



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

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

RE: Examination Report of Bunceton Mutual Insurance Company for the period ended
December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Bunceton Mutual Insurance Company for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, 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 Bunceton 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 27th day of December, 2018.

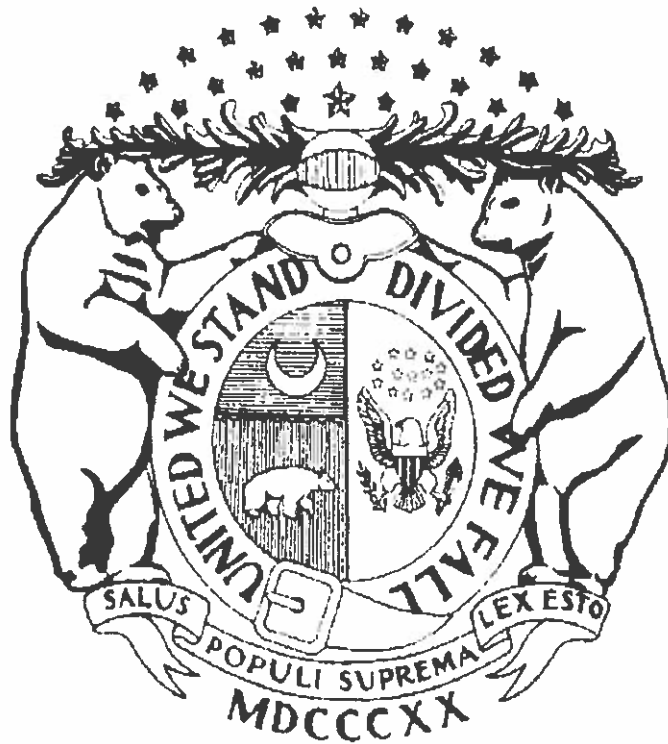


A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

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

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

**AS OF
DECEMBER 31, 2016**



FILED
DEC 27 2018
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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February 28, 2018
Bunceton, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

BUNCETON MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 100 East Main, Bunceton, Missouri 65237, telephone number (660) 427-5521. This examination began on February 27, 2018 and was concluded on February 28, 2018, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2011, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2012, through December 31, 2016, and was conducted by examiners from the Missouri 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 Condition 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 originally organized and incorporated on February 4, 1896, as Cooper County Farmers Mutual Fire Insurance Company. In January 1971, the Company changed its name to Bunceton Mutual Insurance Company.

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 fourth Thursday in March 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 by policyholders 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 six members that serve staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter in addition to the annual meeting with each director compensated \$100 per meeting attended.

Members serving on the Board of Directors as of December 31, 2016, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
E. Kirtley Lewis Otterville, Missouri	Farmer	2015-2017
Ronald Felten Pilot Grove, Missouri	Farmer	2016-2018
Barbara Dicus Bunceton, Missouri	Insurance Agent	2017-2019
Kathryn Wahlers Stover, Missouri	Insurance Agent	2015-2017

John Schibi Pilot Grove, Missouri	Farmer	2017-2019
Larry Witte Stover, Missouri	Farmer	2016-2018

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, 2016, were as follows:

E. Kirtley Lewis	President
Ronald Felten	Vice President
Barbara Dicus	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. Completed conflict of interest statements were reviewed during the examination. Two of the directors disclosed that they are agents of the Company and that they also write business for other insurers. No other material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company, neither of which were 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 was a named insured on a fidelity bond providing a limit of liability of \$50,000 during the exam period. 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 requires its agents to carry errors and omissions insurance and reimburses them for a portion of the cost of the coverage. The Company also carries businessowners' coverage on its home office and contents, as well as general liability and workers' compensation coverages. The insurance coverage appears

adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees. The benefits package offered to the employees includes health, life, dental, long-term disability insurance, Simple IRA plan with employer matching, and paid time off.

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 coverage throughout the state. As of December 31, 2016, the Company had eight agents producing business and each receives 15% commission on all new and renewal premiums.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Cameron Mutual Insurance Company policy forms. Policies are renewed annually. Renewal billings are mailed directly to the insured. Initial property inspections are performed by the agents prior to writing and then inspected by an outside consulting/adjusting firm on all new business and periodically thereafter. The Company Manager chooses other properties on a monthly basis for follow-up inspections that are performed by the independent inspection company. Underwriting is completed by the Company Manager with guidance from the underwriting manuals and reinsurers. Claims adjusting is performed by independent adjusters unless the claim is small enough for the Agent to adjust. Rates are determined by the Board of Directors utilizing information from the market and reinsurers.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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>
2016	\$1,652,443	\$405,215	\$935,706	\$378,452	\$20,834	\$46,391	\$67,450
2015	1,673,571	440,642	895,187	294,115	23,013	59,751	82,764
2014	1,491,243	341,130	823,179	695,638	21,183	(63,532)	(42,349)
2013	1,616,182	418,622	755,957	377,947	19,328	17,746	37,074
2012	1,492,674	329,863	665,256	179,336	25,668	252	25,920

At year-end 2016, 1,061 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct	\$ 665,256	\$ 755,957	\$ 823,179	\$ 895,187	\$ 935,706
Assumed	0	0	0	0	0
Ceded	<u>(221,052)</u>	<u>(229,898)</u>	<u>(274,904)</u>	<u>284,776)</u>	<u>(336,133)</u>
Net	<u>\$ 444,204</u>	<u>\$ 526,059</u>	<u>\$ 548,275</u>	<u>\$ 610,411</u>	<u>\$ 599,573</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company's property reinsurance is through Wisconsin Reinsurance Corporation (Wisconsin Re) and its casualty reinsurance is through Cameron Mutual Insurance Company (Cameron Mutual).

Under the property per risk and excess of loss agreement, the Company retains \$50,000 per risk. The aggregate excess of loss coverage covers 100% of the net losses incurred in excess of the attachment point, which is 125% of the Company's net premium. The estimated attachment point for 2016 was \$327,075.

Under the casualty quota share agreement, the Company cedes 100% of its casualty premiums and losses to Cameron Mutual up to a maximum policy limit of \$1 million. Any amount written in excess of the limit would be the Company's sole responsibility. The Company receives a 22% 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 Company utilizes Mutual Insurance Processing System accounting and policy maintenance software. The CPA firm of Van de Ven, LLC, performs an annual compilation 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, 2016, 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, 2016

Bonds	\$ 374,337
Mutual Funds	244,499
Real Estate	1,885
Cash on Deposit	922,355
Other Investments	82,772
Ceded Reinsurance Premium Recoverable	19,281
Computer Equipment	3,027
Interest Due & Accrued	<u>4,287</u>
Total Assets	<u>\$1,652,443</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Net Losses Unpaid	\$ 18,577
Ceded Reinsurance Premium Payable	6,047
Unearned Premium	358,994
Payroll Tax Payable	886
Accounts Payable	<u>20,711</u>
Total Liabilities	\$ 405,215
Guaranty Fund	150,000
Other Surplus	<u>1,097,228</u>
Total Surplus	<u>\$1,247,228</u>
Total Liabilities and Surplus	<u>\$1,652,443</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 591,857
Other Insurance Income	40,215
Net Losses & Loss Adjusting Expenses Incurred	(308,745)
Other Underwriting Expenses Incurred	<u>(276,936)</u>
Net Underwriting Income (Loss)	\$ 46,391
Net Investment Income	20,834
Other Income	<u>225</u>
Gross Profit (Loss)	\$ 67,450
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 67,450</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$1,232,929
Net Income (Loss)	67,450
Mutual Fund Market Adjustment	3,702
Accounts Receivable-Former Employee	(140,854)
Prior Year Adjustment-Misappropriations	<u>84,001</u>
Policyholders' Surplus, December 31, 2016	<u>\$1,247,228</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The Company received a judgment and full restitution in 2018 from a former employee for the misappropriation and unauthorized use of funds. The Company has strengthened internal controls to correct the conditions that allowed the misappropriation to occur.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jeffery (Jay) Buschmann 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.

Jeffery (Jay) Buschmann

Jeffery (Jay) Buschmann, AFE
Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 6th day of December, 2018.

My commission expires:

March 30, 2019

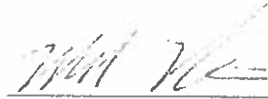
D. Hays

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.



Mark Nance, CFE, CPA
Senior Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration