

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

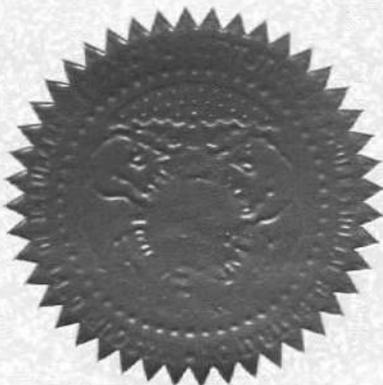
RE: Examination Report of St. Thomas-Babbtown Mutual as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of St. Thomas-Babbtown Mutual for the period ended December 31, 2009 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 St. Thomas-Babbtown Mutual 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 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 February, 2011.



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

REPORT OF THE
FINANCIAL EXAMINATION OF
ST. THOMAS – BABBTOWN MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2009

FILED
FEB 25 2011
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 30, 2010
Meta, 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

ST. THOMAS – BABBTOWN MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 106 East 3rd Street (P.O. Box 116), Meta, Missouri 65058, telephone number (573) 229-4211. This examination began on November 29, 2010, and concluded on November 30, 2010, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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 and recommendation in the previous examination report dated December 31, 2004.

HISTORY

General

The Company was originally organized on May 25, 1892, as Fire Assistance Association of Babtown. The Company changed its name to St. Thomas - Babtown Mutual Insurance Company in 1926. The Company was incorporated in the State of Missouri on December 28, 1984.

The Company has a Certificate of Authority dated December 1, 1988, 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 its Articles of Incorporation, the annual meeting of the Company's members is held on the first Monday in February at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. 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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meet approximately every month. The directors are compensated \$200 per month and \$48 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Lawrence Wansing Meta, Missouri	Retired Farmer	2008-2011

Frank Veltrop St. Thomas, Missouri	Municipal Employee	2008-2011
Ruby Ross Iberia, Missouri	Retired Businesswoman	2009-2012
Charles Schroeder Westphalia, Missouri	Retired Businessman & Farmer	2009-2012
Jeff Tellman Meta, Missouri	Salesman	2010-2013

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, 2009, were as follows:

Lawrence Wansing	President
Frank Veltrop	Vice-President
James Luebbering	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 on an annual basis. A review of the signed statements noted no significant conflict disclosures.

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 period under examination.

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 does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$50,000. The Company is directed to increase its fidelity bond coverage to a minimum limit of \$50,000.

The Company carries liability coverage for their directors and officers and purchases errors and omissions insurance coverage for its agents. The Company also carries general liability and office contents coverage. These insurance coverages appear adequate.

EMPLOYEE BENEFITS

The Company has two part-time employees. The Company does not offer a benefits package to its employees.

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. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold through licensed director-agents, who receive \$12 per hour for work related to issuing policies.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the directors of the Company, who are also agents. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$2,109,363	\$1,895	\$432,300	\$ 85,615	\$58,159	\$ 138,235	\$ 196,393
2008	1,913,344	1,593	429,761	102,594	62,758	112,075	174,833
2007	1,738,422	1,504	422,739	276,129	74,922	6,590	81,512
2006	1,656,767	1,362	389,829	319,467	60,509	12,171	72,680
2005	1,582,057	629	353,733	239,974	39,662	18,931	58,592

At year-end 2009, 783 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 353,733	\$ 389,829	\$ 422,739	\$ 429,761	\$ 432,300
Assumed	6,312	8,297	5,826	7,586	8,213
Ceded	<u>(101,543)</u>	<u>(113,873)</u>	<u>(156,734)</u>	<u>(156,532)</u>	<u>(136,267)</u>
Net	<u>\$ 258,501</u>	<u>\$ 284,253</u>	<u>\$ 271,831</u>	<u>\$ 280,815</u>	<u>\$ 304,246</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to agent errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer).

The individual occurrence of loss and aggregate excess sections of the agreement cover property risks. Under the individual occurrence of loss section of the agreement, the Company retains \$100,000 per risk and the reinsurer is liable for the excess, limited to \$1,000,000 per risk. Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2009 was \$251,783.

The agreement also provides quota share reinsurance coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability premiums and losses 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 accounting records are maintained by the Company on a modified cash basis. An outside accounting firm, Williams Keepers, LLC, completes the Company's Annual Statement. The Company has an audit committee, consisting of three elected members of the Company. The committee examines the transactions of the Company on an annual basis and presents a report at the annual membership meeting.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, 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, 2009

Real Estate	\$ 47,473
Cash on Deposit	1,941,783
Other Investments	113,217
Computer Equipment	1,188
Interest Due and Accrued	5,703

Total Assets	<u><u>\$ 2,109,363</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Liability Write-Ins	\$ 1,895

Total Liabilities	\$ 1,895

Guaranty Fund	\$ 150,000
Other Surplus	1,957,468

Total Surplus	2,107,468

Total Liabilities and Surplus	<u><u>\$ 2,109,363</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2009

Net Assessments Earned	\$ 304,246
Net Losses & Loss Adjustment Expenses Incurred	(85,615)
Other Underwriting Expenses Incurred	(80,397)

Net Underwriting Income (Loss)	\$ 138,235
Investment Income	58,159

Gross Profit (Loss)	\$ 196,393
Federal Income Tax	(0)

Net Income (Loss)	\$ 196,393
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008 (Note 1)	\$ 1,911,751
Net Income (Loss)	196,393
Examination Reconciling Adjustment (Note 1)	(676)

Policyholders' Surplus, December 31, 2009	\$ 2,107,468
	=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Surplus Reconciliation

The Company improperly completed the “Gain or Loss in Surplus” reconciliation on Page 5 of the 2009 Annual Statement. The beginning policyholder surplus line reported “Other Surplus” rather than “Total Policyholder Surplus.” In addition, when total policyholder surplus was utilized in the reconciliation for examination purposes, the “Beginning Policyholder Surplus” required an unidentified \$(676) adjustment in order to reconcile to the verified December 31, 2009 “Total Policyholder Surplus.” The Company should properly complete the “Gain or Loss in Surplus” reconciliation in future Annual Statements and to ensure the result of the reconciliation equals “Total Policyholder Surplus” as reported on Page 1 of the statement.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond (Page 4)

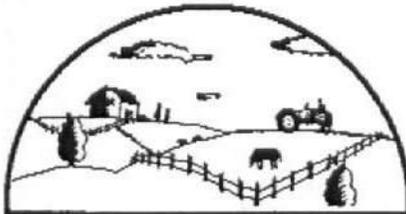
The Company should increase its fidelity bond coverage to a minimum limit of \$50,000.

Notes to the Financial Statements (Page 9)

The Company should properly complete the “Gain or Loss in Surplus” reconciliation in future Annual Statements and to ensure the result of the reconciliation equals “Total Policyholder Surplus” as reported on Page 1 of the statement.

SUBSEQUENT EVENTS

None.



St. Thomas/Babbtown Mutual Insurance Company

P.O. Box 116 • Meta, MO 65058 • Phone: 573-229-4211 • Fax: 573-229-8885

February 16, 2011

To: Tammy Rodieck, Exam Coordinator

From: Lawrence Wansing Board President
St. Thomas-Babbtown Mutual Insurance Company

In regard to the letter dated January 28, 2011, signed by Frederick G. Heese, Chief Financial Examiner & Division Director we have made the following recommended changes:

1. Note #1 – Surplus Reconciliation
The information you sent on how to properly complete the Annual Report regarding surplus reconciliation, has been forwarded to our CPA at William-Keepers LLC accounting firm to be implemented in the 2010 Annual Report.
2. Fidelity Bond – The Fidelity Bond will be increased to \$50,000 as requested. This will be done at renewal in April 2011. This action was approved at the February 2011 meeting of the Board of Directors.
3. Notes to the Financial Statements – A copy of this suggestion along with the other recommendations, has been forwarded to our CPA at William-Keepers LLC accounting firm to be implement in the 2010 Annual Report.

Please include this response as part of the public document.

If there are any questions to this response, please contact to Office Manager at (573) 229-4211.