

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

ORDER

After full consideration and review of the report of the financial examination of Schuyler County Mutual Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Schuyler 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) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) 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 5th day of June, 2017.

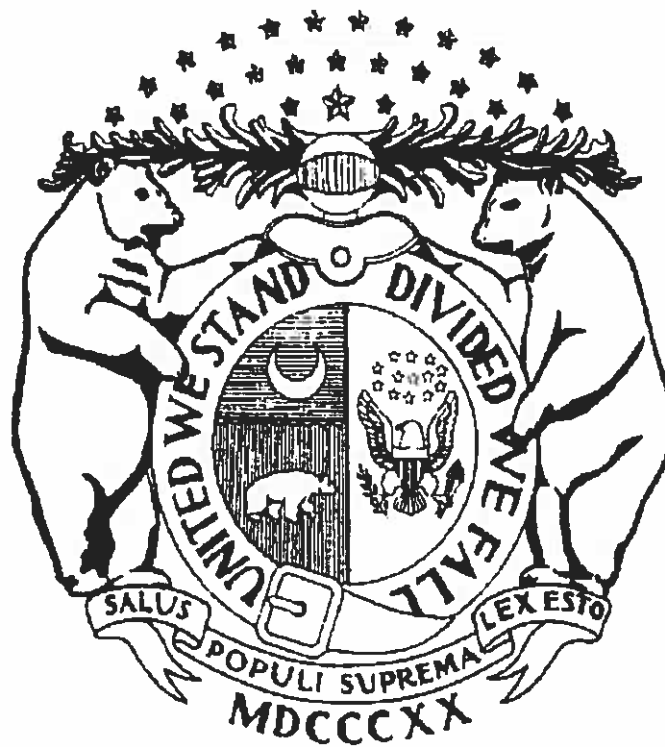


Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
SCHUYLER COUNTY MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2015**



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
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	3
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	4
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	5
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
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
SUMMARY OF RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT AND VERIFICATION	11
SUPERVISION	12

January 25, 2017
Queen City, 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

Director Huff:

In accordance with the 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 806 Jefferson Street (P.O. Box 96), Queen City, Missouri, 63561 telephone number (660) 766-2505. This examination began on January 20, 2017, 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, 2010 and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2011 through December 31, 2015 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.

HISTORY

General

The Company was organized in December 1877 as Farmers' Fire and Lightning Insurance Association of Schuyler County, Missouri and changed its name to Schuyler County Mutual Insurance Company on October 21, 1972. The Company was officially incorporated in the State of Missouri on February 15, 1980. On February 1, 2003, the Company amended its Articles of Incorporation to change from an assessable to a non-assessable mutual.

The Company has a Certificate of Authority dated July 1, 1991 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 Articles of Incorporation, the annual meeting of the Company's members is held on the first Thursday in February, at the home office of the Company, or at such other place as may be designated by the previous annual membership meeting or by the Board of Directors. 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. Proxy voting is not permitted.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each member is compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2015, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Robert Seamster Queen City, Missouri	Farmer	2018
Mark Bushnell Queen City, Missouri	Farmer	2017
C. Edwin Jackson Downing, Missouri	Farmer	2018

Mike McGoldrick Glenwood, Missouri	Farmer	2016
Terry Morgan Greentop, Missouri	Farmer	2016
John March Queen City, Missouri	Business Owner	2018

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary/Treasurer. The officers of the Company serving at December 31, 2015, were as follows:

C. Edwin Jackson	President
Mark Bushnell	Vice-President
Margaret Sapp ¹	Secretary/Treasurer

¹ Margaret Sapp is also a Company agent and the office manager.

Conflict of Interest

The Company requires its directors to complete conflict of interest disclosures on an annual basis. The completed conflict of interest statements are reviewed by the Board of Directors for any possible conflicts requiring resolutions.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On October 31, 2011, the Articles of Incorporation were amended to change the date of the annual membership meeting to the first Thursday in February. The Bylaws were not 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 \$250,000. The fidelity bond coverage of the Company meets the minimum coverage of \$50,000 suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions liability coverage for its agents. The Company also carries property insurance coverage on its home office and equipment and business liability insurance coverage.

EMPLOYEE BENEFITS

The Company has two full time employees, an office manager and a bookkeeper. The Company's office manager is also an agent for the Company and is compensated through commissions.

Employee benefits provided include a bonus plan based on the Company's profitability, health and dental insurance for employees with partial premium paid for spouses, and paid time off.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri DIFP to operate under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm, and liability coverage's throughout the state. The Company writes fire, windstorm and liability coverages primarily in Schuyler, Putnam, Adair and Scotland counties.

Two agents produce business for the Company and receive a 15% 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 utilizes a combination of AAIS, MAMIC and Grinnell Mutual Insurance Company policy forms. The policies are written for one year and are continuous. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured or

mortgagee, as applicable.

Property inspections are performed by the writing agent prior to the issuance of a policy, and underwriting is supervised by the Company's office manager. Renewals are inspected every third year. Claims adjusting is performed by contracted adjusters or by the office manager.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Premiums</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	Net <u>Income</u>
2015	\$3,127,669	\$234,079	\$719,857	\$197,816	\$21,456	\$ 82,579	\$ 102,326
2014	3,016,281	225,017	670,439	276,192	25,750	(77,322)	(53,500)
2013	3,061,637	216,873	623,222	162,549	32,019	9,137	37,856
2012	3,022,511	215,603	600,435	207,730	43,307	10,465	48,583
2011	2,951,281	185,829	547,141	135,752	54,299	56,095	110,625

At year-end 2015, there were 931 policies 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:

	2015	2014	2013	2012	2011
Direct	\$719,857	\$670,439	\$623,222	\$600,435	\$547,141
Assumed	0	0	0	0	0
Ceded	240,811	235,775	229,685	191,922	171,485
Net	\$479,046	\$434,664	\$393,537	\$408,513	\$375,656

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single reinsurance contract for property and liability risks. The individual occurrence of loss and aggregate excess sections of the agreements cover property risks. Under the individual occurrence of loss agreement, the Company retains \$100,000 per risk, and the reinsurer is liable for 100% of the excess, limited to \$2 million per risk for farm machinery and equipment storage buildings and \$1 million per risk for all other exposures. Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is experience rated based upon the Company's five-year average loss ratio. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2015 was \$319,462.

The agreement also provides for liability risks and equipment breakdown coverage. The Company cedes 100% of these risks and premium to the reinsurer and receives a 20% 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 Company maintains financial records in both electronic 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 electronic claims system. Cash transactions, including premium receipts and checks written, are also manually recorded.

A public accounting firm, Van de Ven, LLC, prepares the Company's financial statements, tax returns and annual statement. The annual statement is 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, 2015 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, 2015

Real Estate	\$ 19,123
Cash on Deposit	3,104,495
Federal Income Tax Recoverable	661
Interest Due and Accrued	2,125
Prepaid Insurance	<u>1,265</u>
Total Assets	<u>\$ 3,127,669</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Net Losses Unpaid	\$ 2,000
Ceded Reinsurance Premium Payable	20,435
Unearned Premium	210,807
Accounts Payable - Other	<u>837</u>
Total Liabilities	<u>234,079</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>2,743,590</u>
Total Surplus	<u>2,893,590</u>
Total Liabilities and Surplus	<u>\$ 3,127,669</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$ 470,437
Other Insurance Income	34,470
Net Losses & Loss Adjusting Expenses Incurred	(195,326)
Other Underwriting Expenses Incurred	<u>(227,002)</u>
Net Underwriting Income (Loss)	82,579
Net Investment Income	21,456
Other Income	<u>430</u>
Gross Profit (Loss)	\$ 104,465
Federal Income Tax	<u>(2,139)</u>
Net Income (Loss)	<u>\$ 102,326</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$ 2,791,264
Net Income (Loss)	<u>102,326</u>
Policyholders' Surplus, December 31, 2015	<u>\$ 2,893,590</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Marc Peterson 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.



Marc Peterson, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 22nd day of February, 2017.

My commission expires:

March 30, 2019



Notary Public

HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number 15634366

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, CFE, CPA
Senior Examiner-In-Charge
Missouri DIFP