

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

### ORDER

After full consideration and review of the report of the financial examination of United Mutual 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 United 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) 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 11th day of May, 2015.



A blue ink signature of John M. Huff, Director, written over a horizontal line.

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
UNITED MUTUAL INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2013**

**FILED**  
MAY 11 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 19, 2015  
Washington, 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

### **UNITED MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 113 Elm Street, Washington, Missouri 63090, telephone number (636) 239-6047. This examination began on January 21, 2015 and concluded on the date shown above, 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 examiners 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 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Management**

*Comment:* It is recommended the Company abide by the provisions of its Articles of Incorporation and Bylaws regarding Board of Director Membership.

*Company Response:* The Company agreed with the finding and stated that they will amend the Articles of Incorporation.

*Current Findings:* The Company amended their Articles of Incorporation on May 21, 2013 to require the Board of Directors to have at least nine members. The Company appears to be operating within its Articles and Bylaws.

## **HISTORY**

### **General**

The Company was originally organized in June of 1895 as Farmers Mutual Fire Insurance Company of St. Johns and was incorporated on July 1, 1949. The Company subsequently changed its name several times and was known as St. Johns Mutual Insurance Company at the examination as of December 31, 2003. In addition, the Company has merged with other Missouri Mutuals over the last 10 years as described below:

- On January 1, 2004 the Company merged with two other mutual insurers, Farmers Mutual Insurance Company of Jefferson County and Missouri River Mutual Insurance Company, with the Company being the surviving entity. The Company was renamed United Mutual Insurance Company at that time.
- On January 1, 2005 the Company merged with Tipton Mutual Insurance Company with United Mutual Insurance Company being the surviving entity.
- On January 1, 2006 the Company merged with Chamois Mutual with United Mutual Insurance Company being the surviving company.
- On January 1, 2013 the company merged with Century Mutual Insurance Company with United Mutual Insurance Company being the surviving entity.

The Company has a Certificate of Authority dated January 30, 2004 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 second Saturday in March, at the home office or at such other place as designated by the membership or the Board of Directors. 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 ten members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$75 per 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</u>
Joy Haeffner Washington, Missouri	Financial Advisor	2011-2014
Don Peters Washington, Missouri	Building Inspector	2011-2014
Walter Luther Washington, Missouri	Retired	2013-2016
Charles Stieffermann Bonnots Mill, Missouri	Retired	2013-2016
Leonard Vogel Arnold, Missouri	City Water Dept. Employee	2011-2014
Grant Glatt Cedar Hill, Missouri	Retired	2012-2015
Tom Hoerstkamp Washington, Missouri	Business Owner	2012-2015
Dennis Huhmann Tipton, Missouri	Health & Safety Supervisor	2012-2015
Burt Schweissguth Marthasville, Missouri	Farm Implement Dealer	2011-2014
Jerome Schulte West Alton, Missouri	Retired Farmer	2013-2016

The Company's Articles of Incorporation set the minimum number of directors at nine members and state that the actual number of directors is to be established in the Bylaws. The Company's Bylaws establish the number of directors at ten members. There were ten directors serving as of December 31, 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, 2013, were as follows:

Joy Haeffner	President
Don Peters	Vice-President
Walter Luther	Secretary
Charles Stieffermann	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. No significant conflicts were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended effective May 21, 2013 to change the company from an assessable to a non-assessable mutual.

The Bylaws were amended effective July 21, 2009 to change the number of directors from twelve to eleven. The Bylaws were amended a second time effective May 18, 2010 to change the number of directors from eleven to nine. The Bylaws were amended a third time effective July 16, 2013 to change the number of directors from nine to ten.

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 \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company utilizes an independent agency force. The individual agencies are required to purchase errors and omissions coverage.

The Company self-insures its home office and contents, and purchases commercial liability and workers compensation coverage from outside carriers.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees and one part-time employee. The benefits package offered to employees includes matching funds to retirement accounts, employer subsidized health care plan, life insurance and paid leave.

## **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. 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 by 22 independent agencies, consisting of approximately 45 licensed agents. Agents receive a 15% commission and are eligible for a contingent bonus of between .5% and 6.5% if certain loss ratio and premium volume criteria are met.

### **Policy Forms and Underwriting Practices**

The Company utilizes AAIS and Grinnell Mutual Reinsurance Company policy forms. Premium rates are determined by the Board of Directors. Policies are renewed annually with renewal billings mailed directly to the insureds. Property inspections are performed by Company employees. Claims adjusting is performed by employees of Grinnell Mutual Reinsurance Company.



## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2013	2012	2011	2010	2009
Admitted	\$5,950,634	\$4,723,763	\$4,199,475	\$4,519,613	\$4,308,357
Liabilities	1,819,628	1,492,890	1,239,926	1,266,877	1,136,010
Gross	3,281,677	2,830,272	2,573,680	2,301,976	2,152,076
Gross Losses	1,075,792	993,181	2,316,025	903,826	1,307,739
Investment	101,630	84,968	98,971	97,401	133,529
Underwriting	141,386	197,946	(418,428)	9,145	(277,099)
Net Income	156,430	271,324	(293,188)	80,389	(91,084)

At year-end 2013, 3,920 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:

	2009	2010	2011	2012	2013
Direct	\$2,215,304	\$2,353,975	\$2,650,805	\$2,910,707	\$3,365,856
Assumed	6,523	7,006	8,157	10,249	10,456
Ceded	(600,412)	(594,726)	(712,580)	(873,229)	(987,044)
Net	1,621,268	1,766,255	1,946,382	2,047,727	2,389,268

### Assumed

United Mutual Insurance Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The Company assumes a 3% share of the interests and liabilities of the pool. The agreement covers errors and omissions and director and officer liability policies written by MMIC. The pool assumes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies, and 100% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies. MMIC receives a 35% ceding commission of net written premium ceded to the pool.

## **Ceded**

The Company has reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess reinsurance agreement. The aggregate excess section of the agreement covers property risks. 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 2013 was \$1,583,778.

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 an accrual basis. The CPA firm of Tochtrop & Associates, P.C. performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

## **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**

Bonds (Note 1)	\$1,721,176
Stocks	1,500
Mutual Funds (Note 1)	420,933
Real Estate	84,346
Cash on Deposit	3,577,882
Other Investments	105,828
Computer Equipment	4,608
Interest Due and Accrued	16,346
Asset Write-Ins	<u>18,015</u>
Total Assets	<u>\$5,950,634</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

Unpaid Losses	\$ 220,325
Ceded Reinsurance Premium Payable	77,673
Unearned Premium	1,382,235
Federal Income Tax Payable	74,952
Payroll Tax	7,144
Accounts Payable (Other)	<u>57,299</u>
Total Liabilities	<u>\$ 1,819,628</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>3,981,006</u>
Total Surplus	<u>4,131,006</u>
Total Liabilities and Surplus	<u>\$ 5,950,634</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2013**

Net Premiums Earned	\$ 2,085,693
Other Insurance Income	24,298
Net Losses & Loss Adjustment Expenses Incurred	(992,011)
Other Underwriting Expenses Incurred	<u>(976,594)</u>
 Net Underwriting Income (Loss)	 \$ 141,386
Investment Income	101,630
□ Other Income	<u>340</u>
 Gross Profit (Loss)	 \$ 243,356
Federal Income Tax	<u>86,926</u>
 Net Income (Loss)	 <u>\$ 156,430</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2013**

Policyholders' Surplus, December 31, 2012	\$ 3,230,873
Net Income (Loss)	156,430
Merger with Century Mutual Insurance Company	<u>743,703</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 4,131,006</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1 – Mutual Funds**

The Company improperly reported mutual funds totaling \$420,933 on Schedule D Part-1 of the annual statement. The Company included this in the total for bonds shown on page 1 of the annual statement, and reported \$0 for mutual funds. Bonds have been reduced by \$420,933 and mutual funds increased by the same amount. It is recommended the Company properly report mutual funds on Schedule D Part-3 per the Missouri Mutual Annual Statement Instructions.

### **EXAMINATION CHANGES**

As explained in Note 1 above, the only examination change was increasing mutual funds by \$420,933 and reducing bonds by the same amount. The change had no effect on total policyholder surplus.

### **GENERAL COMMENTS AND RECOMMENDATIONS**

None

### **SUBSEQUENT EVENTS**

The Articles of Incorporation were amended effective March 28, 2014 to change the annual member meeting day from the second Saturday in February to the second Saturday in March.

The Bylaws were amended effective March 8, 2014 to change the number of directors from ten to nine.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )

)

City of St. Louis )

I, Michael C. Behrens 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.




Michael C. Behrens, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 2nd day of March, 2015.

My commission expires:

March 11, 2016

  
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.



Mike Shadowens, CFE  
Assistant Chief Financial Examiner  
Missouri DIFP

