



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Lewis County Mutual Insurance Company for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Lewis County Mutual Insurance Company for the period ended December 31, 2013, 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 Lewis County 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 14th day of May, 2015.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF**

Lewis County Mutual Insurance Company

**AS OF
DECEMBER 31, 2013**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
GENERAL COMMENTS AND/OR RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

March 19, 2015
Lewistown, 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

Lewis County Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 106 E. Main, Lewistown, Missouri 63452, telephone number (573) 215-2703. This examination began on December 22nd, 2014, and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, 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 comments, recommendations or notes in the previous examination report.

HISTORY

General

Lewis County Mutual Insurance Company was originally organized as Lewis County Benefit Association in March 1880. On December 12, 1932, the Company was granted a Charter of Incorporation by the Missouri Secretary of State as Grange Mutual Insurance Company of Lewis County, Missouri. On February 16, 1982, the Company changed its name to Lewis County Mutual Insurance Company.

On August 15, 1991, the Company was issued a Certificate of Authority by the Missouri Department of Insurance placing the Company under Sections 380.201 through 380.611 RSMo, which governs Extended Missouri Mutual Insurance Companies.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Monday 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 5% of the members.

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 seven members, each of whom serves a three-year term. All directors must be policyholders of the Company. The Board of Directors meets quarterly. Directors are compensated \$250 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Randall D. Sharpe 405 S. Elm Lewistown, MO 63452	Agent	2017
Brenda L. Sharpe 405 S. Elm Lewistown, MO 63452	Agent	2015
Jack Crist 22238 Ginkgo St Lewistown, MO 63452	Utility Worker	2015
Harry Scifres 29529 135 th St La Belle, MO 63447	Bus Driver	2016
Troy Seals 18155 250 th St Lewistown, MO 63452	Laborer	2016
Dennis Winship 22366 Ponderosa Ave. LaGrange, MO 63448	Agent, Farmer	2017
David St. Clair 239 E. Cedar Kahoka, MO 63445	Agent, Farmer	2016*

*Director resigned as off the March 2014 Board of Directors Meeting

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, 2013, were as follows:

Randall D. Sharpe	President
Jack Christ	Vice-President
Brenda L. Sharpe	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. No amendments were made 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 \$500,000. This coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an aggregate limit of \$3,000,000.

Each of the Company's agents carries errors and omissions coverage. The liability limit varies for each agent and ranges from \$250,000 to \$1,000,000 depending upon the amount of business the agent writes. The Company does not reimburse agents for the cost of their errors and omissions coverage.

Other insurance coverages carried by the Company include property insurance on the home office and contents, commercial liability and workers compensation. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees, the Secretary-Treasurer and an Office Assistant. The Company provides paid vacation and sick leave, and also makes an annual contribution to each employee's individual retirement account. During the exam period the Company began reimbursing the Office Assistant for the purchase of health care insurance. Additionally, the Company maintains a detailed employee handbook and procedure manual.

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 four licensed agents who receive a 15% commission on fire, windstorm and extended coverage and a 10% commission on liability and inland marine business.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms provided by the Missouri Association of Mutual Insurance Companies. Premium rates are determined by the Board of Directors. The Company's policies are written on a continuous basis and are renewed annually. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting services are performed by independent contractors.

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>
2013	\$3,191,218	\$ 23,191	\$617,135	\$119,463	\$72,151	\$92,790	\$164,941
2012	3,071,281	38,037	567,183	186,534	75,154	(5,800)	69,364
2011	3,092,801	1,944	542,066	584,305	88,797	(26,721)	65,011
2010	3,017,318	6,170	532,597	221,468	84,463	(44,357)	40,228
2009	2,952,751	32,535	514,882	132,959	101,323	14,177	115,820

At year-end 2013, 822 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:

	2009	2010	2011	2012	2013
Direct	\$508,908	\$525,591	\$534,917	\$563,963	\$606,679
Assumed	5,974	7,006	7,149	3,220	10,456
Ceded	(158,670)	(144,202)	(167,341)	(193,453)	(211,584)
Net	<u>\$356,212</u>	<u>\$388,395</u>	<u>\$374,725</u>	<u>\$373,730</u>	<u>\$405,281</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to errors and omissions and director and officer liability policies written by MAMIC. MAMIC cedes 100% of the first \$2,000,000 each claim and in aggregate on all agent and broker errors and omissions policies and 100% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% 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 single reinsurance contract for fire, wind and liability risks. The per-risk excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company retains \$40,000 per risk under the first layer and \$200,000 per risk under the second layer. The reinsurer's limits are \$160,000 under the first layer and \$400,000 under the second layer. The reinsurance rate is 6.0% and 3.0% of net written premium for layers one and two, respectively.

The catastrophe excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company's aggregate net retention, or attachment point, for the first layer is equal to 70% of net written premium. The reinsurer is liable for 100% of losses in excess of the attachment point and has a limit of liability equal to 55% of net written premium. The attachment point for the second layer is equal to 125% of net written premiums. The reinsurer is liable for 100% of losses in excess of the attachment point with no limit of liability. The reinsurance rate for the aggregate coverage is 10.09 % and 3.0% of net written premium for layers one and two, respectively.

The contract also has a quota share section for liability risks. The Company cedes 100% of the

liability risks and premium to the reinsurer and receives a 25% 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 an accrual basis. The Company's accountant, Wade, Stables, P.C., performs an annual review of the Company's financial statements, and prepares the Company's Annual Statement and federal income tax return.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Bonds	\$ 295,091
Stocks	7,482
Mutual Funds	348,098
Real Estate	216,549
Cash on Deposit	2,081,871
Other Investments	235,747
Premiums Uncollected	3,943
Computer Equipment	934
Interest Due & Accrued	841
Furniture & Fixtures	<u>662</u>
 Total Assets	 <u>\$3,191,218</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Losses Unpaid	\$ 4,443
Ceded Reinsurance Payable	15,852
Accounts Payable	947
Payroll Tax Payable	<u>1,949</u>
 Total Liabilities	 <u>\$ 23,191</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>3,018,027</u>
 Total Surplus	 <u>3,168,027</u>
 Total Liabilities and Surplus	 <u>\$ 3,191,218</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 405,281
Other Insurance Income	40,172
Net Losses & Loss Adjustment Expenses Incurred	(112,988)
Other Underwriting Expenses Incurred	<u>(239,675)</u>
 Net Underwriting Income (Loss)	 <u>\$ 92,790</u>
 Investment Income	 \$ 72,151
Other Income	<u>0</u>
 Gross Profit (Loss)	 \$ 164,941
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 164,941</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$3,033,244
Net Income (Loss)	164,941
Change in Unrealized Gain/Loss on Securities	<u>(30,158)</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$3,168,027</u>

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Scott A. Reeves 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 A. Reeves
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 2nd day of March, 2015.

My commission expires:

May 11, 2016

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager – St. Louis
Missouri DIFP

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590