

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

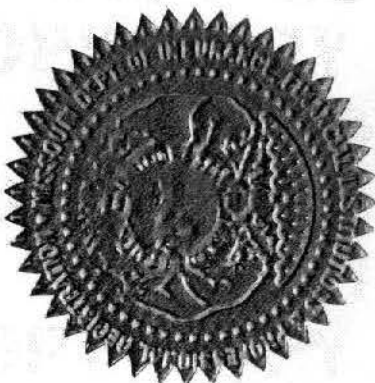
RE: Examination Report of Farmers' and Laborers' Mutual Insurance Company as of December 31, 2008

### ORDER

After full consideration and review of the report of the financial examination of Farmers' and Laborers' 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 Farmers' and Laborers' 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.

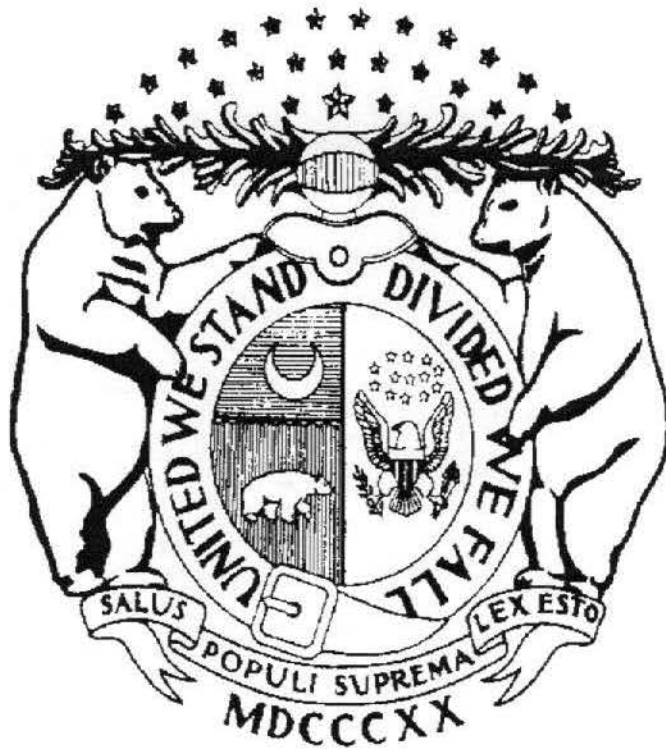
So ordered, signed and official seal affixed this December 22, 2009



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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS' AND LABORERS' MUTUAL  
INSURANCE COMPANY

AS OF  
DECEMBER 31, 2008



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	3
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	6
Ceded	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Capital and Surplus Account	11
NOTES TO THE FINANCIAL STATEMENTS	12
EXAMINATION CHANGES	12
GENERAL COMMENTS AND/OR RECOMMENDATIONS	12
SUBSEQUENT EVENTS	12
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	13

May 20, 2009  
Montgomery City, 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' AND LABORERS' MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 232 South Sturgeon Street, Montgomery City, Missouri 63361, telephone number (573) 564-3200. This examination began on April 13, 2009, and concluded on April 14, 2009, 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 examiners 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 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, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Fidelity Bond and Other Insurance**

*Comment:* The Company should increase its fidelity bond to at least \$75,000 to comply with the NAIC guidelines.

*Company Response:* The Company has secured a fidelity bond in the amount of \$75,000.

*Current Findings:* The Company obtained additional fidelity bond coverage as recommended. However, the NAIC recommended fidelity bond amount has increased due to growth in the Company's operations. Refer to the Fidelity Bond and Other Insurance section of this report for further information.

### **Notes to the Financial Statements**

*Comment:* The Company did not obtain approval from the DIFP for its preferred stock and mutual fund investments. The Company must secure approval from the DIFP for unauthorized investments or limit its investments to those authorized under Section 380.471 RSMo or 20 CSR 200-12.020.

*Company Response:* The Company was under the impression that the investments were of a type that did not require additional approval by the DIFP. The Company requested approval for the noted investments from the DIFP.

*Current Findings:* The Company's current investment portfolio appears to be in compliance with the applicable statutes and regulations.

## **HISTORY**

### **General**

The Company was originally organized and incorporated on October 23, 1891, as Farmers' and Laborers' Mutual Insurance Company of Montgomery County, Missouri. On September 24, 2005, the Company changed its name to Farmers' and Laborers' Mutual Insurance Company. On January 1, 2006, Monroe Mutual Insurance Company was merged with the Company, with the Company being the surviving entity.

The Company has a Certificate of Authority dated December 1, 1988, 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 second Saturday in March at the home office or at such other place as designated by the membership or Board of Directors. Special meetings 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, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately twice monthly, and the directors are compensated \$150 per each 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</u>
Leroy Cochran Middletown, Missouri	Farmer/Insurance Agent	2008-2011
Mark Stevens Montgomery City, Missouri	Farmer/Insurance Agent	2007-2010
Becky Powers High Hill, Missouri	Homemaker/Insurance Agent	2006-2009
Kent Hall New Florence, Missouri	Farmer/Insurance Agent	2007-2010
Bob Muensterman Silex, Missouri	Insurance Agent	2006-2009
Kenneth Schmidt New Florence, Missouri	Farmer/Insurance Agent	2006-2009
Randy Todd Wellsville, Missouri	Farmer/Insurance Agent	2008-2011

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, 2008, were as follows:

Leroy Cochran	President
Mark Stevens	Vice-President
Debbie Leonard	Secretary
Becky Powers	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. No significant conflicts were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended on September 24, 2005, to increase the number of directors from six to seven and to change the name of the Company. The Bylaws were amended on December 7, 2005, to update the Company name, update the number of required directors, and change some miscellaneous policy language.

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 \$75,000. The fidelity bond coverage of the Company does not meet the minimum amount of \$100,000 suggested in the guidelines promulgated by the NAIC. It is recommended the Company increase its fidelity bond coverage to a minimum of \$100,000.

The Company carries liability coverage for their directors and officers. The Company requires its agents to purchase errors and omissions coverage.

Other insurance coverages carried by the Company include property insurance on its home office and contents as well as premises liability insurance.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees and one part-time employee. The benefits package offered to full-time employees includes matching funds to retirement accounts, employer subsidized health care plan 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 writes fire, wind and liability coverages. The Company's policies are sold by nine agents, who receive a fourteen percent commission.

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

The Company utilizes AAIS and MAMIC policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the agents. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.



## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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	\$4,512,925	\$1,302,720	\$2,812,494	\$1,755,201	\$176,073	\$(502,806)	\$(307,513)
2007	4,798,834	1,286,119	2,804,785	1,293,458	174,102	125,531	299,305
2006	4,439,808	1,111,576	2,587,563	3,026,642	148,518	(610,114)	(438,155)
2005	4,437,562	1,068,147	2,138,962	1,050,154	149,575	24,140	160,061
2004	4,077,689	871,002	1,813,180	1,229,549	159,228	(243,571)	(68,487)

At year-end 2008, 4,452 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	\$ 1,796,004	\$ 2,120,725	\$ 2,569,274	\$ 2,784,704	\$ 2,792,641
Assumed	17,176	18,237	18,289	20,081	19,853
Ceded	(636,258)	(839,652)	(999,609)	(1,193,453)	(1,174,212)
Net	<u>\$ 1,176,922</u>	<u>\$ 1,299,310</u>	<u>\$ 1,587,954</u>	<u>\$ 1,611,332</u>	<u>\$ 1,638,282</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 \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$3,000,000 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 4% share in the interests and liabilities of the pool.

## **Ceded**

The Company utilizes three different outlets for its ceded reinsurance program. For the peril of fire, the Company has reinsurance through Farmers Mutual Reinsurance Company of Missouri (FMRe). For the peril of wind the Company has reinsurance placed by intermediary Guy Carpenter and Company, LLC (Guy Carpenter) with various reinsurers. For casualty risks, the Company has reinsurance through Cameron Mutual Insurance Company (Cameron Mutual).

The reinsurance agreement for the peril of fire with FMRe consists of per risk and annual aggregate excess coverage. Under the per risk section of the agreement, the Company retains \$60,000 on each risk, and the reinsurer is liable for the excess, with risks ceded under the contract limited to \$650,000. Under the annual aggregate section of the agreement, FMRe is liable for all losses exceeding 80% of the Company's annual premium income, with an annual limit of \$1,000,000.

The reinsurance agreements for the peril of wind placed by Guy Carpenter include per risk, catastrophe and unlimited aggregate excess of loss agreements. Under the per risk excess of loss agreement, the Company retains \$60,000 per risk and the reinsurers are liable for 100% of the excess, limited to \$500,000 per risk and \$750,000 per occurrence. Under the catastrophe excess of loss agreement, the Company retains \$475,000 per occurrence, and the reinsurer is liable for 100% of the excess limited to \$3,000,000. Under the unlimited aggregate excess of loss agreement, the reinsurers are liable for 100% of losses in excess of 75% of the Company's earned wind premium income. Participating reinsurers for the wind contracts in 2008 included Arch Reinsurance Company (37.00%), QBE Reinsurance Corporation (25.00%), Aspen Insurance U.K. Limited (14.50%), The Toa Reinsurance Company of America (12.00%), Employers Mutual Casualty Company (6.00%) and Scor Reinsurance Company (5.50%).

The Company has a liability quota share reinsurance agreement with Cameron Mutual. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% 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 records are maintained by the Company on an accrual basis. The CPA firm of Van de Ven, LLC, completes the Company's Annual Statement and tax filings and performed an agreed upon procedures attestation engagement for the year ended December 31, 2008.

## 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	\$ 2,146,728
Stocks	314,406
Real Estate	323,801
Cash on Deposit	1,481,971
Other Investments	128,404
Reinsurance Recoverable on Paid Losses	20,549
Computer Equipment	4,741
Federal Income Tax Recoverable	1,560
Interest Due and Accrued	40,973
Asset Write-Ins	49,792
	-----
Total Assets	<u><u>\$ 4,512,925</u></u>

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

Unpaid Losses	\$ 178,897
Ceded Reinsurance Premium Payable	140,859
Unearned Premium	937,625
Liability Write-Ins	45,339
	-----
Total Liabilities	\$ 1,302,720
	-----
Guaranty Fund (Note 1)	\$ 366,120
Other Surplus	2,844,085
	-----
Total Surplus	3,210,205
	-----
Total Liabilities and Surplus	\$ 4,512,925
	=====

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

Net Premiums Earned	\$ 1,579,331
Other Insurance Income	161,183
Net Losses & Loss Adjustment Expenses Incurred	(1,475,023)
Other Underwriting Expenses Incurred	(768,297)
	-----
Net Underwriting Income (Loss)	\$ (502,806)
Investment Income	176,073
Other Income	1,209
	-----
Gross Profit (Loss)	\$ (325,524)
Federal Income Tax	18,011
	-----
Net Income (Loss)	\$ (307,513)
	=====

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

Policyholders' Surplus, December 31, 2007	\$ 3,512,714
Net Income (Loss)	(307,513)
Unrealized Market Value Increase on Investments	5,004
	-----
Policyholders' Surplus, December 31, 2008	\$ 3,210,205
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 – Guaranty Fund**

The guaranty fund balance of \$150,000 as reported by the Company did not meet the minimum requirements of Section 380.271 RSMo (Financial Reinsurance Requirements), based on the Company's net risks in-force. The minimum guaranty fund applicable to the Company based on the provisions of the statute is \$366,120. The guaranty fund per examination was increased by \$216,120 to reflect this minimum balance. It is recommended the Company report an adequate guaranty fund balance in future annual statement filings in order to comply with the provisions of Section 380.271 RSMo (Financial Reinsurance Requirements).

### EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was to increase the guaranty fund balance by \$216,120. This change did not affect the total policyholder surplus balance.

### GENERAL COMMENTS AND RECOMMENDATIONS

#### **Fidelity Bond (Page 4)**

It is recommended the Company increase its fidelity bond coverage to a minimum of \$100,000.

#### **Guaranty Fund (Page 11)**

It is recommended the Company report an adequate guaranty fund balance in future annual statement filings in order to comply with the provisions of Section 380.271 RSMo (Financial Reinsurance Requirements).

### SUBSEQUENT EVENTS

None.


**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
  ) ss  
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 14<sup>th</sup> day of October, 2009.

My commission expires:

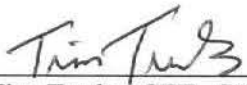
Feb 10, 2013

  
\_\_\_\_\_  
Notary Public



**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.

  
\_\_\_\_\_  
Tim Tunks, CFE, CPA  
Examiner-In-Charge  
Missouri DIFP





# FARMERS & LABORERS

MUTUAL INSURANCE COMPANY

Come Home to Folks Who Care

232 S. Sturgeon, Montgomery City, MO 63361  
Ph: 800-395-3260 Ph: 573-564-3200 Fax: 573-564-3183 www.farmers-laborers.com

December 3, 2009

RECEIVED  
DEC 07 2009  
INSURANCE SOLVENCY  
&  
COMPANY REGULATION

Department of Insurance  
Tammy Rodieck, Exam Coordinator  
301 West High Street  
Room 530  
P.O. Box 690  
Jefferson City, MO 65102-0690

Dear Ms. Rodieck:

This letter is in response to the letter dated November 16, 2009 in regard to our exam. This response may be included in the report as a public document.

On page 12 of the report Note 1-Guaranty Fund, per our auditor Mel Van de Ven they will report an adequate guaranty fund balance in future statement filings.

Fidelity Bond-this is increased to the \$100,000 recommended.

If we need to anything other than the above, please contact me at the above number.

Thank you in advance for taking care of this.

Sincerely,

Debbie Leonard  
Office Manager