

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

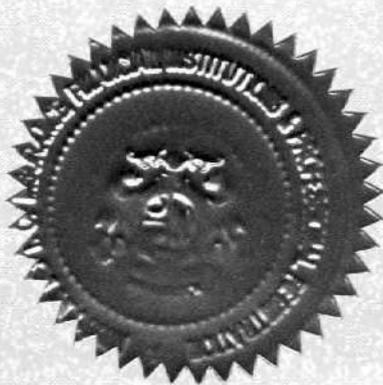
RE: Examination Report of Schuyler County Insurance Company as of December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Schuyler County Insurance Company as of 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 Schuyler County 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 10th day of February 2012.



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

REPORT OF THE
FINANCIAL EXAMINATION OF
SCHUYLER COUNTY MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2010

FILED
FEB 10 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 4, 2011
Queen City, Missouri

Honorable John 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

Schuyler County Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at Highway 63, Queen City, Missouri, 63561 telephone number (660) 766-2505. This examination began on October 31, 2011, and was concluded on November 4, 2011 and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company 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 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

There were no comments, recommendations, and notes of the previous examination report dated December 31, 2005.

HISTORY

General

The Company was organized in December 1877, as Farmers' Fire and Lightning Insurance Association of Schuyler County, Missouri. The name changed to Schuyler County Mutual Insurance Company on October 21, 1972. The Company operated without a charter from the time of its founding until 1980. At that time, the Company obtained a charter from the Secretary of State and voluntarily placed itself under the provisions of Sections 380.840 RSMo. It received a Certificate of Authority on February 5, 1980.

In 1985, the Company amended its Articles of Incorporation to comply with Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). A new Certificate of Authority was issued effective January 1, 1985. On February 1, 2003 the Company amended its Articles of Incorporation to change from assessable to non-assessable.

Management

A board of six directors provides oversight of the Company. Each director serves a three-year term with two elected each year. Directors are elected at annual member meetings held on the first Saturday in February. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Eight members constitute a quorum at annual member meetings. Absentee ballot voting is not permitted and members may not vote by proxy.

Members serving on the Board of Directors as of December 31, 2010, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
C. Edwin Jackson, President RR1 Box 26 Downing, MO 63536	Farmer	2009-2012
Mark Bushnell, Vice-President RR 1 Box 129A Queen City, MO 63561	Farmer	2011-2014
Robert Seamster RR 1 Box 183 Queen City, MO 63561	Nursing Home Administrator / Farmer	2009-2012
Robert F. Slaughter RR 2 Box 8 Queen City, MO 63561	Farmer	2010-2013
J.O. Kollar 30686 State Hwy A Greentop, MO 63546	CPA / Farmer	2011-2014
Jason Schmitter RR 1 Box 139 Lancaster, MO 63548	Butcher / Farmer	Resigned in December

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:

C. Edwin Jackson	President
Mark Bushnell	Vice-President
Cathy Jennings	Secretary/Treasurer

In addition, Cathy Jennings is the Company agent and manager.

Conflict of Interest

Signed conflict of interest statements were obtained from all directors. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. The Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged the previous examination report during its September 21, 2006 meeting. Attendance at the Board and Annual Membership Meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$75,000 in coverage.

The Company carries liability coverage for their directors and officers. In addition, the Company purchases errors and omissions liability insurance coverage for its agents.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full time employees, an office manager and a bookkeeper. The Company's manager is also an agent for the Company and is compensated through commissions. Benefits provided include a bonus plan based on the Company's profitability, paid holidays and increasing amounts of paid vacation. Sick leave is provided as needed. No benefits are offered for retirement, health insurance is provided for employees and 49% of spouse's insurance premium. The Company pays the costs for continuing education requirements. Reimbursement for business related travel is also provided.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm, and liability coverage's throughout the state but writes primarily in Schuyler, Putnam, Adair and Scotland counties. Two agents produce business for the Company and receive a 12% commission on all new and renewal premiums. The Company advertises in local newspapers, radio and through various promotional activities in the community.

Policy Forms and Underwriting Practices

The Company uses policy forms from the American Association of Insurance Services (AAIS). Also, the Company has its own policy, SYL 20, which covers hazards due to weight of ice, snow or sleet on a dwelling. The Company issues continuously renewable policies. Inspections are performed by the agent and underwriting is performed by the office manager and bookkeeper (both are licensed agents). All new applications are reviewed by the Board of Directors.

Claim reviews are performed by NE-MO Claims Services of Huntsville, MO. Small claims are adjusted by the manager.

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	\$2,821,636	166,809	507,301	175,932	69,053	\$ (10,842)	\$57,895
2009	2,744,767	147,835	482,114	143,020	81,777	35,750	117,510
2008	2,633,022	153,600	453,020	124,225	108,579	31,322	140,151
2007	2,484,721	145,450	434,845	122,052	114,648	24,861	140,577
2006	2,434,460	144,766	429,978	129,227	86,674	30,743	63,561

At year-end 2010, 846 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct	\$ 429,978	\$ 434,845	\$ 453,020	\$ 482,114	\$507,301
Assumed	0	0	0	0	0
Ceded	<u>(142,560)</u>	<u>(147,198)</u>	<u>(150,801)</u>	<u>(81,630)</u>	<u>(110,465)</u>
Net	<u>\$ 287,412</u>	<u>\$ 287,631</u>	<u>\$ 302,219</u>	<u>\$ 400,484</u>	<u>\$ 396,836</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has reinsurance through agreements with Grinnell Mutual Reinsurance Company. Various larger risks (those in excess of \$1,000,000) are covered through facultative agreements with Grinnell. The remaining in force business is covered by the following agreements:

Individual Occurrence of Loss Limit Reinsurance Agreement This contract provides that the Company retain the first \$50,000 of loss (wind or fire), each risk, each occurrence. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

Aggregate Excess Reinsurance Agreement This is an unlimited aggregate excess of loss agreement with an attachment point that is calculated yearly. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

One Hundred Percent (100%) Quota Share Liability Reinsurance Agreement This agreement cedes all of the Company's liability premium to the reinsurer, who in turn, pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

One Hundred Percent (100%) Quota Share Earthquake Reinsurance Agreement This agreement cedes all the Company's earthquake insurance premium to the reinsurer, who in turn, is responsible for all earthquake losses. The Company's ceding commission is built into the formula of the premium that the Company pays.

One Hundred Percent (100%) Quota Share Equipment Breakdown Reinsurance Agreement This agreement cedes all of the Company's Equipment Breakdown premium to the reinsurer, who in turn, pays all equipment breakdown losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

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 maintains financial records in both computerized and manual systems. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from IMT, a software company in Des Moines, Iowa. A written claims register is also maintained as a backup to the computerized claims system. Cash transactions (premium receipts and checks written) are also manually recorded.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Van de Ven, LLC, prepares the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis.

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

Real Estate	22,673
Cash on Deposit	2,790,158
Interest Due and Accrued	7,540
Prepaid Insurance	1,265

Total Assets	<u><u>\$2,821,636</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Losses	\$1,300
Ceded Reinsurance Premium Payable	13,614
Unearned Premium	151,814
Accounts Payable	81

Total Liabilities	\$ 166,809

Guaranty Fund	\$ 150,000
Other Surplus	2,504,827

Total Surplus	2,654,827

Total Liabilities and Surplus	<u><u>\$2,821,636</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$	330,034
Other Insurance Income		22,071
Net Losses & Loss Adjustment Expenses Incurred		(182,559)
Other Underwriting Expenses Incurred		(180,388)

Net Underwriting Income (Loss)	\$	(10,842)

Investment Income	\$	68,582
Other Income		155

Gross Profit (Loss)	\$	57,895
Federal Income Tax		(0)

Net Income (Loss)	\$	57,895
		=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009		\$2,596,932
Net Income (Loss)		57,895

Policyholders' Surplus, December 31, 2010		\$2,654,827
		=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financials.

EXAMINATION CHANGES

There were no examination changes made during this examination.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations made during this examination.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Schuyler)

I, Amy E. Snyder 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.

Amy E. Snyder

Amy E. Snyder, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 8 day of November, 2011.

My commission expires:
4.6.13

D'Oréal Finney

Notary Public

D'OREAL FINNEY
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: April 06, 2013
Commission Number: 09396785

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
Examiner In Charge
Missouri DIFP