

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 for the period ended December 31, 2013

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, 2013, 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, 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 8th day of May, 2015.



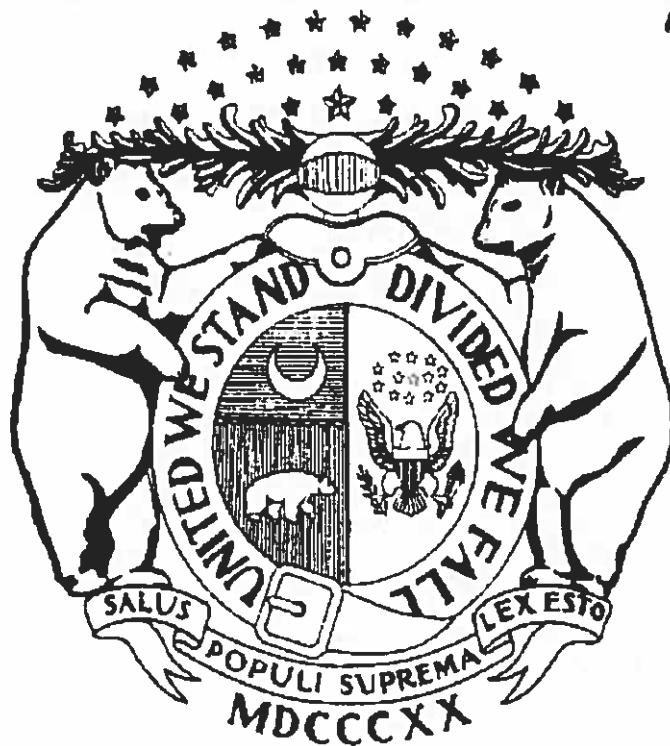
A handwritten signature in blue ink, appearing to read "John M. Huff".

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, 2013**

FILED
MAY 8 2015
**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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March 19, 2015
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 January 5, 2015 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, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, 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, 2008, 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: It is recommended the Company increase its fidelity bond coverage to a minimum of \$100,000.

Company Response: The Company has increased fidelity bond coverage to \$100,000.

Current Findings: The current fidelity bond coverage of \$175,000 exceeds the coverage amount recommended by the NAIC based on the size of the Company.

Notes to the Financial Statements

Comment: 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).

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

Current Findings: The Company appears to have reported the proper amount on the 2013 annual statement.

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, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Leroy Cochran Middletown, Missouri	Farmer/Insurance Agent	2012-2015
Mark Stevens Montgomery City, Missouri	Farmer/Insurance Agent	2011-2014
Becky Powers High Hill, Missouri	Homemaker/Insurance Agent	2012-2015
Kent Hall New Florence, Missouri	Farmer/Insurance Agent	2011-2013
Jeff Berkemeyer Hermann, Missouri	Salesman/Insurance Agent	2013-2016
Keely Uthlaut New Florence, Missouri	Accountant/Insurance Agent	2013-2016
Randy Todd Wellsville, Missouri	Farmer/Insurance Agent	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, 2013, were as follows:

Leroy Cochran	President
Kent Hall	Vice-President
Debbie Leonard	Secretary
Mark Stevens	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. There were no changes to the Articles of Incorporation during the exam period. The Bylaws were amended on August 16, 2013, to require directors to be between the ages of 25 and 70 with mandatory retirement at 70 years, and to remove the requirement for one director from Lincoln County and replace it with a director from Gasconade County.

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 \$175,000. The fidelity bond coverage of the Company exceeds the minimum amount of \$100,000 recommended in the guidelines promulgated by the NAIC.

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. The insurance coverage appears adequate.

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Admitted Assets	\$4,499,133	\$5,079,172	\$5,161,600	\$5,363,335	\$5,528,746
Liabilities	1,237,281	1,443,635	1,276,144	1,309,714	1,535,946
Gross Premiums	2,915,988	2,952,188	3,029,596	3,118,018	3,205,933
Gross Losses	1,454,913	1,444,813	3,333,380	1,933,190	1,590,345
Investment Income	154,534	163,507	163,539	117,220	113,579
Underwriting Income	(105,738)	209,463	212,458	151,171	(165,827)
Net Income	48,638	375,141	256,800	169,446	(52,208)

At year-end 2013, 3,955 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:

	2009	2010	2011	2012	2013
Direct	\$2,895,916	\$2,930,441	\$3,006,490	\$3,090,043	\$3,179,122
Assumed	20,072	21,747	23,106	27,975	26,811
Ceded	(1,106,523)	(1,144,748)	(1,127,427)	(1,181,847)	(1,225,117)
Net	<u>\$1,809,465</u>	<u>\$1,807,440</u>	<u>\$1,902,169</u>	<u>\$1,936,171</u>	<u>\$1,980,816</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 5% 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 \$65,000 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 \$75,000 per risk and the reinsurers are liable for 100% of the excess, limited to \$575,000 per risk and \$1,150,000 per occurrence. Under the catastrophe excess

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Bonds	\$ 3,189,186
Mutual Funds	175,388
Real Estate	291,796
Cash on Deposit	1,192,126
Other Investments	214,687
Reinsurance Recoverable on Paid Losses	150,535
Computer Equipment	1,163
Federal Income Tax Recoverable	99,000
Interest Due and Accrued	33,569
Asset Write-Ins	<u>181,296</u>
Total Assets	<u>\$ 5,528,746</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Unpaid Losses	\$ 384,368
Ceded Reinsurance Premium Payable	54,666
Unearned Premium	1,056,983
Accounts Payable (Other)	4,114
Liability Write-Ins	<u>35,815</u>
Total Liabilities	<u>\$ 1,535,946</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>3,842,800</u>
Total Surplus	<u>3,992,800</u>
Total Liabilities and Surplus	<u>\$ 5,528,746</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 1,963,893
Other Insurance Income	299,319
Net Losses & Loss Adjustment Expenses Incurred	(1,590,246)
Other Underwriting Expenses Incurred	<u>(838,793)</u>
Net Underwriting Income (Loss)	\$ (165,827)
Investment Income	113,579
Other Income	<u>40</u>
Gross Profit (Loss)	\$ (52,208)
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ (52,208)</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 4,053,621
Net Income (Loss)	(52,208)
Unrealized Market Value Decrease on Investments	<u>(8,613)</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 3,992,800</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

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)
)
City of St. Louis)


I, Michael C. Behrens 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.


Michael C. Behrens, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 17 day of Feb, 2015.

My commission expires:


July 17, 2017


Notary Public

CHERYL A. ECK
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: July 17, 2017
Commission Number: 13837618

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.


Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri DIFP