

# 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 Grundy County as of  
December 31, 2009

### ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Grundy County for the period ended December 31, 2009, 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 Grundy 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 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 10<sup>th</sup> Day of May, 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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS MUTUAL INSURANCE COMPANY OF  
GRUNDY COUNTY

AS OF  
DECEMBER 31, 2009

**FILED**  
MAY 11 2011  
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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January 11, 2011  
Trenton, 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 GRUNDY COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1818 East 9<sup>th</sup> Street, Trenton, Missouri 64683, telephone number (660) 359-5687. This examination began on January 10, 2011, and concluded on January 11, 2011, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior review of CPA report in lieu of an examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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, 2004, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Operations and Loss Experience**

*Comment:* It was recommended the Company continue to review its underwriting expense structure, premium rates and reinsurance program and implement any necessary changes to return the Company to profitability and to maintain an adequate policyholder surplus level.

*Company Response:* The Company implemented various underwriting and expense provisions to return the Company to profitability.

*Current Findings:* The Company implemented policies as recommended and the Company returned to overall profitability over the examination period.

#### **Annual Statement Reporting**

*Comment:* The Company was instructed to make necessary changes to future Annual Statements regarding the reporting of wind losses.

*Company Response:* The Company changed its reporting practice regarding wind losses on the Annual Statement.

*Current Findings:* The Company corrected its reporting practice of wind losses on the Annual Statements during the examination period.

#### **Lease Agreement**

*Comment:* It was recommended the Company enter into a written lease agreement with an unrelated party that leases office space from the Company.

*Company Response:* The leasing arrangement no longer exists.

*Current Findings:* As the leasing arrangement longer exists, a lease agreement is no longer applicable.

## **Agency Agreement**

*Comment:* It was recommended the Company and its sole insurance agency enter into a written agreement which outlines the specific duties and responsibilities of each party under the arrangement.

*Company Response:* The Company has an agency agreement with its sole agency which outlines the arrangement. The changes to the arrangement are approved by the Board of Directors, as needed.

*Current Findings:* Although the Company has an agency agreement with its sole agency, all aspects of the arrangement are not clearly identified in the agreement (see the "Territory and Plan of Operations" section of the examination report).

## **HISTORY**

### **General**

The Company was originally organized and incorporated on May 6, 1895, as Farmers Mutual Insurance Company of Grundy County, Missouri. Effective April 15, 2005, the Company converted to an Extended Missouri Mutual Insurance Company.

The Company has a Certificate of Authority dated April 15, 2005, 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 first Saturday in February at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is 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 every quarter, and the directors are compensated \$60 per meeting attended.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
W. R. Robbins Trenton, Missouri	Retired Insurance Agent	2009-2012
Gary W. Black Trenton, Missouri	Company Manager/Insurance Agent	2008-2011
Donald C. Woodard Trenton, Missouri	Farmer	2009-2012
Charles Hoffman Trenton, Missouri	Agri-Businessman	2007-2010
L. D. Gibson Spickard, Missouri	Farmer/Retired County Clerk	2007-2010
John McCloud Trenton, Missouri	Farmer	2008-2011
James E. Hamilton Trenton, Missouri	Retired	2007-2010

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, 2009, were as follows:

Donald C. Woodard	Chairman
Charles Hoffman	Vice-Chairman
W. R. Robbins	President & Treasurer
Gary W. Black	Secretary

### **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 signed statements noted only one potential conflict, that one of the directors is also the Company's agent.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended 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 a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$25,000.

The Company carries liability coverage for their directors and officers. The Company's sole agency carries errors and omissions insurance, the cost of which is split equally between the Company and the agency.

The Company also carries general liability, office property and contents and workers compensation coverage.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has one full-time and four part-time employees. The full-time employee receives health, disability and life insurance coverage. The full-time employee and the two eligible part-time employees participate in an SEP retirement plan and receive 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 and wind coverages. The Company's policies are marketed by a single agency, which is located in the Company's home

office. The Company Secretary/Manager is the agency owner and producer for Company policies, and receives a commission of 19%, which is compensation for both his role as agent and Manager of the Company.

The Company has a written agreement with its agency; however, the agreement does not adequately address the arrangement between the entities. It is recommended the Company amend the agency agreement to ensure it adequately addresses the arrangements between the two entities. Terms to be addressed should include, but not be limited to, commission rate, rents for use of office space by the agency, and the division of resources and expenses between the Company and the agency.

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

The Company utilizes AAIS and MAMIC policy forms. The policies are renewed annually. Property inspections are performed by the agent. Claims adjusting is performed primarily by independent adjusters, while smaller claims may be adjusted by the agent. 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 Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2009	\$802,433	\$ 5,962	\$323,730	\$ 129,084	\$27,094	\$ (27,309)	\$ 2,485
2008	771,009	17,223	322,805	89,988	25,223	(37,121)	(8,523)
2007	779,074	19,565	318,236	31,193	25,235	39,986	68,821
2006	701,229	12,351	302,298	91,174	24,243	22,617	50,010
2005	646,648	14,870	305,498	219,134	21,527	16,683	41,810

At year-end 2009, 505 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 305,498	\$ 302,298	\$ 318,236	\$ 322,805	\$ 323,730
Assumed	0	0	0	0	0
Ceded	<u>(77,025)</u>	<u>(82,877)</u>	<u>(77,963)</u>	<u>(123,410)</u>	<u>(116,087)</u>
Net	<u>\$ 228,473</u>	<u>\$ 219,421</u>	<u>\$ 240,273</u>	<u>\$ 199,395</u>	<u>\$ 207,643</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company's reinsurance program is brokered through Guy Carpenter & Company, LLC. (Guy Carpenter) and consists of various contracts with multiple reinsurers (reinsurer).

Under the property per risk excess of loss agreement, the Company retains \$30,000 in losses per risk and the reinsurer's limits are \$490,000 per loss and \$580,000 per occurrence. The reinsurer also agrees to pay loss adjusting expenses (LAE) in the same proportion as the reinsurer's paid losses to total losses incurred by the Company. Under the property catastrophe excess of loss contract, the reinsurer is liable for losses and LAE in excess of \$120,000 per occurrence, limited to 95% of \$1,000,000 for the first layer and 100% of \$3,000,000 for the second layer. Under the aggregate excess of loss agreement, the reinsurer is liable for 95% of property losses and LAE in excess of 75% of the Company's earned property premium income, limited to 95% of \$2,000,000. Participating reinsurers in the 2009 property reinsurance program included Arch Reinsurance Company (38.5%), QBE Reinsurance Corporation (24.7%), Lloyd's Underwriting Syndicate #2987 BRT (14.2%), The Toa Reinsurance Company of America (11.7%), Employers Mutual Casualty Company (5.7%), and Scor Reinsurance Company (5.2%).

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 a modified cash basis. The firm of R. Scott Stephens, CPA, P.C., performs an annual audit of the Company's financial statements and prepares the Company's Annual Statements 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, 2009, 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, 2009**

Stocks	\$ 1,500
Bonds	172,661
Real Estate	23,753
Cash on Deposit (Note 1)	535,670
Premium Uncollected	7,714
Reinsurance Recoverable on Paid Losses	49,500
Computer Equipment	3,778
Interest Due and Accrued	3,725
Asset Write-Ins	4,132
	-----
Total Assets	<u><u>\$ 802,433</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2009**

Liability Write-Ins	\$ 5,962
	-----
Total Liabilities	\$ 5,962
	-----
Guaranty Fund	\$ 150,000
Other Surplus (Note 1)	646,471
	-----
Total Surplus	796,471
	-----
Total Liabilities and Surplus	<u><u>\$ 802,433</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2009**

Net Assessments Earned	\$ 207,643
Net Losses & Loss Adjustment Expenses Incurred	(81,603)
Other Underwriting Expenses Incurred	(153,349)
	-----
Net Underwriting Income (Loss)	\$ (27,309)
Investment Income	27,094
Other Income	2,700
	-----
Gross Profit (Loss)	\$ 2,485
Federal Income Tax	(0)
	-----
Net Income (Loss)	\$ 2,485
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2009**

Policyholders' Surplus, December 31, 2008	\$ 753,786
Net Income (Loss)	2,485
Examination Adjustment to Include Omitted Cash Balance (Note 1)	44,000
Examination Adjustment for Miscellaneous Prior Years' Errors (Note 2)	(3,800)
	-----
Policyholders' Surplus, December 31, 2009	\$ 796,471
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Cash

The Company understated cash by \$44,000 by failing to report a certificate of deposit purchased with funds received from insurance proceeds related to a property loss to the home office. An examination change was made to increase the cash balance and thus other surplus by \$44,000.

### Note 2 – Miscellaneous Surplus Adjustments

The beginning policyholder surplus value used by the Company in the “Gain or Loss in Surplus” reconciliation on Page 5 of the Annual Statements filed during the exam period failed to match the ending policyholder surplus value per the prior year Annual Statement balance sheets. The examiners were unable to identify the exact source of the discrepancy. The cumulative effect of the reporting errors required an examination adjustment decreasing the prior year surplus by \$3,800. The Company is directed to ensure the beginning policyholder surplus value reported in the “Gain or Loss in Surplus” reconciliation on Page 5 of the Annual Statement is equal to the ending policyholder surplus per the balance sheet of the prior year Annual Statement in future filings.

### EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2009		\$ 752,471
	Increase in Surplus	Decrease in Surplus
Cash on Deposit	\$ 44,000	\$ 0
	-----	-----
Total Change	\$ <u>44,000</u>	\$ <u>(0)</u> <u>44,000</u>
Total Policyholder Surplus Per Examination, December 31, 2009		<u>\$ 796,471</u>

## GENERAL COMMENTS AND RECOMMENDATIONS

### Territory and Plan of Operation (Page 6)

It is recommended the Company amend the agency agreement to ensure it adequately addresses the arrangements between the two entities. Terms to be addressed should include, but not be limited to, commission rate, rents for use of office space by the agency, and the division of resources and expenses between the Company and the agency.

### Notes to the Financial Statements (Page 11)

The Company should ensure the beginning policyholder surplus value reported in the "Gain or Loss in Surplus" reconciliation on Page 5 of the Annual Statement is equal to the ending policyholder surplus per the balance sheet of the prior year Annual Statement in future filings.

## SUBSEQUENT EVENTS

None.

## ACKNOWLEDGMENT

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

## VERIFICATION

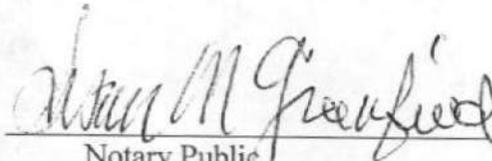
State of Missouri    )  
                                  ) ss  
County of Cole        )

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 10th day of February, 2011.

My commission expires  
**SUSAN M. GREENFIELD**  
Notary Public - Notary Seal  
State of Missouri, County of Boone  
Commission # 08479801  
My Commission Expires Oct. 2, 2012

  
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.

  
Mark Nance, CFE, CPA  
Audit Manager - Kansas City  
Missouri DIFP