

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

### ORDER

After full consideration and review of the report of the financial examination of Laclede Mutual Insurance 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 Laclede Mutual Insurance 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 20<sup>th</sup> day of January 2012.



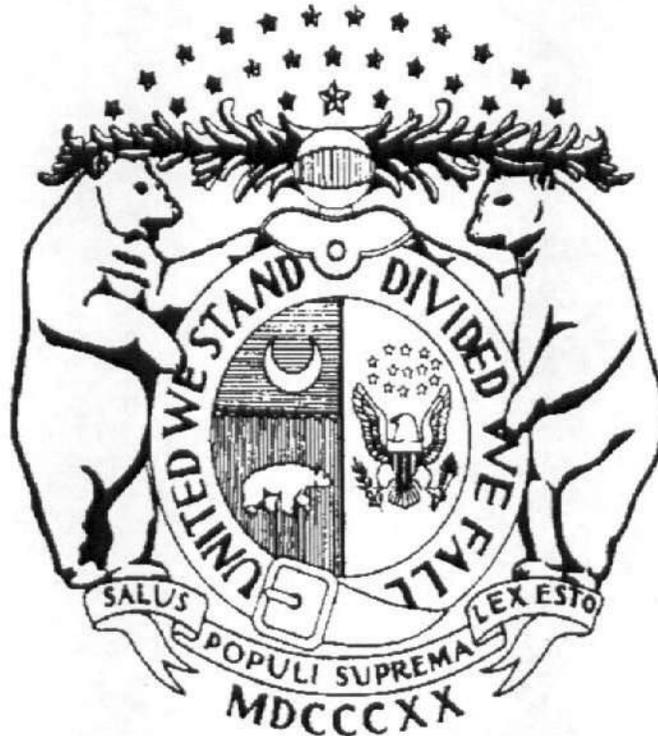
A handwritten signature in black ink, appearing to read "John M. Huff".

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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
Laclede Mutual Insurance

AS OF  
DECEMBER 31, 2010

**FILED**  
JAN 20 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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November 28, 2011  
Lebanon, 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

### **Laclede Mutual Insurance**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 325 West Commercial, Lebanon, Missouri 65536, telephone number (417) 588-1857. This examination began on October 27, 2011, concluded on the above date, and is respectfully submitted.

## **SCOPE OF EXAMINATION**

### **Period Covered**

The prior full-scope examination 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 by 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 general comments or recommendations listed in the previous examination report.

## HISTORY

### General

The Company was originally organized on January 2, 1912, as the Mutual Insurance Association of Laclede County. On June 17, 1938, the Company reorganized and received its Certificate of Incorporation. On April 15, 2002, the Company amended its Articles of Incorporation to change its name to Laclede Mutual Insurance. The Company also changed the annual meeting of the Company to the third Thursday in March of each year. 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 Insurance Companies). The Company's Certificate of Authority is renewed annually.

### Management

The annual meeting of the Company's members is held on the third Thursday 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. 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 no less than five or more than nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each director is compensated \$100 for each meeting attended.

The Board consisted of the following members as of December 31, 2010:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Freida Brackett 2330 South Jefferson Lebanon, MO 65536	Insurance Agent	2009-2012

Michael Light 16966 Highway B Lebanon, MO 65536	Insurance Agent	2008-2011
Shannon Barclay 35695 Highway BB Lebanon, MO 65536	Vice-President Central Bank	2009-2012
Howard McClure 14005 Violet Drive Lynchburg, MO 65543	Insurance Agent	2010-2013
Keith Johnson 13200 Reynolds Drive Lebanon, MO 65536	President Ag-Transit, Inc.	2008-2011
Robert "Steve" Stratton 18893 Highway HH Lebanon, MO 65536	Farmer	2010-2013
Cathy Dame 14731 Deercreek Road Lebanon, MO 65536	Director Lebanon-Laclede County Library	2009-2012
Bernita Shamel 16311 Sunburst Road Lebanon, MO 65536	Retired Manager Laclede Mutual Insurance	2010-2013

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, 2010, were as follows:

Michael Light	President
Keith Johnson	Vice-President
Scott Kelley	Secretary-Treasurer

The Company has a management agreement with Scott Kelley, Manager/Secretary-Treasurer. Under this agreement, the Manager agrees to provide management services for the daily operational affairs of the Company, subject to the corporate policies of the Board of Directors of the Company. This agreement has not been filed with the DIFP. According to RSMo 380.611, an agreement of contract under which any person, organization or corporation is granted the exclusive or dominant right to manage or control a Missouri mutual insurance company shall be filed with and approved by the director of the department of insurance, financial institutions and professional registration.

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors, officers and responsible employees. According to the procedures, all directors, officers and responsible employees are to submit, annually, a conflict of interest statement. However, only the directors are currently completing conflict of interest statements. Officers and other management currently do not complete conflict of interest statements as prescribed by the Company's procedures manual. No potential material conflicts were noted based upon a review of the Director's signed statements.

### **Corporate Records**

The Articles of Incorporation and Bylaws were reviewed. During the review of the Articles of Incorporation it was noted that the month of the annual membership meeting is incorrectly stated as being April instead of March. Also, the Company could not locate a current signed and dated copy of its Bylaws.

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 has fidelity bond coverage providing a liability limit of \$100,000 through St. Paul Fire and Marine Insurance Company. This meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook (Handbook) for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through the Missouri Association of Mutual Insurance Companies (MAMIC) with an aggregate limit of liability of \$3 million.

Each of the Company's agents is required to purchase Errors and Omissions Liability insurance. The Company does not reimburse the agents for any cost related to obtaining the coverage.

The Company also carries general liability, home office building and office contents coverage.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has six full-time employees. The Company provides health and life insurance to its employees. Employees receive 30 hours of sick leave per year and two to four weeks of vacation per year, depending on the length of employment. The Company also provides an annual allowance for the employees to invest in a retirement plan of their choice.

## **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 380.591 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Laclede and surrounding counties. Insurance is provided on a non-assessable basis. The Company advertises through newspaper and radio, community involvement and with other promotional items such as pens, caps and calendars. The Company also has a web site at [www.mutual-insurance.com](http://www.mutual-insurance.com).

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

The Company writes continuous renewable policies. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses forms from the American Association of Insurance Services (AAIS). Insurance products are sold by twenty-four independent agents. The agents receive a 15% commission on all new and renewal business, and can qualify for a year-end bonus if they meet certain goals. Property inspections and claims adjusting are performed by employees of the Company. Renewals are inspected approximately every third year. The Company's reinsurer, Wisconsin Reinsurance Corporation, adjusts liability claims.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2010	\$2,159,822	\$ 1,160,800	\$ 2,777,227	\$651,730	\$ 54,047	\$ 296,806	\$ 357,834
2009	1,687,717	1,045,842	2,430,990	1,653,258	49,675	(323,801)	(252,988)
2008	2,029,521	1,137,421	2,353,840	2,060,987	57,065	(366,187)	(301,666)
2007	1,977,374	781,335	2,165,591	2,257,259	51,990	(555,247)	(466,426)
2006	2,709,192	1,045,651	1,944,426	1,427,822	95,471	(642,774)	(482,430)

At year-end 2010, there were 3,696 policies 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct	\$ 1,926,137	\$ 2,144,275	\$ 2,333,987	\$ 2,410,918	\$ 2,755,480
Assumed	18,289	21,316	19,853	20,072	21,747
Ceded	<u>(770,074)</u>	<u>(862,078)</u>	<u>(534,409)</u>	<u>(751,826)</u>	<u>(914,394)</u>
Net	<u>\$ 1,174,352</u>	<u>\$ 1,303,513</u>	<u>\$ 1,819,431</u>	<u>\$ 1,679,164</u>	<u>\$ 1,862,833</u>

### Assumed

The Company participates in a reinsurance pool with MAMIC. The agreement pertains to errors and omissions policies and directors' and officers' liability policies written by MAMIC. MAMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance producers' errors and omissions insurance and 95% of the first \$3,000,000 each claim and in aggregate on all directors' and officers' liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 4% share in the interests and liabilities of the pool.

### Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a per risk excess of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains \$85,000 for each loss and the reinsurer's limits are \$515,000 per exposure.

Under the aggregate excess of loss section of the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 56% of the Company's net written premium for the year. The reinsurer is liable for 100% of losses in excess of this retention.

Under the casualty excess of loss section of the agreement, the Company retains \$10,000 per occurrence and the reinsurer is responsible for the excess loss, limited to \$1,000,000.

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 uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on personal computers using a software package developed by Rural Computer Consultants. The Company uses Microsoft Excel to record other financial data. The CPA firm of Van de Ven, LLC prepares financial statements, federal and premium tax returns and compiles the Company's Annual Statement. The CPA firm of Walters, Staedtler & Allen, LLC processes the Company's payroll and prepares their payroll tax return.

The Company experienced a significant decline in surplus during the examination period. Total surplus as of December 31, 2006 of \$1,663,541 has decreased to \$999,022 per the current examination. A Material Adverse Finding was noted in 2008 and 2009 due to total policyholder surplus decreasing by greater than ten percent from the previous year. The Company has taken steps during the examination period to reverse this trend, including tightening up underwriting standards, improving inspection procedures, reviewing loss ratios to identify problem areas and implementing rate increases. Based on the Company's 2010 performance it appears their efforts are working. However, heavy losses due to severe storms in Southwest Missouri in 2011 have negatively impacted the Company's operations.

## 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	\$ 821,625
Stocks	65,842
Real Estate	345,878
Cash on Deposit	671,937
Other Investments	205,680
Computer Equipment	2,228
Interest Due and Accrued	5,774
Other Assets	40,858
	-----
Total Assets	<u><u>\$ 2,159,822</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2010**

Unpaid Losses	\$ 103,500
Unearned Premium	1,023,856
Other Liabilities	33,444
	-----
Total Liabilities	\$ 1,160,800
	-----
Guaranty Fund	\$ 150,000
Other Surplus	849,022
	-----
Total Surplus	999,022
	-----
Total Liabilities and Surplus	<u><u>\$ 2,159,822</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2010**

Net Premiums Earned	\$ 1,756,287
Other Insurance Income	58,138
Net Losses & Loss Adjustment Expenses Incurred	(648,835)
Other Underwriting Expenses Incurred	(868,784)
	-----
Net Underwriting Income (Loss)	\$ 296,806
	-----
Investment Income	\$ 54,047
Other Income	6,981
	-----
Gross Profit (Loss)	\$ 357,834
Federal Income Tax	0
	-----
Net Income (Loss)	\$ 357,834
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2010**

Policyholders' Surplus, December 31, 2009	\$ 641,875
Net Income (Loss)	357,834
Market Adjustment on Stocks Held	(687)
	-----
Policyholders' Surplus, December 31, 2010	\$ 999,022
	=====

## NOTES TO THE FINANCIAL STATEMENTS

None.

### EXAMINATION CHANGES

None.

### SUMMARY OF RECOMMENDATIONS

#### **Management (Page 2)**

The Company must file the management agreement between the Company and its Manager/Secretary-Treasurer with the DIFP as required by Section 380.611 RSMo.

#### **Conflict of Interest (Page 4)**

The directors, officers and responsible employees of the Company should submit conflict of interest statements on an annual basis in accordance with the Company's conflict of interest policy.

#### **Corporate Records (Page 4)**

The Company should amend its Articles of Incorporation to reflect the proper date of the annual membership meeting and file the amended Articles with the DIFP. The Company should also ensure that a copy of the most recent signed and dated Articles of Incorporation and Bylaws are maintained on file at the Company.

#### **Accounts and Records (Page 7)**

The Company should continue to closely monitor surplus levels and take any additional actions necessary to ensure the Company's future as a going concern. Furthermore, the Company should formulate a business plan and file the plan with the DIFP. The business plan should outline the Company's goals and objectives and include strategies for implementation.

### SUBSEQUENT EVENTS

For calendar year 2011, the Company revised its reinsurance program to increase the per risk retention for property risks from \$85,000 to \$95,000.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the directors, officers and employees of Laclede Mutual Insurance during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri )  
                                  ) ss  
County of Cole    )

I, Andrew Coppedge, 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 examiner finds reasonably warranted from the facts.

*Andrew Coppedge*  
Andrew Coppedge  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 21<sup>st</sup> day of March, 2011.

My commission expires:

2-3-2013

*Hallee Jones*  
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.

*Michael R. Shadowens*  
Michael Shadowens, CFE  
Audit Manager-St. Louis  
Missouri DIFP