

# 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 Linn County as of  
December 31, 2008

### ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Linn County 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 Mutual Insurance Company of Linn 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 October 30, 2009.



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 LINN COUNTY

AS OF  
DECEMBER 31, 2008



**FILED**  
OCT 30 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 19, 2009  
Meadville, 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 LINN COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 211 South Macon, P.O. Box 218, Meadville, Missouri 64659, telephone number (660) 938-4415. This examination began on May 4, 2009, and concluded on May 7, 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.

### **Comments Previous Examination**

*Comment:* As noted in the prior examination, it was recommended that the Company maintain deposit balances at or below the maximum FDIC insurance coverage.

*Company Response:* The Company agreed to implement this recommendation.

*Current Findings:* The Company's cash deposits were adequately insured during the examination period.

## **HISTORY**

### **General**

The Company was originally established on December 16, 1893, and was incorporated on March 3, 1894, as Farmers Mutual Fire Insurance Company. On March 9, 1979, the Company changed its name to Farmers Mutual Insurance Company of Linn County. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies).

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third 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 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and directors are compensated \$75 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>
Anthony Mundell Browning, Missouri	Farmer	2006-2009
Gary Amen New Boston, Missouri	Farmer	2006-2009
James Maxwell Brookfield, Missouri	Farmer	2008-2011
Danny McIntyre Meadville, Missouri	Carpenter	2007-2010
Bill Brockman Brookfield, Missouri	Farmer	2007-2010
Johnny Anderson Linneus, Missouri	Farmer	2006-2009
Jerry Ervie Marceline, Missouri	Salesman	2006-2009
Georgianna Buswell Purdin, Missouri	Tax Consultant	2006-2009
Jerry Crookshanks Meadville, Missouri	Retired Postal Carrier	2008-2011

The Board of Directors elects for a term of one year the officers of the Company. The officers of the Company serving at December 31, 2008, were as follows:

Anthony Mundell	President
Gary Amen	Vice-President
Dean Sayre	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. On February 11, 2004, the Bylaws were amended to change the word "premium" to "assessment." No changes were made to the Articles of Incorporation 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 \$75,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$1,500,000 and a \$2,500 per loss deductible.

The Company purchases errors and omissions insurance through MAMIC Mutual Insurance Company for its agents. Each agent has coverage of \$750,000 in aggregate with a \$1,000 deductible for each claim.

The Company carries property coverage on its home office and contents, as well as general liability and workers compensation insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has two full-time employees and one part-time employee. The employee benefits package offered by the Company includes contributions to individual retirement accounts 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 5 licensed agents, who receive a commission of 15% on all policies. In addition, the Secretary-Treasurer is a licensed agent and writes policies for the Company. The Secretary-Treasurer is salaried and does not receive commissions. The Company's agent agreements do not contain the requirement that agents carry errors and omissions insurance. It is recommended the Company amend its agent agreements to include the provision that requires the agents to maintain errors and omissions insurance coverage.

### Policy Forms and Underwriting Practices

The Company uses AAIS policy forms as well as those from the Grinnell Mutual Reinsurance Company. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. The Company's agents and the Secretary-Treasurer perform property inspections. Claims adjusting is performed primarily by the Secretary-Treasurer. An independent adjuster is utilized for certain losses.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$2,812,847	\$109,319	\$663,520	\$ 198,035	\$ 32,473	\$100,534
2007	2,650,472	47,478	664,488	332,374	9,031	116,810
2006	2,538,150	51,966	604,863	142,265	(38,151)	100,026
2005	2,426,129	246,903	607,730	209,444	16,573	140,192
2004	2,268,273	229,239	488,923	1,908,231	(148,670)	(29,859)

At year-end 2008, 1,094 policies were in force.

## REINSURANCE

### General

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct	\$658,557	\$659,468	\$600,291	\$607,730	\$488,923
Assumed	4,963	5,020	4,572	0	0
Ceded	<u>(205,539)</u>	<u>(240,131)</u>	<u>(252,835)</u>	<u>(245,040)</u>	<u>(118,526)</u>
Net	<u>\$ 457,981</u>	<u>\$424,357</u>	<u>\$352,028</u>	<u>\$362,690</u>	<u>\$370,397</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 to the pool 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies, and 95% of the first \$3,000,000 each claim and in the aggregate on all officer and director liability policies. MMIC receives a ceding commission of 35% of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence with aggregate excess of loss plan of reinsurance for property risks. The individual occurrence of loss section of the agreement covers property risks. The Company retains \$50,000 for each individual loss occurrence for property risks, and the reinsurer is liable for losses in excess of the retention, limited to \$1,000,000 per exposure.

The aggregate excess section of the agreement covers property risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average loss ratio, plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this attachment point. The attachment point was \$333,078 for 2008.

The contract has a quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 20% ceding commission.

Under the facultative reinsurance portion of the agreement, the Company may cede risks to the reinsurer that exceeds the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

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. The Company's accounting firm, Van de Ven, LLC, performs an annual review of the Company's financial statements and prepares the Company's 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, 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	\$ 405,773
Real Estate	14,344
Cash on Deposit	2,314,703
Other Investments	39,857
Computer Equipment	10,209
Federal Income Tax Recoverable	2,431
Interest Due and Accrued	24,966
Funds Held by Reinsurer	564
	-----
Total Assets	<u><u>\$ 2,812,847</u></u>

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

Losses Unpaid	\$ 75,622
Ceded Reinsurance Premium Payable	18,571
Accrued Sick Leave	6,585
Accrued Pension Expense	8,429
Unclaimed Property	112
	-----
Total Liabilities	\$ 109,319
	-----
Guaranty Fund	\$ 150,000
Other Surplus	2,553,528
	-----
Total Surplus	2,703,528
	-----
Total Liabilities and Surplus	\$ 2,812,847
	=====

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

Net Assessments Earned	\$ 457,981
Other Insurance Income	79,692
Net Losses & Loss Adjustment Expenses Incurred	(261,424)
Other Underwriting Expenses Incurred	(243,776)
	-----
Net Underwriting Income (Loss)	\$ 32,473
	-----
Investment Income	\$ 85,150
Other Income	0
	-----
Gross Profit (Loss)	\$ 117,623
Federal Income Tax	(17,089)
	-----
Net Income (Loss)	\$ 100,534
	=====

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

Policyholders' Surplus, December 31, 2007	\$ 2,602,994
Net Income (Loss)	100,534
	-----
Policyholders' Surplus, December 31, 2008	\$ 2,703,528
	=====

## **NOTES TO FINANCIAL STATEMENTS**

There were no notes to the financial statements.

### **EXAMINATION CHANGES**

There were no examination changes.

### **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

#### **Territory and Plan of Operations (Page 5)**

It is recommended the Company amend its agent agreements to include the provision that requires the agents to maintain errors and omissions insurance coverage.

### **SUBSEQUENT EVENTS**

None.

