



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

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

RE: Examination Report of Patrons and Farmers Mutual of Missouri for the period ended
December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Patrons and Farmers Mutual of Missouri 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 Patrons and Farmers Mutual of Missouri 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 29th day of June, 2015.




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

**REPORT OF THE
FINANCIAL EXAMINATION OF
PATRONS AND FARMERS MUTUAL OF MISSOURI**

**AS OF
DECEMBER 31, 2013**



FILED
JUN 2 '9 2015
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

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	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
Assets	8
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
SUMMARY OF RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12
SUPERVISION	13

April 27, 2015
Harrisonville, 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

PATRONS AND FARMERS MUTUAL OF MISSOURI

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1003 West Mechanic, P.O. Box 236, Harrisonville, Missouri 64701, telephone number (816) 380-4241. This examination began on February 24, 2015, and concluded on the above date.

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 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Territory & Plan of Operation

Comment: It was recommended that the Company comply with the provisions of the agent agreements by attaching the required commission schedules to the agreements.

Company Response: The Board of Directors agreed to the recommendation and provided a copy of the commission schedule.

Current Findings: The current company agent agreements contain the required commission schedules.

Accounts and Records

Comment: The Company was directed to properly report per-risk and pro-rata reinsurance premium ceded by line of business on Page 2 Section 1 "Direct Assessments/Premiums" of future Annual Statement filings.

Company Response: The Board of Directors agreed to report these items correctly on subsequent filings.

Current Findings: The Company improperly reported all reinsurance premium ceded as a combined amount on the Aggregate Excess of Loss line of the Annual Statement filing.

Guaranty Fund

Comment: It was recommended the Company report an adequate guaranty fund balance in future Annual Statement filings in order to comply with the provisions of Section 380.271 RSMo (Financial Reinsurance Requirements).

Company Response: The Board of Directors agreed to correct the reporting in subsequent filings.

Current Findings: The guaranty fund balance reported by the Company on the 2013 Annual Statement complies with the provisions of the statute.

HISTORY

General

The Company was originally organized in 1877 and incorporated on January 30, 1896, as Patrons and Farmers Mutual Fire Insurance Company of Cass County. Effective August 21, 2006, the Company merged with Farmer's Mutual Insurance Company of Lee's Summit. The surviving Company's name was changed to Patrons and Farmers Mutual of Missouri. The Company operates under Sections 380.201 through 380.611 RSMo (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 first Wednesday in April, at the home office of the Company or at such other place as may be designated by the Board of Directors. 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$225 per 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>
Ronald J. Dean Raymore, Missouri	President/Insurance Agent	2016
Victor A. Shipley Drexel, Missouri	Insurance/Real Estate Agent	2016
Gary Kerby Raymore, Missouri	CPA	2015
Larry W. Duncan Freeman, Missouri	Treasurer/Insurance Agent/Farmer	2014
Everett L. Helms Garden City, Missouri	Vice President/Insurance Agent/Farmer	2014
April McGurgen Archie, Missouri	Agency Officer Manager	2015

James Craig Jones Pleasant Hill, Missouri	Insurance Agent	2014
Kevin Buerge Garden City, Missouri	Deputy Sheriff	2015
John T. Southard Harrisonville, Missouri	Insurance Agent	2016

The Board of Directors elects for a term of one year the officers of the Company. The officers of the Company serving at December 31, 2013, were as follows:

Ronald J. Dean	President
Everett L. Helms	Vice-President
Vickie Francy	Secretary
Larry W. Duncan	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. A review of the executed conflict of interest statements noted that seven of the nine directors disclosed the potential conflict of being an insurance agent or being affiliated with an insurance agency.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. On February 11, 2009, the membership approved amended and restated Bylaws. The amendment removed the requirement that a director be a resident of the territory represented by the directorship should it become vacant and provided for the election of two directors at large.

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 insurance for its directors and officers and requires its agents to purchase errors and omissions insurance coverage at their own expense.

Other insurance coverages carried by the Company include property coverage for the home office and its contents, business liability and workers compensation.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. Employee benefits provided by the Company consist of 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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri and writes all three lines. The Company's policies are sold by fifteen licensed agencies. Agents receive a 15% commission on fire and wind policies and a 6% commission on commercial liability and inland marine policies.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are written on a continuous period with annual renewals. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. The Company utilizes independent inspectors and adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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>
2013	\$2,723,709	\$1,445,508	\$2,426,538	\$1,327,251	\$51,573	\$(488,877)	\$(378,637)
2012	2,869,477	1,079,434	2,585,615	1,986,315	57,348	120,753	143,693
2011	2,790,222	1,143,872	2,881,535	3,259,360	51,541	99,830	126,907
2010	2,588,786	1,021,827	2,719,398	2,189,594	62,735	(397,123)	(203,623)
2009	2,943,740	1,318,732	2,567,942	1,810,070	78,250	253,867	236,638

At year-end 2013, 2,707 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:

	2013	2012	2011	2010	2009
Direct	\$ 2,429,538	\$ 2,585,615	\$ 2,881,535	\$ 2,719,398	\$ 2,567,942
Assumed	0	0	0	0	0
Ceded	(1,218,147)	(1,147,546)	(1,551,612)	(1,414,609)	(1,331,843)
Net	\$ 1,211,391	\$ 1,438,069	\$ 1,329,923	\$ 1,304,789	\$ 1,236,099

Assumed

The Company does not reinsure other companies.

Ceded

The Company's reinsurance program consists of various excess of loss coverages and is placed through an intermediary, Burns & Wilcox Re, with various reinsurers (the reinsurer). Significant participating reinsurers include Odyssey Reinsurance Company, The Toa Reinsurance Company of America and various Lloyd's Syndicates.

Under the property per risk excess of loss coverage, the Company retains \$35,000 per risk, and the reinsurer's limits are \$278,000 per risk and \$556,000 per occurrence. Under the casualty excess of loss coverage, the Company retains \$50,000 per occurrence, and the reinsurer's limit is \$950,000 per occurrence. Under the property catastrophe excess of loss coverage, the Company retains \$500,000 per occurrence, and the reinsurer's limits are \$4 million per occurrence and \$8 million in

aggregate for the year. Under the aggregate excess of loss coverage, the Company retains annual losses equal to 95% of net earned premium, and the reinsurer is liable for losses in excess of the retention, limited to \$500,000.

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 accounting records are maintained by the Company on an accrual basis. The Company utilizes a combination of paper files and packaged software systems for policy maintenance, payments and claims. The accounting firm of DSWA Certified Public Accountants, P.C. performs quarterly and annual financial statement compilations and prepares the Annual Statements and tax filings.

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.

ASSETS
December 31, 2013

Bonds	\$ 1,306,671
Mutual Funds	204,001
Real Estate	65,269
Cash on Deposit	505,583
Reinsurance Recoverable	305,368
Computer Equipment	6,900
Federal Taxes Recoverable	58,552
Interest Due & Accrued	12,182
Other Receivables	3,952
Prepaid Insurance & Reinsurance	<u>255,231</u>
Total Assets	<u>\$ 2,723,709</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	\$ 514,031
Ceded Reinsurance Premium Payable	28,861
Unearned Premium	887,336
Premium Tax Payable	<u>15,280</u>
Total Liabilities	<u>\$ 1,445,508</u>
Guaranty Fund	150,000
Other Surplus	<u>1,128,201</u>
Total Surplus	<u>\$ 1,278,201</u>
Total Liabilities and Surplus	<u>\$ 2,723,709</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 1,049,953
Other Insurance Income	229,839
Net Losses & Loss Adjusting Expenses Incurred	(1,077,225)
Other Underwriting Expenses Incurred	<u>(691,444)</u>
Net Underwriting Income (Loss)	\$ (488,877)
Net Investment Income	51,573
Other Income	<u>115</u>
Gross Profit (Loss)	\$ (437,189)
Federal Income Tax	<u>58,552</u>
Net Income (Loss)	<u>\$ (378,637)</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 1,790,043
Net Income (Loss)	(378,637)
Change in Non-Admitted Assets	(10,000)
Unrealized Loss on Investments	(7,672)
Prior Period Adjustment Prior Year Receivable	<u>(115,533)</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 1,278,201</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Comments – Previous Examination Report – Accounts and Records (Page 2)

It is recommended the Company properly report per risk and aggregate excess of loss reinsurance premiums separately on Page 2 of future Annual Statement filings.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Patrons and Farmers Mutual of Missouri during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jay Buschmann 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.

J. Buschmann

Jay Buschmann, AFE
Financial Examiner/Analyst
Missouri DIFP

Sworn to and subscribed before me this 1st day of June, 2015.

My commission expires:

01/07/2018

Tammy Morales

Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

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

Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP

[REDACTED]

Dear [REDACTED]:

In response to the Summary of Recommendations contained on page 10 of the Examination Report of Patrons and Farmers Mutual of Missouri for the period ending December 31, 2013:

The Board of Directors agrees to properly report per risk and aggregate excess of loss reinsurance premiums separately on Page 2 of future Annual Statement filings. The per risk and aggregate excess of loss reinsurance premiums were reported separately on Page 2 of the Annual Statement filing for the year ended December 31, 2014.

It is the Board of Directors wish to include the above response in the report as a public document.

Best Regards,

Sheryl C. Pugh

Company Manager
Patrons & Farmers Mutual of Missouri
P. O. Box 236
1003 West Mechanic
Harrisonville, MO 64701
Phone: 816-380-4241
Fax: 816-884-5205

[REDACTED]