



**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 CFM Insurance, Inc. 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 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: scope of examination, history, fidelity bond and other insurance, employee benefits, insurance products and related practices, growth and loss experience of the company, reinsurance, accounts and records, financial statements, notes to the financial statements, examination changes, summary of recommendations and subsequent events.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of CFM Insurance, Inc. as of December 31, 2016 be and is hereby ADOPTED as filed and for CFM Insurance, Inc. 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 by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 16<sup>th</sup> day of May, 2019.



*Chlora Lindley-Myers*

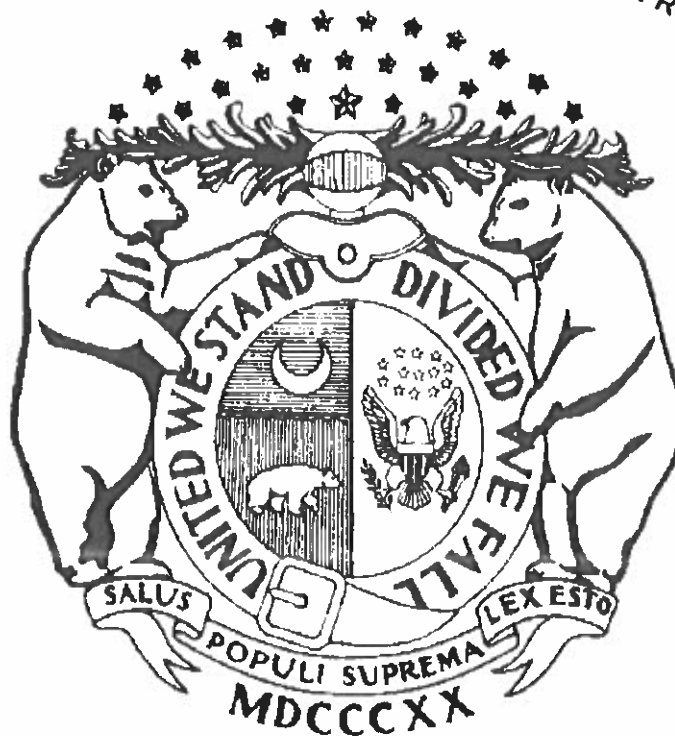
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



**REPORT OF THE  
FINANCIAL EXAMINATION OF  
CFM INSURANCE, INC.**

**AS OF  
DECEMBER 31, 2016**

**FILED**  
MAY 17 2019  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



**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	1
HISTORY:	
General	2
Management	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of 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 1, 2019  
Concordia, 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

**CFM INSURANCE, INC.**

hereinafter referred to as such, or as the Company or CFM. The Company's administrative office is located at 1202 East 1<sup>st</sup> Street (P.O. Box 968), Concordia, Missouri 64020, telephone number (660) 463-2223. This examination began on May 16, 2018 and was concluded on May 18, 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 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 in 1869 and was incorporated in 1930 as Freedom Farmers Insurance Company. On March 30, 1938, the Company changed its name to Concordia Farmers Mutual Insurance Company. On May 17, 2010, the Company changed its name to CFM Insurance, Inc. On July 1, 2010, Central Mutual Insurance Company merged into the Company, with CFM Insurance, Inc. being the surviving entity.

The Company has a Certificate of Authority dated June 7, 2010, 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 third Tuesday 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 shall be called at any time by a majority vote of the Board of Directors or upon petition of five percent of the membership or 500 members, whichever is lesser. Eight members shall constitute a quorum at any membership meeting. Proxy voting is 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately bi-monthly, and directors are compensated \$550 per each meeting attended. Directors also receive a \$150 per quarter retainer, \$250 per day for attending association meetings and \$2,000 per year if the employee profit sharing incentive is triggered.

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 Expires</u>
Dale Dieckhoff Concordia, Missouri	Retired Information Systems Manager	2018
David Wiedeman Sedalia, MO	Realtor	2018
George Zimmerschied Independence, Missouri	Farm Implement Sales	2018
Marla Zirkle Oak Grove, MO	Radio Broadcast Group Market Controller	2018
James Joyner Warrensburg, MO	Insurance Agent	2019
Eric Hoffman Trenton, MO	Farmer	2019
Todd Hartley Marshall, Missouri	Business Owner	2017
Wayne Lindemann Concordia, MO	Retired CFM President	2017
Phillip Woods Warrensburg, MO	Retired Business Owner	2017

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:

Dale Dieckhoff	Chairman
James Joyner	Vice-Chairman
Jacob Black	President
Cindy Tolias	Secretary/Treasurer

### **Conflict of Interest**

The Company completes annual conflict of interest statements 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 completed statements noted no material conflicts disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation (Articles) and the Bylaws of the Company. The January 15, 2016 Board meeting minutes indicated the Articles and Bylaws were amended to update certain Company officer titles. However, there was no evidence noted of membership approval of the amendment to the Articles, nor were the amended Articles and Bylaws filed with the DIFP, as required by Section 380.241 RSMo (Amendment to articles and bylaws, procedure – fee). The October 8, 2017 Board meeting minutes indicated the Bylaws were amended to make various changes to officer duties; however, the amendment was not filed with the DIFP in accordance with Section 380.241 RSMo.

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 \$250,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$300,000 and \$350,000 in coverage.

The Company carries directors and officers liability coverage. The Company utilizes independent agents, which are required to obtain errors and omissions coverage and provide evidence of such coverage to the Company.

The Company carries building and contents insurance on its home office and its satellite office in Trenton, along with commercial liability, commercial liability umbrella, commercial automobile, employment practices liability, cyber-data breach liability and workers compensation insurance coverage.

## EMPLOYEE BENEFITS

The Company has 21 full-time employees and one part-time employee. The Company provides group health, life, dental, vision, workers compensation, long-term disability and long-term care insurance, as well as paid time off to its full-time employees. Full-time employees are also eligible to participate in a 401(k) retirement plan, to which the Company contributes a percentage of each employee's salary. In addition, the Company also offers a profit sharing program for eligible employees.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind, liability, and other insurance in all counties in the State of Missouri. The Company writes fire, wind, liability and mechanical breakdown coverage. The Company's policies are sold by approximately 553 licensed producers, who receive a 15% commission. Individual producers are eligible for a contingent commission if certain profitability criteria are met.

### Policy Forms and Underwriting Practices

The Company uses American Association of Insurance Services (AAIS) and Grinnell Mutual Reinsurance Company (Grinnell) forms. The policies are written on a continuous basis and renewed annually, with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and claims adjusting are performed by in-house staff as well as independent service providers.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2016	\$26,941,348	\$9,332,293	\$19,861,707	\$11,547,866	\$855,847	\$3,168,214	\$3,009,097
2015	24,536,842	9,804,151	17,646,129	7,159,255	752,650	1,346,576	1,613,108
2014	20,917,365	7,632,411	15,415,023	8,174,977	596,394	1,575,098	1,614,917
2013	19,982,339	8,345,842	13,900,952	5,311,554	555,368	2,516,044	2,165,271
2012	17,166,354	7,659,217	12,917,053	4,540,905	523,628	1,800,097	1,597,999

At year-end 2016, 20,961 policies were in force.



## REINSURANCE

### General

The Company's written premium activity on a direct, assumed and ceded basis for the period under examination is shown below:

	2012	2013	2014	2015	2016
Direct	\$12,917,053	\$13,900,952	\$15,415,023	\$17,646,129	\$19,861,707
Assumed	0	0	0	0	100,000
Ceded	(2,606,040)	(2,976,905)	(2,883,697)	(3,530,498)	(3,030,447)
Net	\$10,311,013	\$10,924,047	\$12,531,326	\$14,115,631	\$16,931,260

### Assumed

CFM provided unlimited aggregate excess of loss reinsurance coverage to Farmers Mutual Insurance Company of Grundy County (Grundy). Under the agreement, CFM is liable for 100% of all losses in excess of \$100,000 in aggregate during calendar year 2016. Liability assumed by CFM under this agreement was covered under the terms of the ceded reinsurance contracts with Grinnell described below.

### Ceded

The Company has a property reinsurance contract with Grinnell that includes per risk, catastrophe and aggregate excess of loss coverage. Under the per risk section of the agreement, the Company retains \$300,000 for each loss, and Grinnell is liable for the excess of up to \$20 million in total loss per exposure. Under the catastrophe section of the agreement, CFM retains the first \$2 million per occurrence, and Grinnell is liable for 100% of the excess. The aggregate excess section covers 100% of losses incurred during the year that exceed CFM's aggregate attachment point which was \$8 million for 2016.

The contract has additional coverage for homeowners policies issued by CFM for dwellings with values between \$500,000 and \$1 million. CFM cedes to Grinnell a 70% quota share of the liability on all perils (except earthquake) covered by these policies.

The Company has casualty liability risk coverage. The Company retains \$20,000 per occurrence and cedes 100% of the excess risk to Grinnell. The Company receives a 45% ceding commission.

The Company has an equipment breakdown quota share reinsurance contract with Factory Mutual Insurance Company ("FMIC"). The Company cedes 100% of the risk and premium to FMIC and receives a 35% 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 Marberry & Eagle P.C. performs an annual audit of the Company's financial statements and prepares the annual statement and federal 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	\$ 21,311,363
Mutual Funds	2,444,461
Real Estate	771,121
Cash on Deposit	1,685,531
Reinsurance Recoverable on Paid Losses	281,723
Computer Equipment (Hardware Only)	42,743
Federal Income Tax Recoverable	181,319
Interest Due and Accrued	181,502
Prepaid Insurance	30,621
Prepaid – Other	10,964
	<hr/>
Total Assets	<u>\$ 26,941,348</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2016**

Net Losses & Loss Adjustment Expense Unpaid	\$ 50,998
Ceded Reinsurance Premium Payable	225,606
Unearned Premium	8,130,454
Agents Payable	619,594
Other Liabilities	305,641
	<hr/>
Total Liabilities	<u>\$ 9,332,293</u>
Guaranty Fund	\$ 1,600,000
Other Surplus	16,009,055
	<hr/>
Total Surplus	<u>\$ 17,609,055</u>
	<hr/>
Total Liabilities and Surplus	<u>\$ 26,941,348</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2016**

Net Premiums Earned	\$ 15,896,840
Other Insurance Income	1,268,757
Net Losses & Loss Adjustment Expenses Incurred	(7,385,333)
Other Underwriting Expenses Incurred	<u>(6,612,050)</u>
Net Underwriting Income (Loss)	\$ 3,168,214
Investment Income	855,847
Other Income	<u>80,101</u>
Gross Profit (Loss)	\$ 4,104,162
Federal Income Tax	<u>1,095,065</u>
Net Income (Loss)	<u>\$ 3,009,097</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2016**

Policyholders' Surplus, December 31, 2015	\$ 14,732,691
Net Income (Loss)	3,009,097
Change in Non-Admitted Assets	(159,950)
Mutual Funds Adjustment	<u>27,217</u>
Policyholders' Surplus, December 31, 2016	<u>\$ 17,609,055</u>

## NOTES TO THE FINANCIAL STATEMENTS

None.

### EXAMINATION CHANGES

None.

### SUMMARY OF RECOMMENDATIONS

#### **Amended Articles of Incorporation and Bylaws (Page 4)**

The Company should ensure all amendments to the Articles of Incorporation have received proper membership approval and all amendments to the Articles of Incorporation and Bylaws have been filed with the DIFP, in accordance with Section 380.241 RSMo.

#### **Fidelity Bond Coverage (Page 4)**

The Company should increase its fidelity bond coverage to at least \$300,000, which is the minimum amount suggested in the guidelines promulgated by the NAIC.

### SUBSEQUENT EVENTS

Farmers Mutual Insurance Company of Grundy County was merged into CFM on January 1, 2017, with CFM being the surviving entity.

In February 2019, CFM formed Innovated Holdings, Inc. (Innovated), a Missouri corporation created to act as an intermediate holding company. CFM owns 90.1% of the outstanding common stock of Innovated. On February 27, 2019, Innovated purchased 100% of the outstanding common stock of Cornerstone National Insurance Company (Cornerstone). Cornerstone is a Missouri domestic property and casualty insurer organized under the provisions of Chapter 379 RSMo (Insurance other than Life). Cornerstone writes primarily private passenger automobile insurance in Missouri and seven other states, and holds insurance licenses in twenty states.



**ACKNOWLEDGMENT**

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

**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 Buschmann*  
\_\_\_\_\_  
Jeffery (Jay) Buschmann, AFE

Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 30<sup>th</sup> day of April, 2019.

My commission expires:  
March 30, 2023

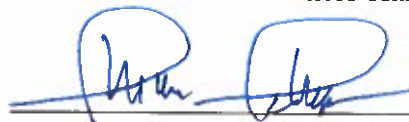
*Hailey Luebbert*  
\_\_\_\_\_  
Notary Public



HAILEY LUEBBERT  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15634366

## **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.



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Shannon W. Schmoeger, CFE, ARe  
Chief Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration