

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Hickory County Farmers Mutual Insurance Company as of  
December 31, 2009

### ORDER

After full consideration and review of the report of the financial examination of Hickory County Farmers Mutual Insurance Company 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 Hickory County Farmers 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 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 September 16, 2010



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

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

AS OF  
DECEMBER 31, 2009

**FILED**  
SEP 16 2010  
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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July 1, 2010  
Hermitage, 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

### **HICKORY COUNTY FARMERS MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 107 Polk Street (P.O. Box 132), Hermitage, Missouri 65668, telephone number (417) 745-6722. This examination began on June 30, 2010, and concluded on July 1, 2010, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope 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

There were no comments and recommendations in the previous examination report dated December 31, 2004.

## HISTORY

### General

The Company was originally organized and incorporated on May 27, 1892, as Farmers Mutual Aid Society of Hickory County. The Company changed its name to Hickory County Farmers Mutual Insurance Company on March 27, 1999.

The Company has a Certificate of Authority dated September 28, 1982, 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 fourth 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 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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately each month. Compensation per each meeting attended is \$170 for the President and \$130 for all other directors.

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>
Donald Hunt Weaubleau, Missouri	Farmer/Retired Agent	2007-2010

Justin Crawford Hermitage, Missouri	Auctioneer	2009-2012
John Dale Costelow Wheatland, Missouri	Farmer/Retired Agent	2008-2011
Gary Box Wheatland, Missouri	Hotel Owner/Contractor	2009-2012
Kelly Nunn Urbana, Missouri	Rehabilitation Facility Owner	2008-2011

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 Hunt	President
Justin Crawford	Vice-President
Darlene McLerran	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. No significant conflicts were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not 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 \$100,000. 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. The Company requires its agents to purchase errors and omissions coverage.

Other insurance coverages carried by the Company include property insurance on its home office and contents as well as premises liability insurance and business automobile insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees and three part-time employees. The benefits package offered to full-time employees includes family health insurance, life insurance, a SIMPLE retirement plan 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 twenty-seven independent agents, who receive a fifteen percent commission.

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

The Company utilizes AAIS and MAMIC policy forms. The policies are renewed annually. Property inspections are performed by employee inspectors. The adjusting function is performed primarily by independent adjusters. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$1,989,079	\$1,412,499	\$3,857,404	\$3,878,433	\$41,259	\$(314,770)	\$(273,555)
2008	2,119,654	1,268,560	3,338,557	3,543,629	54,050	(244,307)	(160,872)
2007	2,092,844	1,081,290	3,043,738	1,603,921	57,729	8,657	66,932
2006	1,896,466	952,349	2,801,717	2,599,778	60,874	(271,317)	(210,422)
2005	2,174,728	1,020,664	2,601,592	855,767	57,901	346,391	375,004

At year-end 2009, 5,435 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	\$ 1,914,385	\$ 2,085,388	\$ 2,309,126	\$ 2,576,412	\$ 3,019,825
Assumed	687,207	716,329	734,612	762,145	837,579
Ceded	<u>(1,355,862)</u>	<u>(1,473,572)</u>	<u>(1,659,854)</u>	<u>(1,705,563)</u>	<u>(2,012,265)</u>
Net	<u>\$ 1,245,730</u>	<u>\$ 1,328,145</u>	<u>\$ 1,383,884</u>	<u>\$ 1,632,994</u>	<u>\$ 1,845,139</u>

### Assumed

The Company is a member of the Missouri Mutual Reinsurance Exchange (MMRE), which is a group reinsurance pool consisting of six Missouri mutual insurance companies and managed by Guy Carpenter & Company, LLC (Guy Carpenter). Each pool participant is party to a memorandum of agreement, under which risk and premium assumptions are based proportionately on the risks ceded by each company to the pool. Overall pool participation for the Company in 2009 was approximately 21%.

### Ceded

The Company's reinsurance program is brokered through Guy Carpenter and consists of various contracts.

The Company has a surplus pooling agreement for property risks with MMRE. Under the agreement, the Company retains \$40,000 per risk and cedes premium and losses on a pro rata basis related to the next \$60,000 per risk. The Company receives a 35% ceding commission on premiums ceded under this agreement.

The Company has a property first surplus agreement placed with various reinsurers. Under the contract, the Company cedes premium and losses related to the next \$100,000 layer per risk in excess of the aforementioned underlying reinsurance and retention. The Company is also liable for ceded losses that exceed 65% of premiums ceded under the contract, limited to 15% of the premiums ceded under the contract. The Company receives a 20% ceding commission on business ceded under this agreement. Participating reinsurers and participation percentages for this contract and all non-facultative contracts summarized below include Arch Reinsurance Company (38.5%), QBE Reinsurance Corporation (24.7%), Lloyd's Underwriting Syndicate No. 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 has casualty excess of loss and special casualty excess of agreements placed with the aforementioned reinsurers. These contracts provide combined coverage of \$1,000,000 in excess of the Company retention of \$25,000 per occurrence.

The Company has aggregate excess of loss and supplemental aggregate excess of loss agreements with the aforementioned reinsurers that cover both property and casualty risks. Under the aggregate excess of loss agreement, the reinsurers are liable for aggregate losses in excess of the greater of 70% of the Company's net earned premium or \$1,008,000. Reinsurer liability is limited to the lesser of 95% of 280% of the Company's net earned premium or \$6,048,000. Under the supplemental aggregate excess of loss agreement, the reinsurers are liable for 100% of the losses in excess of the Company's retention plus the reinsurers limits under the aggregate excess of loss agreement, limited to 150% of the Company's net earned premium income.

The Company has a property facultative pro rata reinsurance agreement under which it may cede risks in excess of the limits of the property reinsurance agreements. The Company received a ceding commission of 22.5% for first quarter 2009 and 17.5% for the remainder of 2009 under the agreement. Participating reinsurers and participation percentages in 2009 included Arch Reinsurance (37.5%), Brit Syndicate 2987 (23.0%), The Toa Reinsurance Company of America (15.0%), Millennium Syndicate 1221 (10.0%), Employers Mutual Casualty Company (9.5%) and Scor Reinsurance Company (5.0%).

The Company has an umbrella facultative reinsurance contract for umbrella liability risks. The Company cedes 95% of the premiums and liabilities associated with these policies to the reinsurers. Risks ceded under the agreement are limited to \$1,000,000. The Company receives a ceding commission of 30.5%. Participating reinsurers and participation percentages in 2009 included Swiss Reinsurance America Corporation (50.0%), The Toa Reinsurance Company of America (27.0%), QBE Reinsurance Company (14.0%), and Arch Insurance Group (9.0%).

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 records are maintained by the Company on a modified cash basis. The CPA firm of Van de Ven, LLC, completes the Company's Annual Statement and tax filings and performed an annual review of the Company's financial statements for all years under examination.

Company surplus levels have declined by fifty percent during the examination period. This decline is largely the result of heavy storm losses over the period that have negatively impacted operations. The Company has taken steps during the examination period to reverse this trend. It is recommended the Company continue to closely monitor surplus levels and take any additional actions necessary to ensure the Company's future as a going concern.

### **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**

Bonds	\$ 368,675
Stocks	5,633
Real Estate	30,858
Cash on Deposit	499,804
Reinsurance Recoverable on Paid Losses	1,064,586
Computer Equipment	9,089
Interest Due and Accrued	4,394
Asset Write-Ins	6,040
	-----
Total Assets	<u><u>\$ 1,989,079</u></u>

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

Unpaid Losses	\$ 300,763
Ceded Reinsurance Premium Payable	153,609
Unearned Premium	880,513
Liability Write-Ins	77,614
	-----
Total Liabilities	\$ 1,412,499
	-----
Guaranty Fund	\$ 480,889
Other Surplus	95,691
	-----
Total Surplus	576,580
	-----
Total Liabilities and Surplus	\$ 1,989,079
	=====

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

Net Premiums Earned	\$ 1,748,246
Other Insurance Income	595,020
Net Losses & Loss Adjustment Expenses Incurred	(1,448,207)
Other Underwriting Expenses Incurred	(1,209,829)
	-----
Net Underwriting Income (Loss)	\$ (314,770)
Investment Income	41,076
Other Income	139
	-----
Gross Profit (Loss)	\$ (273,555)
Federal Income Tax	0
	-----
Net Income (Loss)	\$ (273,555)
	=====

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

Policyholders' Surplus, December 31, 2008	\$ 851,094
Net Income (Loss)	(273,555)
Unrealized Market Value Decrease on Investments	(959)
	-----
Policyholders' Surplus, December 31, 2009	\$ 576,580
	=====

## NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

## EXAMINATION CHANGES

There were no examination changes.

## GENERAL COMMENTS AND RECOMMENDATIONS

### Accounts and Records (Page 7)

It is recommended the Company continue to closely monitor surplus levels and take any additional actions necessary to ensure the Company's future as a going concern.

## SUBSEQUENT EVENTS

None.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
                                  ) ss  
County of Cole     )

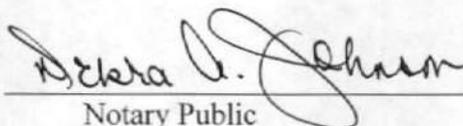
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the 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 20th day of July, 2010.

My commission expires:

March 16, 2014

  
Notary Public

DEBRA A. JOHNSON  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Cole  
My Commission Expires 3/16/2014  
Commission # 10437959

**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, CPA, CFE  
Audit Manager – Kansas City  
Missouri DIFP