



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

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

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

ORDER

After full consideration and review of the report of the financial examination of Midwest Preferred 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 Midwest Preferred 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 20th day of September, 2018.

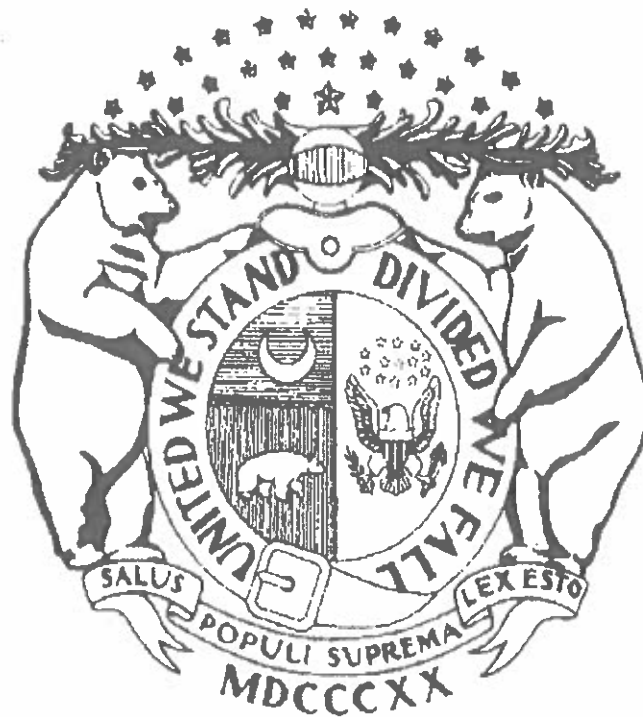


A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

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

REPORT OF THE
FINANCIAL EXAMINATION OF
MIDWEST PREFERRED MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2016



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	2
HISTORY:	
General	2
Management	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operations	5
Policy Forms and Underwriting Practices	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
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	11
VERIFICATION	11
SUPERVISION	12

March 27, 2018
Tina, 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

MIDWEST PREFERRED MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 200 North Main Street (P.O. Box 10), Tina, Missouri 64682, telephone number (660) 622-4224. This examination began on March 12, 2018, 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, 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 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 established on April 8, 1893 as Farmers and Laborers Cooperative Company of Carroll County. On August 17, 1913, the Company changed its name to Farmers Cooperative Insurance Company and was granted a charter of incorporation. On April 18, 2006, the Company changed its name to Preferred Mutual Insurance Company. On October 8, 2008, the Company changed its name to Midwest Preferred Mutual Insurance Company subsequent to a merger with Midwest Heritage Mutual Insurance Company, with the Company being the surviving entity. On January 26, 2009, Clay Farmers Mutual Insurance Company merged with the Company, with Midwest Preferred Mutual Insurance Company being the surviving entity.

The Company has a Certificate of Authority dated May 21, 2008, 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 Tuesday in March at the home office of the Company or at such 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 allowed if the proxy is in writing, signed and presented to the Secretary at the home office not less than ten days prior to the meeting.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. Per the Articles of Merger with Midwest Heritage Mutual Insurance Company, the Board of Directors will initially consist of fourteen members without term limits, which will be reduced through attrition to eight members, serving staggered, three-year terms. As of December 31, 2016, the Board of Directors had ten members. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each director is compensated \$200 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>
Mitchell Parkhurst Weatherby, Missouri	Insurance Agent
Harold Boelsen Carrollton, Missouri	Retired
Howard Baker Hale, Missouri	Insurance Agent
Greg Pottratz Maysville, Missouri	Insurance Agent
Arzy Bisbee, Jr. Norborne, Missouri	Heavy Equipment Operator
Keith Meek Cameron, Missouri	Retired
Greg Carrel Clarksdale, Missouri	Insurance Agent
Betty Weddle Lexington, Missouri	Insurance Agent
Jim Mason Maysville, Missouri	Insurance Agent
John Murphy Maysville, Missouri	Retired

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, 2016, were as follows:

Mitchell Parkhurst	President
Harold Boelsen	Vice President
Connie Peterson	Secretary/Treasurer
Jeanna Cooper	Assistant 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 statements noted no significant conflict disclosures.

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 is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage 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 obtain errors and omissions insurance and monitors for compliance. Other insurance coverages carried by the Company include property and general liability coverage on its home offices, employment practices liability, and workers compensation and employer's liability insurance.

EMPLOYEE BENEFITS

The Company has five full-time employees and one part-time employee. The Company provides health, dental, life, and disability benefits for all full-time employees as well as paid time off. In addition, the Company provides a Simplified Employee Pension retirement plan and matches employee elective contributions to a maximum of three percent of salary.

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 by 33 licensed agents, who receive a 15% commission on all business written. The Company has a wholly-owned agency, Midwest Preferred Agency, Inc., which markets insurance products not currently written by the Company for other insurers.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Grinnell Mutual Reinsurance Company policy forms. Policies are written on a continuous period, and rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting services are performed by contracted independent inspectors and adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2016	\$5,866,486	\$ 1,723,866	\$ 3,353,323	\$ 635,069	\$ 135,244	\$ 931,861	\$ 771,895
2015	4,971,050	1,607,702	3,471,650	556,217	103,932	761,417	865,349
2014	3,849,657	1,336,415	3,212,917	1,871,910	90,552	(276,280)	(185,728)
2013	3,992,690	1,295,982	2,936,459	740,632	116,589	235,510	352,099
2012	3,385,427	1,040,319	2,550,532	1,286,127	98,006	(143,860)	(34,020)

At year-end 2016, there were 3,251 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:

	2016	2015	2014	2013	2012
Direct	\$ 3,353,323	\$ 3,471,650	\$ 3,212,917	\$ 2,936,459	\$ 2,550,532
Assumed	17,117	16,215	17,309	16,087	16,785
Ceded	(813,528)	(772,944)	(819,233)	(869,566)	(711,441)
Net	\$ 2,556,912	\$ 2,714,921	\$ 2,410,993	\$ 2,082,980	\$ 1,855,876

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The reinsurance agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 84% of the first \$2,000,000 of each claim and in aggregate on all insurance producers' errors and omissions insurance and 84% of the first \$3,000,000 on each claim in aggregate on all director and officer liability policies to the pool. MMIC receives a 35% ceding commission of new written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has property reinsurance through Grinnell Mutual Reinsurance Company (Grinnell). Under the property per risk excess of loss agreement, the Company retains \$150,000 per risk and the reinsurer covers 100% of the excess. Under the property aggregate excess of loss agreement, Grinnell is liable for all losses in excess of the Company's annual aggregate net retention, or attachment point. The attachment point for 2016 was \$1,650,000.

The Company reinsures liability risks with Grinnell. The Company cedes 100% of the premiums and losses related to these risks and receives a 45% ceding commission. The Company also cedes 100% of the liability related to mechanical breakdown coverages under an agreement with the Hartford Steam Boiler Inspection and Insurance Company.

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 IMT Computer Services for accounting and policy maintenance software. The CPA firm Van de Ven, LLC, compiles the Company's financial statements and prepares the 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.

ASSETS
December 31, 2016

Bonds	\$ 3,771,286
Stocks	5
Mutual Funds	673,225
Real Estate	404,100
Cash on Deposit	618,533
Other Investments	351,470
Computer Equipment	4,935
Interest Due and Accrued	37,808
Prepaid Insurance	5,124
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Total Assets	\$ 5,866,486

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Net Losses Unpaid	\$ 266,135
Ceded Reinsurance Premium Payable	52,106
Unearned Premium	1,159,285
Federal Income Tax Payable	235,210
Payroll Tax Payable	1,367
Accounts Payable - Other	9,763
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Total Liabilities	\$ 1,723,866
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Guaranty Fund	\$ 150,000
Other Surplus	3,992,620
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Total Surplus	\$ 4,142,620
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Total Liabilities and Surplus	\$ 5,866,486

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 2,687,871
Other Insurance Income	66,163
Net Losses & Loss Adjusting Expenses Incurred	(721,544)
Other Underwriting Expenses Incurred	<u>(1,100,629)</u>
Net Underwriting Income (Loss)	\$ 931,861
Net Investment Income	<u>135,244</u>
Gross Profit (Loss)	\$ 1,067,105
Federal Income Tax	<u>(295,210)</u>
Net Income (Loss)	<u>\$ 771,895</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 3,363,348
Net Income (Loss)	771,895
Unrealized Gain on Investments	<u>7,377</u>
Policyholders' Surplus, December 31, 2016	<u>\$ 4,142,620</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

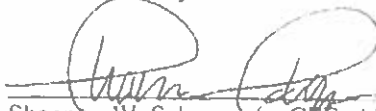
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Midwest Preferred Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Brian Hammann, CPA, examiner for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

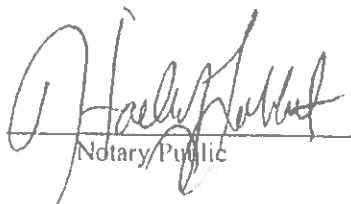
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the 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.


Shannon W. Schmoeger, CFP, ARe
Examiner-In-Charge
Missouri Department of Insurance Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 30th day of August, 2018.

My commission expires:

March 30, 2019


Notary Public

HAILEY L. BERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Usage County
My Commission Expires March 30, 2019
Commission Number 15614366

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