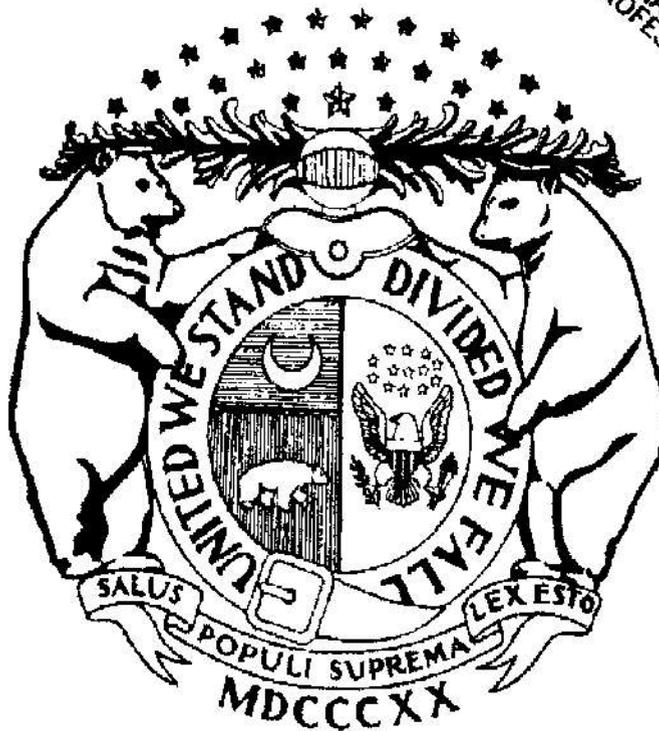


REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY
OF BENTON COUNTY

AS OF
DECEMBER 31, 2008

FILED
JUL 08 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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March 20, 2009
Warsaw, 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 BENTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 311 West Main (P.O. Box 675), Warsaw, Missouri 65355, telephone number (660) 438-6424. This examination began on March 17, 2009, and concluded on March 18, 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.

Corporate Records

Comment: It was recommended Company management finalize the amendments made to the Articles of Incorporation by making the appropriate filings with the DIFP.

Company Response: The Company made the necessary filings with the DIFP.

Current Findings: The Company failed to properly file the noted amendments to the Articles of Incorporation with the DIFP (See the Corporate Records section of this report).

Territory and Plan of Operations

Comment: It was recommended the Company execute a written agreement with its unlicensed agent.

Company Response: The Company entered into a written agreement with its unlicensed agent.

Current Findings: The Company entered into a written agreement with the noted unlicensed agent. Prior to the examination date, the agreement was terminated, and the referenced agent no longer represents the Company.

Notes to the Financial Statements – Cash on Deposit

Comment: It was recommended the Company reallocate its deposits or secure additional guaranty insurance to ensure that all cash deposits are insured.

Company Response: The Company opened additional deposit accounts and obtained guaranty insurance on deposits.

Current Findings: As of the examination date, the Company's deposits appeared adequately insured.

HISTORY

General

The Company was originally organized in March of 1909, and incorporated on April 5, 1933, as Farmers Mutual Fire Insurance Company of Benton County. On February 19, 1973, the Company changed its name to Farmers Mutual Insurance Company of Benton County.

The Company has a Certificate of Authority dated December 21, 2004, 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 last Saturday in January 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. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not addressed in the Articles of Incorporation.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Articles of Incorporation require a minimum of five directors. At December 31, 2008, the Board of Directors consisted of five 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 \$20 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>
Lowell Cobb Warsaw, Missouri	Farmer	2008-2011
Fredrick Gregory Warsaw, Missouri	Farmer	2007-2010
Thad Henderson Edwards, Missouri	Farmer	2007-2010

Victor Phillips Cross Timbers, Missouri	Farmer	2008-2011
Richard Ingram Warsaw, Missouri	Retired	2006-2009

At the 2009 annual membership meeting, the membership elected two additional directors, as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Steve Daleske Warsaw, Missouri	Retired/Farmer	2009-2012
David Gregory Deepwater, Missouri	Power Plant Supervisor/Farmer	2009-2012

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:

Lowell Cobb	President
Frederick Gregory	Vice-President
Debra Reed	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 January 22, 2005, the Articles of Incorporation were amended to update language to more adequately reflect the Company's operations as an Extended Missouri Mutual Insurance Company. The Bylaws were not amended during the examination period.

As was noted in the prior examination report, on April 22, 2000, the Company membership approved amendments to the Articles of Incorporation regarding annual membership meeting dates and quorum requirements. However, the amendments were not properly filed with the DIFP in accordance with Section 380.241 RSMo (Amendment to Articles and Bylaws, Procedure – Fee).

The Company is directed to properly file the April 22, 2000 amendments to the Articles of Incorporation with the DIFP.

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 \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. In addition, the Company purchases errors and omissions insurance coverage for its agent.

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

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time and one part-time employee. The Company does not offer its employees a benefits package.

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 one licensed agent, who receives a 10% commission.

The Company has a management agreement with its Secretary/Treasurer who also acts as the sole agent of the Company. The terms of the agreement regarding compensation are outdated. In addition, the agreement serves as the agent agreement with the manager, but does not address commissions or contain a commission schedule. The Company is directed to amend the management agreement to update the compensation terms and to add a commission schedule. In addition, the Company is directed to file the amended agreement in its entirety to the DIFP in accordance with Section 380.611 (Sale of Corporate Charter, Penalty -- Exclusive Right to Control a Company, Approval by Director, Requirements).

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and most adjusting functions are performed by the agent. Independent adjusters are utilized for larger claims. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<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>
2008	\$629,232	\$0	\$275,167	\$ 178,807	\$22,344	\$ (63,504)	\$(41,125)
2007	670,357	0	274,863	179,794	23,108	(7,412)	15,729
2006	654,628	0	289,731	199,077	20,503	(27,749)	(7,211)
2005	661,839	0	273,245	214,198	15,780	(81,298)	(65,484)
2004	727,323	0	232,650	81,018	13,849	37,633	59,307

At year-end 2008, 510 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	232,650	\$273,245	\$ 289,731	\$ 274,863	\$275,167
Assumed	0	0	0	0	0
Ceded	<u>(46,607)</u>	<u>(99,113)</u>	<u>(102,465)</u>	<u>(111,524)</u>	<u>(123,518)</u>
Net	<u>\$186,043</u>	<u>\$174,132</u>	<u>\$ 187,266</u>	<u>\$ 163,339</u>	<u>\$ 151,649</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company's property reinsurance program is brokered through Guy Carpenter & Company, Inc. of Pennsylvania and consists of various contracts with multiple reinsurers (reinsurer). The Company's casualty business is reinsured by Cameron Mutual Insurance Company (Cameron Mutual).

Under the property per risk excess of loss agreement, the Company retains \$50,000 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 \$70,000 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 80% of the Company's earned property premium income, limited to 95% of \$2,000,000. Participating reinsurers in the 2008 property reinsurance program include Arch Reinsurance Company (37.00%), QBE Reinsurance Corporation (25.00%), Aspen Insurance U.K. Ltd (14.50%), The Toa Reinsurance Company of America (12.00%), Employers Mutual Casualty Company (6.00%) and Scor Reinsurance Company (5.50%). It was noted that the signature page of the interests and liabilities agreement associated with the reinsurance contracts were not individually signed for this Company. Rather, the participating reinsurers appeared to have signed a single interests and liabilities signature page, which was then copied by the intermediary and attached to numerous Missouri Mutual interests and liabilities agreements. This does not appear appropriate, as these contracts are between this specific Company and the participating reinsurers. It is

recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company's reinsurance contracts. All pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to this Company.

Under the casualty reinsurance contract with Cameron Mutual, the Company cedes 100% of the casualty premium and loss liability to Cameron Mutual, 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 Company maintains its records on a cash basis. Tracey Spry & Associates, CPA, prepares the Company's 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

Real Estate	\$ 34,062
Cash on Deposit (Note 1)	533,144
Other Investments (Note 1)	35,075
Reinsurance Recoverable on Paid Losses (Note 1)	26,951

Total Assets	<u><u>\$ 629,232</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Total Liabilities	\$ 0

Guaranty Fund	\$ 150,000
Other Surplus	479,232

Total Surplus	629,232

Total Liabilities and Surplus	<u><u>\$ 629,232</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	\$ 151,649
Other Insurance Income	13,541
Net Losses & Loss Adjustment Expenses Incurred	(152,619)
Other Underwriting Expenses Incurred	(76,075)

Net Underwriting Income (Loss)	\$ (63,504)
Investment Income	22,344
Other Income	35

Gross Profit (Loss)	\$ (41,125)
Federal Income Tax	(0)

Net Income (Loss)	\$ (41,125)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$ 670,357
Net Income (Loss)	(41,125)

Policyholders' Surplus, December 31, 2008	\$ 629,232
	=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Cash, Other Investments and Reinsurance Recoverables

The Company improperly reported balances totaling \$62,026 as “Cash on Deposit” on the 2008 Annual Statement. This total consisted of an annuity balance of \$35,075 which is more properly reported as “Other Investments”, and a reinsurance recoverable balance of \$26,951 included in outstanding deposits which should be reported as “Reinsurance Recoverable on Paid Losses.” These items were reclassified per the examination report to the proper asset reporting lines.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination changes were to reclassify asset balances. These changes did not affect the amount of total surplus reported by the Company.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 4)

The Company is directed to properly file the April 22, 2000, amendments to the Articles of Incorporation with the DIFP.

Territory and Plan of Operations (Page 6)

The Company is directed to amend the management agreement to update the compensation terms and to add a commission schedule. In addition, the Company is directed to file the amended agreement in its entirety to the DIFP in accordance with Section 380.611 (Sale of Corporate Charter, Penalty -- Exclusive Right to Control a Company, Approval by Director, Requirements).

Reinsurance (Page 7)

It is recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company’s reinsurance contracts. All pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to this Company.

Notes to the Financial Statements (Page 11)

The Company is directed to properly classify reported assets on future Annual Statement filings.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

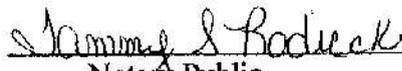
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the 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 20th day of March, 2009.

My commission expires:

February 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