



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

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

RE: Examination Report of Southeast Missouri Mutual Fire Insurance Company for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Southeast Missouri Mutual Fire 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 Southeast Missouri Mutual Fire 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 18th 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**

Southeast Missouri Mutual Fire Insurance Company

**AS OF
DECEMBER 31, 2013**



FILED
MAY 18 2015
**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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March 23, 2015
Dexter, 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

Southeast Missouri Mutual Fire Insurance Company

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 18 East Vine Street (P.O. Box 97), Dexter, Missouri 63841, telephone number (573)624-5561. This examination began on January 22, 2015 and 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 an examiner 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 an examiner 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

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.

Management

The Company is directed to comply with RSMo 380.381 "Board of directors, election--terms--vacancies--annual meeting, quorum, voting rights" and maintain a board of at least five directors.

Company's Response: We now have a fifth board member to replace the member Paul Culbertson who passed away. The member will be voted on at our Annual Meeting the last Thursday in May.

Current Findings: The Company elected a new director during the May 2010 meeting and is now in compliance with RSMo 380.381.

Reinsurance – Ceded

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 "Extended Missouri Mutual Companies' Financial Reinsurance Requirements." The Company should review its reinsurance program and take the necessary actions to ensure the program is in compliance with the regulation.

Company's Response: We have been working in conjunction with our reinsurance company to find a way to become compliant with 20 CSR-12.030. We have done numerous things ourselves to help with our current attachment point; which includes cancelling agents to lower our insurance in force.

Current Findings: The Company again reported an exposure level above the prescribed 20% threshold for 2013.

Accounts and Records

Effective June 30, 2009, 20 CSR 200.12.020 "Extended Missouri Mutual Companies' Approved Investments" will require that no more than 5% of surplus be invested in any one mutual fund and no more than 10% of surplus be invested in mutual funds in total. The Company currently exceeds both of these limitations. The Company is directed to adjust its investment mix to comply with this regulation or to request approval from the DIFP to exceed investment limitations.

Company's Response: The Company changed its mix of investments to comply with 20 CSR-200.12.020. This was done in 2009 with the sale of all mutual funds.

Current Findings: The Company currently reports \$11,582 in mutual funds which is below the threshold set by 20 CSR 200.12.020 of \$61,627. This appears to be addressed.

Bonds and Stocks

The Company should include mutual funds in the Stock account on future Annual Statements. As required by the Missouri Mutual Annual Statement Instructions, the Company should value its investments at the lower of cost or market in the future.

Company's Response: The Company changed its mix of investments to comply with 20 CSR-200.12.020. This was changed in 2009 with the sale of all mutual funds.

Current Findings: The Company reported mutual funds at the market value of \$11,582 which is below the actual cost of \$11,633. This appears to be addressed.

Real Estate

The Company's home office should be valued at depreciated cost instead of original cost in the future.

Company's Response: The Company does not agree with the way depreciation was applied to the real estate and requests the worksheets that were used to develop this value to be shared with the Company; so that we may develop a schedule to follow in the future.

Current Findings: The home office has been valued at depreciated cost instead of original cost. This appears to be addressed.

Losses Unpaid

The Company should develop procedures to ensure that the Unpaid Losses account on future Annual Statements is complete and includes all outstanding claims.

Company's Response: The Company has an unpaid loss account and always shows outstanding claims on this account. At times, claims are not reserved at a level that is necessary due to unknown costs. We will try to improve this in the future.

Current Findings: See the "Notes To Financial Statement" and "General Comments and Recommendations" Sections below. The Company understated 2013 Unpaid Losses by \$21,685.

Ceded Reinsurance Payable

The Company should maintain a liability for its unpaid reinsurance bill and any other outstanding payments in the future.

Company's Response: We have now developed our system to show all unpaid bills and outstanding payments due at year end.

Current Findings: The Company appears to have correctly reported a ceded reinsurance payable for 2013.

HISTORY

General

Southeast Missouri Mutual Fire Insurance Company was originally incorporated as Stoddard County Mutual Fire Insurance Company on September 15, 1910. On May 3, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State as the Southeast Missouri Mutual Fire Insurance Company.

On December 10, 1970 the Company amended its Articles of Incorporation to establish the duration of the Company as perpetual. On March 8, 2001 the Company was authorized to operate as an Extended Missouri Mutual Insurance Company and currently operates under Sections 380.201 through 380.611 RSMO (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Thursday in May 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 one-fourth of the members.

The management of the Company is vested in the Board of Directors, who is elected from the general membership. The Board of Directors currently consists of five members, each of whom serves a one-year term. All directors are policyholders of the Company. The Board generally meets quarterly and the directors are compensated \$50 to \$62.30 plus mileage 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>
James Gregg Miller, Jr. Dexter, MO	Inspector/Adjustor/Agent	2015
Daniel Scott Wethington Dexter, MO	Farmer	2015
Darrel Pyle Dexter, MO	Farmer	2015
Marilyn Vancil Qulin, MO	Clerk	2015
Gary Trammell Dexter, MO	Inspector/Adjustor/Agent	2015

The Company maintains a board of at least five directors, in compliance with Section 380.381 RSMo. It should be noted that the Company inaccurately listed Dennis Hovis as a board member on their Jurat Page instead of Gary Trammell.

Immediately following the annual membership meeting, the Board of Directors elects the following officers for a one-year term: President, Vice-President and Secretary/Treasurer. Officers serving at December 31, 2013 were:

Darrel Pyle	President
Marilyn Vancil	Vice-President
Gary Trammell	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 every five years, 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 to the Articles of Incorporation or the Bylaws during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. It does not appear that two items were approved by the board: 1) rate increase that occurred in June of 2012 according to a later meeting, and 2) terms of a lease agreement with Gary Trammell and the Company. Also, the meeting minutes do not list the board members present, so it is not clear whether or not a quorum is present at all times. The examination report as of December 31, 2008 was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000. The 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 \$1,000,000.

Each of the Company's agents carries errors and omissions coverage. The liability limits vary for each agent and range from \$1,000,000 to \$10,000,000 depending upon the amount of business the agent writes. The Company does not reimburse agents for their errors and omissions coverage.

Other insurance coverages carried by the Company include workers compensation, property insurance on the home office and contents, commercial liability, commercial lines and commercial umbrella.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees, three part-time employees, and an inspector/adjustor; salaries are determined by the Board of Directors. Employees are entitled to paid vacation and sick leave and are provided life insurance, health insurance and a Simple IRA plan. The Company maintains an employee handbook and employee job descriptions.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company operates as a Missouri Mutual Company under Sections 380.201 through 380.611 RSMo. The Company is authorized to write fire and wind insurance in all counties of Missouri.

The Company's policies are sold by approximately thirteen licensed agents/agencies who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by Grinnell Mutual Reinsurance Company which have been approved by the Missouri DIFP.

The Company writes continuous coverage policies. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

Inspections are performed by a full-time inspector/adjuster. Claims adjusting procedures are also performed by the full-time inspector/adjuster. An independent adjuster may be employed on more difficult claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Admitted Assets	\$ 747,808	\$ 1,023,206	\$ 1,083,508	\$ 1,112,863	\$ 1,354,474
Liabilities	77,409	141,724	102,263	145,409	121,923
Gross Assessments	1,557,171	1,450,583	1,601,485	1,721,557	1,793,145
Gross Losses	1,066,464	206,996	521,761	467,408	254,014
Investment Income	(12,452)	12,409	11,036	9,226	8,330
Underwriting Income	(115,518)	211,083	99,763	(13,791)	(261,975)

The amounts in this table do not include examination changes.

At year-end 2013, 1,923 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct	\$1,557,171	\$1,450,583	\$1,601,485	\$1,721,557	\$1,241,172
Assumed					
Ceded	<u>(362,606)</u>	<u>(418,029)</u>	<u>(508,590)</u>	<u>(570,541)</u>	<u>(551,973)</u>
Net	<u>1,194,565</u>	<u>1,032,554</u>	<u>1,092,895</u>	<u>1,151,016</u>	<u>689,199</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company carries reinsurance through Grinnell Mutual Reinsurance Company of Grinnell, Iowa (Grinnell). The following is a summary of the Company's reinsurance coverage.

Individual Occurrence of Loss Excess With Aggregate Excess Plan

This agreement, effective January 1, 1995, covers all policy forms and endorsements issued by the Company when such forms and endorsements have been filed with and accepted by Grinnell. The Company's individual occurrence of loss limit is \$100,000. Grinnell's limit of liability is detailed in a loss limitation schedule. Exposures that exceed the loss limitation schedule may be reinsured under the facultative provisions discussed below. Under the aggregate excess portion of the agreement, Grinnell indemnifies the Company for 100% of the aggregate net losses in excess of the defined retention limit. For 2013, the retention limit ("attachment point") was \$757,295.

Facultative Reinsurance

The Company has a facultative reinsurance arrangement with Grinnell Mutual Reinsurance Company to cede all or part of its risk to the reinsurer. Rates are determined by Grinnell on an individual basis.

Special Personal Property Endorsement

The Company cedes 100% of the liability on items insured on the special personal property endorsement.

Earthquake Agreement

The Company has an agreement with Grinnell to write earthquake coverage on forms supplied by Grinnell; rates are determined by Grinnell. Agents must be licensed by the Company and approved by Grinnell. The Company is responsible for premium billing and collection.

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 "Extended Missouri Mutual Companies' Financial Reinsurance Requirements" due to its exposure of over 20% (actual exposure was 23% at 12/31/2013).

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The Company's accountant, Jean and Company, CPA, compiles the Company's financial statements, performs an annual audit of the Company's financial statements, prepares the Statutory Annual Statement and prepares the Company's 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

Stocks	\$ 1,500
Mutual Funds	11,582
Real Estate	86,376
Cash on Deposit	1,234,086
Reinsurance Recoverable	18,669
Federal Income Taxes Recoverable	2,261
	\$ 1,354,474
 Total Assets	 \$ 1,354,474

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Losses Unpaid (Note 1)	\$ 64,241
Ceded Reinsurance Payable	23,760
Payroll Tax	4,799
Accounts Payable to Agents	28,229
Accounts Payable (Other)	894
	\$ 121,923
 Total Liabilities	 \$ 121,923
 Guaranty Fund	 \$ 100,000
Other Surplus	1,132,551
	1,232,551
 Total Surplus	 1,232,551
 Total Liabilities and Surplus	 \$ 1,354,474

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 1,241,172
Net Losses & Loss Adjustment Expenses Incurred	(279,091)
Other Underwriting Expenses Incurred	<u>(731,998)</u>
Net Underwriting Income (Loss)	<u>\$ 254,118</u>
Investment Income	\$ 8,384
Other Income	<u>54</u>
Gross Profit (Loss)	\$ 262,525
Federal Income Tax	<u>(550)</u>
Net Income (Loss)	<u>\$ 261,975</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 946,119
Net Income (Loss)	261,975
Examination Changes	<u>(24,457)</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 1,232,551</u>

NOTES TO THE FINANCIAL STATEMENTS

Note #1 (Losses Unpaid)

\$ 85,926

An examination change of \$21,685 was made to reflect additional losses paid in 2013 and incurred in 2012.

EXAMINATION CHANGES

Total Policyholder Surplus per 2013 Annual Statement			\$1,232,551
	Increase in Surplus	Decrease in Surplus	
Losses Unpaid (Note 1)	<u>0</u>	<u>21,685</u>	
Total Increase/Decrease in Surplus	<u>\$0</u>	<u>\$21,685</u>	
Net Increase/(Decrease) in Surplus			<u>(21,685)</u>
Total Policyholder Surplus Per 2013 Examination			<u>\$1,210,866</u>

GENERAL COMMENTS AND RECOMMENDATIONS

Management – (Page 5)

The Company should accurately list the current directors on the Jurat Page.

Conflict of Interests- (Page 5)

The Company should ensure Conflict of Interest statements are signed on an annual basis.

Corporate Records- (Page 6)

The Company should ensure there is evidence of board approval for all major dealings of the Company. The Company should list the board members present to indicate that a quorum is present when decisions are made by the board.

Reinsurance – Ceded (Page 9)

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 "Extended Missouri Mutual Companies' Financial Reinsurance Requirements." The Company should review its reinsurance program and take the necessary actions to ensure the program is in compliance with the regulation.

Unpaid Losses (Page 12)

The Company should develop procedures to ensure that the Unpaid Losses account on future Annual Statements is complete and includes all outstanding claims.

SUBSEQUENT EVENTS

None.

