

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

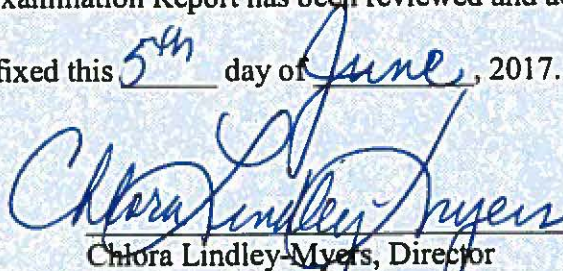
P.O. Box 690, Jefferson City, Mo. 65102-0690

**ORDER**

After full consideration and review of the report of the financial examination of Farmers' Mutual Insurance Company of Callaway County 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 Farmers' Mutual Insurance Company of Callaway County 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 5<sup>th</sup> day of June, 2017.



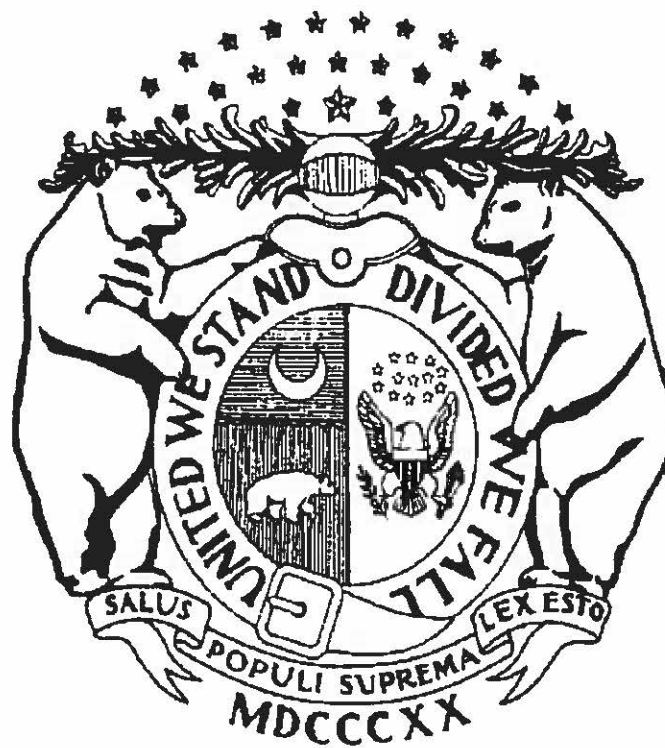
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration





**REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS' MUTUAL INSURANCE COMPANY OF  
CALLAWAY COUNTY**

**AS OF  
DECEMBER 31, 2015**



**STATE OF MISSOURI**

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

**JEFFERSON CITY, MISSOURI**

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January 5, 2017  
Fulton, Missouri

John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102

Director Huff:

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

**FARMERS' MUTUAL INSURANCE COMPANY OF CALLAWAY COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 201 St. Louis Avenue, Fulton, Missouri 65251, telephone number (573) 642-3006. This examination began on January 5, 2017 and 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 Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2011, through December 31, 2015, and was also conducted by examiners from the 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 incorporated on October 22, 1895, as Farmers Mutual Fire and Lightning Insurance Company of Callaway County. On February 16, 1980, the Company changed its name to Farmers Mutual Insurance Company of Callaway County.

The Company has a Certificate of Authority dated January 16, 1997, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual 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 third Thursday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called 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 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 eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. The President is compensated \$300 per month, while other Board members receive \$200 per month. All Directors are compensated \$100 per each special 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>
Dale Brinker Mexico, Missouri	Farmer	2017
Robert Perkins Columbia, Missouri	Credit Union Chief Financial Officer	2016
Gary Crawford Auxvasse, Missouri	Insurance Agent/Farmer	2018
David Guerrant Fulton, Missouri	Insurance Agent/Farmer	2018

Gary Linnenbringer Auxvasse, Missouri	Insurance Agent/Farmer	2017
Kathy Mealy Holts Summit, Missouri	Insurance Agent	2016
Roy Rohrbach Fulton, Missouri	Insurance Agent/Farmer	2017
Larry Smith Fulton, Missouri	Farmer	2016

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:

Gary Crawford	President
Larry Smith	Vice-President
Jennifer Books <sup>1</sup>	Secretary/Treasurer

<sup>1</sup> Left the Company in September 2016, and was replaced by Meghan Cooper.

### **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 February 14, 2011, the Articles of Incorporation were amended to change the date of the annual membership meeting to the third 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 \$100,000. The fidelity bond coverage of the Company meets the minimum coverage of \$100,000 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, business liability insurance, and workers' compensation and employer's liability coverage.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees and one part-time employee. The Company provides its full-time employees a benefits package, which includes life and health insurance, employer contributions to employee individual retirement accounts, 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 insurance in all counties in the State of Missouri. The Company writes all three of its authorized lines of business.

The Company's policies are sold by nine licensed producers, six of which are also Directors of the Company. Agents hired in 2013 and prior receive a 15% commission on all business written. Agents hired after 2013 receive a commission of 15% on new business and 13% on renewal business, and are also eligible for a 2% bonus commission after one year of service if certain loss ratio requirements are achieved.

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

The Company utilizes a combination of AAIS 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. Small claims are adjusted by the Company's agents, and other claims are handled by the Company adjuster or by contracted adjusters.

### GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2015	\$6,187,991	\$1,601,346	\$3,152,667	\$2,308,308	\$125,139	\$ (726,700)	\$(601,458)
2014	6,693,227	1,505,124	2,998,063	5,353,468	119,575	(1,104,164)	(984,433)
2013	7,729,074	1,556,538	2,924,896	1,022,156	150,391	315,263	465,654
2012	7,097,605	1,390,723	2,735,096	1,595,577	161,286	(180,910)	(18,714)
2011	7,089,128	1,363,532	2,619,993	1,886,137	180,762	(747,391)	(563,238)

At year-end 2015, there were 4,394 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	\$3,152,667	\$2,998,063	\$2,924,896	\$2,735,096	\$2,619,993
Assumed	1,324	2,088	3,075	1,073	2,944
Ceded	837,438	674,994	622,046	620,771	613,055
Net	\$2,316,553	\$2,325,157	\$2,305,925	\$2,115,398	\$2,009,882

#### Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$2,000,000 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 to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.



## **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 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 five-year average fire loss ratio plus a negotiated load. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2015 was \$2,365,445.

The agreement also provides for liability risk 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 accounting records are maintained by the Company on a cash basis. David J. Shively, CPA performs financial statement compilation, Annual Statement, and tax preparation services for the Company. IMT Computer Services Company and Management & Information Processing Services software are utilized for policy maintenance, billing and claims processing.

## **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**

Bonds	\$ 2,319,421
Mutual Funds	507,674
Real Estate	768,462
Cash on Deposit	2,515,528
Other Investments	44,165
Reinsurance Recoverable	5,724
Computer Equipment	1,482
Interest Due and Accrued	25,535
	<hr/>
Total Assets	\$ 6,187,991

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2015**

Net Losses Unpaid	\$ 161,130
Ceded Reinsurance Premium Payable	83,844
Unearned Premium	1,338,820
Payroll Tax	2,391
Accounts Payable - Other	15,161
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Total Liabilities	1,601,346
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Guaranty Fund	\$ 150,000
Other Surplus	4,436,645
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Total Surplus	4,586,645
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Total Liabilities and Surplus	\$ 6,187,991

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2015**

Net Premiums Earned	\$	2,245,789
Other Insurance Income		17,349
Net Losses & Loss Adjusting Expenses Incurred		(2,092,135)
Other Underwriting Expenses Incurred		<u>(897,703)</u>
<hr/>		
Net Underwriting Income (Loss)		(726,700)
Net Investment Income		125,139
Other Income		<u>103</u>
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Gross Profit (Loss)	\$	(601,458)
Federal Income Tax		<u>0</u>
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Net Income (Loss)	\$	<u><u>(601,458)</u></u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2015**

Policyholders' Surplus, December 31, 2014		\$ 5,188,103
Net Income (Loss)		<u>(601,458)</u>
<hr/>		
Policyholders' Surplus, December 31, 2015		<u><u>\$ 4,586,645</u></u>



**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

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None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.


**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
  )  
County of Cole        )

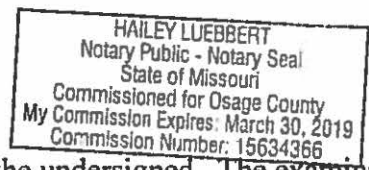
I, Marc Peterson on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony 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 20<sup>th</sup> day of March, 2017.

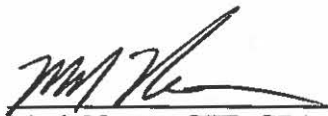
My commission expires:

March 30, 2019  
  
\_\_\_\_\_  
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 DIFP