

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Freistatt Mutual Insurance Company as of December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Freistatt Mutual Insurance Company for the period ended December 31, 2010, 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 Freistatt 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 7th day of May, 2012.

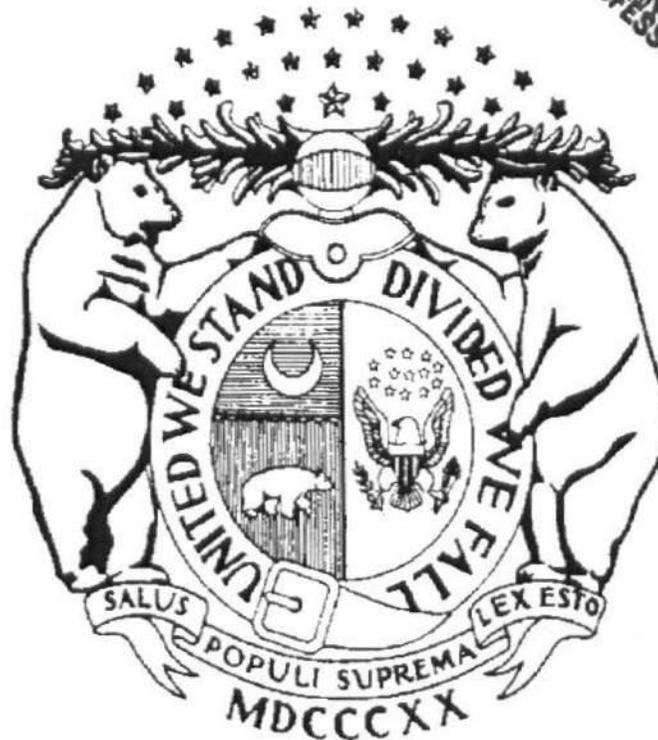


A handwritten signature in black ink, appearing to read "John M. Huff".

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

REPORT OF THE
FINANCIAL EXAMINATION OF
FREISTATT MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

FILED
MAY 07 2012
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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December 8, 2011
Freistatt, 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

FREISTATT MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 411 North Main Street, Freistatt, Missouri 65654, telephone number (417) 235-5366. This examination began on December 5, 2011, and was concluded on December 8, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006, through December 31, 2010, 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, 2005, 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 the Company amend its Articles of Incorporation to change all references from "assessment" to "premium" and file such amendments with the Director in accordance with Section 380.241 RSMo (Amendment to Articles and Bylaws, Procedure-Fee).

Company Response: Company did not formally respond.

Current Findings: The Company amended its Articles of Incorporation in March of 2007 to remove all references of "assessment".

Reinsurance Recoverable on Unpaid Losses

Comment: It was recommended the Company report reinsurance recoverable on unpaid losses as an offsetting amount to unpaid losses liability on future Annual Statements.

Company Response: Company did not formally respond.

Current Findings: The Company reported reinsurance recoverable on unpaid losses as an offsetting amount to unpaid losses liability in the 2010 Annual Statement.

Guaranty Fund Balance

Comment: It was recommended the Company apply the minimum guaranty fund calculations as defined in Section 380.271 RSMo (Financial Reinsurance Requirements) for future reporting purposes.

Company Response: Company did not formally respond.

Current Findings: The Company reported a Guaranty Fund amount of \$396,175 in the 2010 Annual Statement. While it appears the Company applied the minimum guaranty fund calculations defined in Section 380.271 RSMo (Financial Reinsurance Requirements) in the 2010 Annual Statement, the reported net in-force amount of \$173,087,784 does not appear to adequately reflect the coverage provided by the Company's reinsurance agreements.

HISTORY

General

The Company was originally organized on February 19, 1887, and incorporated on March 13, 1935, as Farmers Mutual Insurance Company of Lawrence County. On March 5, 1985, the Company amended its Articles of Incorporation, changing its name to Freistatt Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual 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 Tuesday in March at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called 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 corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, terms: three are elected for one year, three are elected for two years, and three are elected for three years. All directors must be policyholders of the Company. The Board of Directors meet approximately every quarter and are compensated \$300 per meeting.

Members serving on the Board of Directors as of December 31, 2010, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Don Buntin Marionville, MO	Insurance Agent/Farmer	Term expires 2011
Melvin Needham Wentworth, MO	Retired Company Manager	Term expires 2013
Ed Mosher Miller, MO	Retired Insurance Agent	Term expires 2011
Steve Quade Shell Knob, MO	Retired Military	Term expires 2012
Kert Stump Oronogo, MO	Insurance Agent	Term expires 2012

Elmer Kaiser Monett, MO	Retired Insurance Agent	Term expires 2013
Kathy Kellhofer Sarcoxie, MO	Insurance Agent / Farmer	Term expires 2011
Gayle Cobb Clever, MO	Insurance Agent / Farmer	Term expires 2013
Robert Patterson Diamond, MO	Insurance Agent / Farmer	Term expires 2013

The Board of Directors appoints for a term of one year, a President, a Vice President, a Second Vice-President, and a Secretary. The Secretary may also serve as the Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2010, were as follows:

Gayle Cobb	President
Kathy Kellhofer	Vice-President
Robert Patterson	2 nd Vice-President
Christopher Griesbaum	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 of the Company. The Company is following the guidelines established in the Articles of Incorporation.

The minutes of the membership and the Board of Directors' meeting were reviewed for the period under examination. The Board meeting minutes indicated that the Board is adequately informed of the Company's operations. The Board formally acknowledged the previous examination report during its October 11, 2006 meeting. Attendance at the Board and annual meeting appeared satisfactory and properly reflect corporate transactions and events.

The Company has a Board approved, written policy and procedures manual. However, the procedures manual is not regularly updated.

Mergers and Acquisitions

The Company merged with both Farmers Mutual Insurance Company of Harrison County and Midwestern Mutual Casualty Insurance Company during the period under examination. The Company assumed all liabilities of Farmers Mutual Insurance Company of Harrison County in exchange for all assets effective January 1, 2009. The Company assumed all liabilities of Midwestern Mutual Casualty Insurance Company in exchange for all assets effective July 1, 2009. The mergers were properly filed with the Secretary of State subsequent to approval by both the policyholders and the DIFP.

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, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for their directors and officers with an aggregate limit of \$2,000,000 and a \$2,500 deductible in aggregate for each claim. The Company's agents are required to purchase their own errors and omissions coverage, with no reimbursement from the Company. The Company carries property insurance coverage on its home office and equipment, as well as business liability insurance. The Company also carries workers' compensation coverage for its employees. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees and one part-time employee. Each year, full-time employees receive two weeks paid vacation and all federal holidays. The Company appears to have made adequate provisions in the financial statement for these employee benefits.

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's policies are sold by 24 licensed producers, who receive a 20% commission.

It was noted that the agent agreement utilized by the Company did not contain standard provisions which are normally included in such agreements. The agent agreements did not include language that addresses the time required for an application to be submitted to the home

office, the requirement that applications be fully completed prior to submission, and the current Board approved commission rate.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company Manager and Company Inspector/Adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2010	2,024,742	642,206	1,377,661	592,029	71,861	(163,982)	(91,457)
2009	2,119,552	645,559	1,243,535	846,814	108,281	(531,604)	(456,364)
2008	2,444,666	414,834	969,511	689,838	78,968	(489,162)	(383,902)
2007	2,776,100	362,366	928,633	430,769	104,941	(27,644)	85,986
2006	2,716,557	388,810	942,830	1,061,806	119,483	(275,171)	(172,126)

At year-end 2010, 2,136 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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Direct	1,377,661	1,243,535	969,511	928,633	942,830
Assumed	27,183	25,090	24,817	25,101	22,861
Ceded	<u>470,392</u>	<u>466,867</u>	<u>394,296</u>	<u>283,946</u>	<u>286,396</u>
Net	<u>934,452</u>	<u>801,758</u>	<u>600,032</u>	<u>669,788</u>	<u>679,295</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 89% of the first \$2,000,000 of each claim and in aggregate on all insurance agent and broker errors and omissions policies and 89% 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 has all of its reinsurance placed through Guy Carpenter for multiple reinsurance contracts for fire, wind, and liability risks.

Property per Risk Excess of Loss

This contract provides that the Company retain the first \$125,000 of each loss, each risk subject to a limit of \$200,000 for each loss occurrence. The contract also provides that the Company retain \$25,000 of each loss, each risk beyond the \$200,000 limit up to \$225,000. The reinsurer retains losses over \$225,000 each loss, each risk subject to a limit of \$400,000 for each loss occurrence. The premium for this coverage is 9.85% of the Company's net written premium income.

Aggregate Excess of Loss

This contract provides aggregate excess coverage of total net losses over 80% of gross net earned premiums subject to a limit of \$2,850,000. The premium for this coverage is 6.5% of net earned premium income plus an experience rating adjustment based on the prior year's loss ratio.

Property Catastrophe Excess of Loss

This contract provides that the Company retain 5% of each loss above \$235,000 subject to a limit of \$950,000 per each loss occurrence. The contract also provides that the Company retain 5% of losses above \$1,235,000 subject to a limit of \$2,000,000 for each loss occurrence. The premium for this coverage is 15.25% of the Company's net written premium income.

Casualty Quota Share

This contract provides that the Company shall cede 100% of liability risks and premiums to the reinsurer subject to a limit of \$500,000 and receive a 25% ceding commission.

Special Casualty Excess of Loss

This contract provides that the reinsurer is liable on a per loss basis for losses exceeding \$500,000, subject to a limit of \$500,000. The premium for this coverage is 35% of the Company's net written liability premium income.

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 cash basis. Steven L. Harner, CPA performs an annual audit, prepares the Annual Statement, and provides tax preparation services for the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, 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, 2010

Bonds	\$858,833
Stocks	134,708
Real Estate	19,240
Cash on Deposit	722,168
Other Investments	195,914
Reinsurance Recoverable on Paid Losses	64,738
Computer Equipment (Hardware Only)	1,345
Federal Income Tax Recoverable	10,200
Interest Due and Accrued	169
Reinsurance Premium Receivable	13,489
Furniture, Fixtures, & Equipment	510
Prepaid Expenses	3,429

Total Assets	<u><u>\$2,024,742</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Losses Unpaid	\$106,521
Ceded Reinsurance Payable	9,289
Unearned Premium	524,622
Accounts Payable	640
Payroll Taxes Payable	1,134

Total Liabilities	\$642,206

Guaranty Fund	\$396,176
Other Surplus	986,361

Total Surplus	1,382,536

Total Liabilities and Surplus	<u><u>\$2,024,742</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$886,969
Other Insurance Income	4,268
Net Losses & Loss Adjustment Expenses Incurred	(513,010)
Other Underwriting Expenses Incurred	(542,208)

Net Underwriting Income (Loss)	\$(163,982)

Investment Income	\$71,861
Other Income	664

Gross Profit (Loss)	\$(91,457)
Federal Income Tax	0

Net Income (Loss)	\$(91,457)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$1,473,993
Net Income (Loss)	(91,457)

Policyholders' Surplus, December 31, 2010	\$1,382,536
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Comments-Previous Examination Report (Page 2)

The Company reported a Guaranty Fund amount of \$396,175 in the 2010 Annual Statement. Per the provisions of Section 380.271 RSMo (Financial Reinsurance Requirements), the guaranty fund is to consist of the greater of fifty thousand dollars or 0.1% for each fire, wind, and liability net risks in force. The reported net in-force amount of \$173,087,784 does not appear to adequately reflect the coverage provided by the Company's reinsurance agreements. It is recommended the Company more accurately calculate the net in-force amount for future reporting purposes.

Corporate Records (Page 4)

It is recommended that the Company regularly update this manual to reflect its current policies and procedures. The updated manual should include policies and procedures regarding authorized investments, check signing, employee expenses, claims payment, inspection process, and agent compensation. The updated policy and procedures manual should be made available to all Company officials and employees.

Insurance Products and Related Practices (Page 5)

The agent's agreement should be revised to include language that addresses the time required for an application to be submitted to the home office, the requirement that applications be fully completed prior to submission, and the current Board approved commission rate. The revised agent's agreement should be filed with the Missouri Department of Insurance, Financial Institutions, and Professional Registration.

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Scott L. Rennick 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.



Scott L. Rennick, AFE, MBA
Financial Examiner
Missouri DIFP

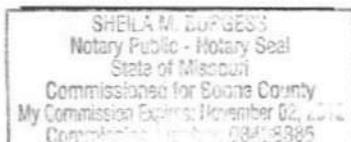
Sworn to and subscribed before me this 12th day of January, 2012.

My commission expires:



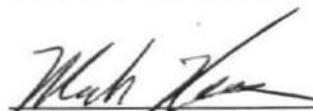
Notary Public

Sheila M Burgess



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
Missouri DIFP