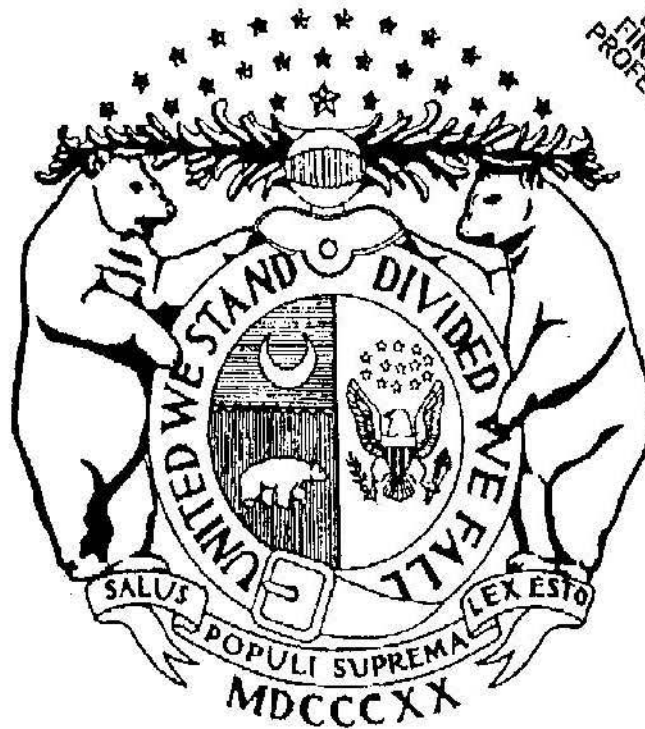


REPORT OF THE
FINANCIAL EXAMINATION OF
GERMAN MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2008



FILED
JUL 20 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 25, 2009
Jefferson 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

GERMAN MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 3821 Route C, Jefferson City, Missouri 65109, telephone number (573) 634-0175. This examination began on March 23, 2009, and concluded on March 25, 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

There were no comments, recommendations or notes in the previous examination report dated December 31, 2003.

HISTORY

General

The Company was originally organized on November 8, 1891, as the German Mutual Fire Insurance Association and incorporated on March 13, 1939. In 1974, the Company changed its name to German Mutual Insurance Company.

The Company has a Certificate of Authority dated September 22, 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 second Saturday in March 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 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 quarter, and the 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>
Elmer Heinrich Russellville, Missouri	Farmer	2008-2011
Stephen Coffelt Russellville, Missouri	Farmer/Company Secretary	2008-2011

Cletus Heidbreder Lohman, Missouri	Retired	2007-2010
Bob Duncan Centertown, Missouri	Retired	2006-2009
Glen Steenbergen Russellville, Missouri	Banker	2007-2010
David Ott Russellville, Missouri	Farmer	2006-2009
Shawn Ehrhardt Jefferson City, Missouri	Investment Advisor	2008-2011
Edgar Kautsch Lohman, Missouri	Farmer/Insurance Agent	2006-2009
William Smith, Jr. Henley, Missouri	County Employee	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, 2008 were as follows:

Elmer Heinrich	President
Bob Duncan	Vice-President
Stephen Coffelt	Secretary
Cletus Heidbreder	Treasurer

At the March 14, 2009 meeting of the Board of Directors, Shawn Ehrhardt was elected to the position of Secretary to replace Stephen Coffelt.

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 revealed that three of the directors serve on the board of directors of a local bank at which the Company is a customer. These relationships do not appear to negatively impact the Company's ongoing business operations.

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 period under examination.

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.

The Company carries liability coverage for their directors and officers. In addition, the Company's agents carry errors and omissions insurance coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three part-time employees. 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 2 licensed agents. The agents receive \$50 for each new policy with coverage under \$50,000, and for renewals and policy changes. Agents receive \$60 for each

new policy with coverage over \$50,000 and for each claim adjusted. The agent agreements do not contain the compensation schedules as prescribed by the agreements. It is recommended the Company draft an agent compensation schedule and attach a copy of the schedule to each agent agreement.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the agents. 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>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>
2008	\$1,546,880	\$0	\$189,809	\$ 80,781	\$61,782	\$ (4,848)	\$ 56,933
2007	1,489,946	0	175,468	29,177	70,155	38,103	108,258
2006	1,381,689	0	183,049	152,334	53,527	(28,073)	25,454
2005	1,356,235	0	155,922	6,773	31,527	66,239	97,766
2004	1,258,469	0	148,856	109,216	25,020	2,455	27,760

At year-end 2008, 489 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	\$ 148,856	\$ 155,922	\$ 183,049	\$ 175,468	\$ 189,809
Assumed	0	0	0	0	0
Ceded	<u>(41,713)</u>	<u>(49,445)</u>	<u>(48,932)</u>	<u>(63,965)</u>	<u>(67,383)</u>
Net	<u>\$ 107,143</u>	<u>\$ 106,477</u>	<u>\$ 134,117</u>	<u>\$ 111,503</u>	<u>\$ 122,426</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 (Guy Carpenter) 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 \$40,000 in losses per risk and the reinsurer's limits are \$500,000 per loss and \$600,000 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 catastrophic excess of loss contract, the reinsurer is liable for losses and LAE in excess of \$55,000, limited to 95% of \$1,000,000 for the first layer and 100% of \$2,000,000 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 2008 property reinsurance program included 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 accounting records are maintained by the Company on a cash basis.

The Company was unable to provide a formal claims register. The Company is directed to create and maintain a formal claims register. Entries to the register should be initiated when a claim is reported. The register should include at a minimum, claim number, policy number, date of loss, policy effective and expiration dates, amounts paid and estimated amounts unpaid.

At December 31, 2008, the Company had deposits in two financial institutions which exceeded the FDIC insurance limits in total by approximately \$350,000. At that time, the Company maintained guarantee insurance from a private insurer in amounts that covered the deposits in excess of the FDIC limits. Subsequent to the examination date, the private insurer exited the deposit guarantee business, which left the Company's excess deposits uninsured as of the examination fieldwork date. The Company is directed to take necessary measures to ensure that its cash deposits are fully insured.

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

Cash on Deposit	\$ 1,546,880

Total Assets	\$ 1,546,880
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Total Liabilities	\$ 0

Guaranty Fund	\$ 150,000
Other Surplus	1,396,880

Total Surplus	1,546,880

Total Liabilities and Surplus	\$ 1,546,880
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	\$ 122,426
Other Insurance Income	7,321
Net Losses & Loss Adjustment Expenses Incurred	(79,781)
Other Underwriting Expenses Incurred	(54,814)

Net Underwriting Income (Loss)	\$ (4,848)
Investment Income	61,782

Gross Profit (Loss)	\$ 56,933
Federal Income Tax	(0)

Net Income (Loss)	\$ 56,933
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$ 1,489,946
Net Income (Loss)	56,933

Policyholders' Surplus, December 31, 2008	\$ 1,546,880
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Territory and Plan of Operation (Page 5)

It is recommended the Company draft an agent compensation schedule and attach a copy of the schedule to each agent agreement.

Reinsurance (Page 6)

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.

Accounts and Records (Page 7)

The Company is directed to create and maintain a formal claims register. Entries to the register should be initiated when a claim is reported. The register should include at a minimum, claim number, policy number, date of loss, policy effective and expiration dates, amounts paid and estimated amounts unpaid.

The Company is directed to take necessary measures to ensure that its cash deposits are fully insured.

SUBSEQUENT EVENTS

For calendar year 2009, the Company revised its reinsurance program to increase the per risk retention for property risks from \$40,000 to \$50,000.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of German Mutual Insurance Company 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 29th day of April, 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