearned Premiums	<u>\$0</u>	<u>\$169,058</u>	
Total Change	\$0	\$169,058	<u>(\$169,058)</u>
Total Policyholder Surplus Per Examination, December 31, 2008			<u>\$724,362</u>

### GENERAL COMMENTS AND RECOMMENDATIONS

#### Notes to the Financial Statements (Page 9)

The Company should ensure the reported unearned premium liability in future Annual Statement filings is adequate and calculated in accordance with the Missouri Mutual Annual Statement Instructions. Furthermore, the Company should retain such calculations to be made available upon request of the DIFP.

### SUBSEQUENT EVENTS

None.

