STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Preferred Standard Mutual Insurance Company for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Preferred Standard Mutual Insurance Company for the period ended December 31, 2012, 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 Preferred Standard Mutual Insurance Companyy 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 24th day of October 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

PREFERRED STANDARD MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

FILED
OCT 24 2013
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Subject	Page
SALUTATION	1
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
SUBSEQUENT EVENTS	10
SUMMARY OF RECOMMENDATIONS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

September 13, 2013

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

PREFERRED STANDARD MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 9558 Page Avenue, St. Louis, Missouri 63132, telephone number (314) 371-6555. This examination began on August 19, 2013 and was completed 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, 2007, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2008, through December 31, 2012, 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, 2007, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management

Article V, Section 8 of the Company Bylaws requires the offices of Secretary and Treasurer to be a single office. However, two individuals held these offices as of the examination dated December 31, 2007. It was recommended the Company appoint officers in compliance with the terms of its Bylaws.

Current Findings: In a letter dated March 2, 2009, the Company responded that a special meeting of the Board of Directors had been held, wherein the current Treasurer resigned and another individual was elected Secretary-Treasurer. Per review of the Company's Board of Directors meeting minutes, this action was approved on May 28, 2008. However, the 2012 Annual Statement still lists two separate individuals holding these offices. It is recommended that the Company update the annual statement reflecting the correct individuals and the offices held.

HISTORY

General

The Company was originally organized and incorporated on November 13, 1952, as Preferred Standard Mutual Insurance Company. On June 4, 1997, the Company merged with Lincoln Fire Insurance Company, with the Company being the surviving entity.

The Company has a Certificate of Authority dated June 28, 2001, 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 Bylaws, the annual meeting of the Company's members is held on the third Monday in January. Special meetings of the members may be called at any time by a majority vote of the Board of Directors. Ten 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 five members, who are elected annually.

All directors must be policyholders of the Company. The Board of Directors meets annually and on an as-needed basis, and the directors are compensated $200 per year.

Members serving on the Board of Directors as of December 31, 2012, were as follows:

Name and Address	Occupation	Term
Scott Brandenburg 167 Crestmont Circle Wildwood, Missouri	Insurance Broker	2012-2013
Tuesday Brandenburg 167 Crestmont Circle Wildwood, Missouri	Chief Financial Officer	2012-2013
Ashley Brandenburg 844 Westbrook Village Drive Ballwin, Missouri	Retail Sales Manager	2012-2013
Alecia Brandenburg 167 Crestmont Circle Wildwood, Missouri	Student	2012-2013
Melanie Millsap 16217 Maple Crossing Drive Wildwood, Missouri	Sales Representative	2012-2013

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2012, were as follows:

Scott Brandenburg	President
Ashley Brandenburg	Vice-President
Tuesday Brandenburg	Secretary/Treasurer

Per review of the Company's Board of Director's meeting minutes, the above officers are listed correctly. However, the 2012 Annual Statement lists Scott Brandenburg as President/Treasurer and Tuesday Brandenburg as Secretary. It is recommended that the Company update the annual statement reflecting the correct individuals and the offices held.

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 completed conflict of interest statements noted that Scott Brandenburg, the Company's president, also serves as a director and officer of West End Insurance Company, Inc., which is the Company's management company.

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 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 $25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $15,000.

The Company carries liability coverage for its directors and officers. In addition, the Company's sole agency carries errors and omissions insurance coverage.

The Company does not own an office building or any significant personal property, thus property insurance is not applicable.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has no employees. Employee services are provided under a management agreement with West End Insurance Agency, Inc. (West End). Under the terms of the agreement, West End provides most management services to the Company, including agency force, claims payment and administrative functions. Compensation paid to West End equals 50% of monthly gross premiums, for which 30% is to represent agent commissions and 20% is

to represent the monthly management fee. In addition, West End receives 50% of the annual net underwriting income. It appears the Company has made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages. The Company's policies are sold by West End Insurance Agency, Inc. under a management agreement (see the Employee Benefits section of this report).

Policy Forms and Underwriting Practices

The Company writes its business on a single policy form that provides $10,000 of insurance protection against fire losses on residential contents. An earthquake rider providing $5,000 coverage and a burglary rider providing $1,000 in coverage are also available. The policies are written for a term of one month on the "debit" plan. Under this plan, each agent services a block of policyholders by collecting monthly premiums at each policyholder's residence. Agents perform ongoing premium collections and remit premiums to the Company on a weekly basis. Property inspections are performed by the agents. Adjusting is performed by the Secretary and Treasurer. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2012	$349,149	$463	$22,078	$ 0	$1,502	$ (2,699)	$(1,197)
2011	349,545	493	25,006	3,537	3,236	(4,067)	(831)
2010	351,125	1,242	27,767	5,190	8,164	(4,255)	3,909
2009	347,658	1,684	31,708	0	11,637	641	12,278
2008	335,194	1,498	37,306	6,811	11,193	(3,222)	9,076

At year-end 2012, 256 policies were in force, covering 99 properties.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2008	2009	2010	2011	2012
Direct	$37,306	$31,708	$27,767	$25,006	$22,078
Assumed	0	0	0	0	0
Ceded	(10,252)	(10,252)	(10,252)	(10,252)	(10,260)
Net	$27,054	$21,186	$17,515	$14,754	$11,818

Assumed

The Company does not reinsure other companies.

Ceded

The Company has a first per risk excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) for property risks. The Company retains $1,500 per risk per occurrence, and the reinsurer is liable for 100% of the excess loss, limited to $8,500 per risk per occurrence. The per occurrence limit of the reinsurer under all perils is $25,500. Annual premium is equal to 14% of the Company's gross written premium, subject to a minimum of $10,260.

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. Robert Lallinger, CPA compiles the annual statement and prepares the Company's tax filings.

The 2012 annual statement reported $35,188 receivable from West End Insurance Agency, the Company's managing agent. The balance receivable was repaid in full subsequent to the examination date. Management should discuss future such loans with the DIFP, to ensure compliance with Section 380.471 RSMo. If determined to be allowable under the Section 380.471 RSMo, management should implement controls to monitor the balance to ensure continued compliance.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, 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, 2012

Cash on Deposit	$ 313,927
Computer Equipment	34
Loan to West End Insurance	35,188
Total Assets	$ 349,149

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2012

Unearned Premiums	$ 463
Total Liabilities	$ 463
Guaranty Fund	$ 150,000
Other Surplus	198,686
Total Surplus	348,686
Total Liabilities and Surplus	$ 349,149

STATEMENT OF INCOME
For the Year Ending December 31, 2012

Net Premiums Earned	$ 11,848
Net Losses & Loss Adjusting Expenses Incurred	0
Other Underwriting Expenses Incurred	(14,547)
Net Underwriting Income (Loss)	$ (2,699)
Net Investment Income	1,502
Gross Profit (Loss)	$ (1,197)
Federal Income Tax	0
Net Income (Loss)	$ (1,197)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2012

Policyholders' Surplus, December 31, 2011	$ 349,883
Net Income (Loss)	(1,197)
Policyholders' Surplus, December 31, 2012	$ 348,686

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

Effective January 1, 2013, Missouri Regulation 20 CSR 200-12.030 requires extended Missouri mutual companies and Missouri mutual companies to acquire annual aggregate reinsurance to cover one hundred percent (100%) of losses in excess of the attachment point, with an attachment point calculated annually in accordance with the Extended Missouri and Missouri Mutual Exposure Calculation form, so as to prevent an annual loss from coverages written of not greater than twenty percent (20%) of the company's surplus as of December 31. Per the instructions on the Extended Missouri and Mutual Exposure Calculation form, this form should have been filed as an attachment with the 2012 annual statement. The Company has not properly filed the Extended Missouri and Mutual Exposure Calculation form, nor has it acquired the annual aggregate reinsurance required by the regulation. The Company should acquire the appropriate annual aggregate reinsurance coverage as required, or obtain an exception to the requirements from the director.

SUMMARY OF RECOMMENDATIONS

Management – Page 3

It is recommended that the Company update the annual statement reflecting the correct individuals and the offices held.

Accounts and Records – Page 7

Management should discuss future loans to its managing agent with the DIFP, to ensure compliance with Section 380.471 RSMo. If determined to be allowable under the Section 380.471 RSMo, management should implement controls to monitor the balance to ensure continued compliance.

Subsequent Events – Page 10

The Company should acquire the appropriate annual aggregate reinsurance coverage as required by Missouri Regulation 20 CSR 200-12.030, or obtain an exception to the requirements from the director.

ACKNOWLEDGMENT

The assistance and cooperation extended by the representatives of Preferred Standard Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
City of St. Louis)

I, Jennifer R. Danz 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.

Jennifer R. Danz

Jennifer R. Danz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 21st day of Dec., 2013.

My commission expires:

5-11-2016

Andrea V. Moffatt

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

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

Preferred Standard Mutual Insurance Company

9558 Page Ave

St. Louis, MO 63132

October 17, 2013

Mr. Frederick G. Heese, CFE, CPA
Chief Financial Examiner
Department of Insurance
P.O. Box 690
Jefferson City, MO 65102

Dear Mr. Heese,

We have received the copy of the examination report of Preferred Standard Mutual Insurance Company, for the period ending December 31, 2012.

Listed below are our responses to the comments and recommendations:

Management – Page 3

1. Past annual statements have been corrected on the 1st page of annual statement and will be correct on further annual statements.

   Scott Brandenburg – President

   Ashley Brandenburg – Vice President

   Tuesday Brandenburg – Secretary/Treasurer

Accounts and Records – Page 7

We do not anticipate having to do this in the future with this now being resolved. The DIFP will be notified in writing to be approved by the Insurance Department of any future loans.

Subsequent Events – Page 10

The Extended Missouri Mutual Exposure Calculation Form is being filled out. Discussion also being held with our Reinsurance Co., Billings Mutual. To see other options for Annual Aggregate Coverage or see if the company can obtain an exception from the department.

In response to the comments and reconciliation, we hope to have more information in the next few days to the Subsequent Event, page 10, to have appropriate annual aggregate reinsurance coverage or if we can qualify for the exception.

Sincerely yours,

Scott Brandenburg
President