

## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

After full consideration and review of the report of the financial examination of Polk County Mutual Insurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance 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.

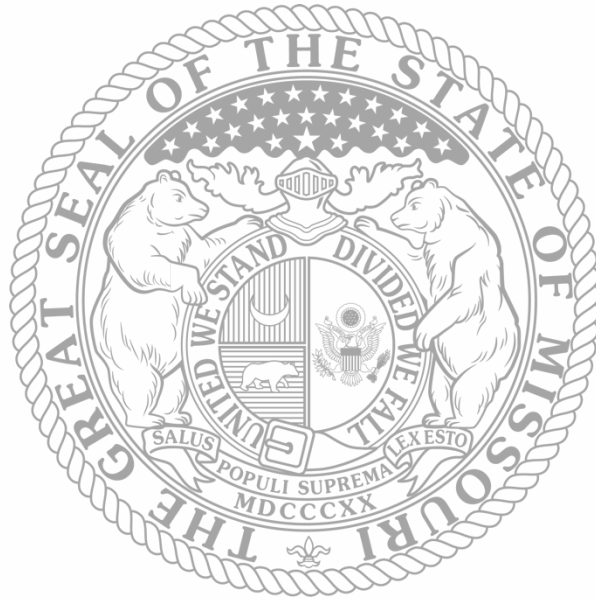
Based on such findings and conclusions, I hereby ORDER Polk County Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition and 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 02<sup>nd</sup> day of June, 2021.



*Chlora Lindley-Myers*

Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF THE  
FINANCIAL EXAMINATION OF

# POLK COUNTY MUTUAL INSURANCE COMPANY

AS OF  
DECEMBER 31, 2019

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>1</b>
<b>COMPANY HISTORY</b> .....	<b>2</b>
GENERAL.....	2
<b>MANAGEMENT AND CONTROL</b> .....	<b>2</b>
BOARD OF DIRECTORS .....	2
SENIOR OFFICERS .....	3
CONFLICT OF INTEREST.....	3
CORPORATE RECORDS.....	3
<b>EMPLOYEE BENEFITS</b> .....	<b>3</b>
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>3</b>
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	<b>3</b>
TERRITORY AND PLAN OF OPERATIONS.....	3
POLICY FORMS AND UNDERWRITING PRACTICES.....	4
<b>GROWTH OF COMPANY AND LOSS EXPERIENCE</b> .....	<b>4</b>
<b>REINSURANCE</b> .....	<b>4</b>
GENERAL.....	4
ASSUMED REINSURANCE .....	4
CEDED REINSURANCE.....	4
<b>ACCOUNTS AND RECORDS</b> .....	<b>5</b>
<b>FINANCIAL STATEMENTS</b> .....	<b>5</b>
ASSETS.....	6
LIABILITIES, SURPLUS AND OTHER FUNDS.....	6

UNDERWRITING AND INVESTMENT EXHIBIT .....	7
GAIN OR LOSS IN SURPLUS .....	7
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS .....</b>	<b>8</b>
<b>FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION .....</b>	<b>8</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>8</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>8</b>
<b>ACKNOWLEDGMENT .....</b>	<b>9</b>
<b>VERIFICATION.....</b>	<b>9</b>
<b>SUPERVISION .....</b>	<b>10</b>

Bolivar, MO  
March 23, 2021

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

Director Lindley-Myers:

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

### **POLK COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the Company. Its administrative office is located at 705 West Fair Play (P.O. Box 865), Bolivar, Missouri 65613, telephone number (417) 326-4914. The fieldwork for this examination began on January 20, 2021, and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Polk County Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2010 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2019, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

#### **Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

## COMPANY HISTORY

### General

The Company was originally established and incorporated on December 14, 1897, as Farmers Mutual Fire & Lightning Insurance Company of Polk County. On February 27, 1985, the Company amended its Articles of Incorporation, changing its name to Polk County Mutual Insurance Company.

The Company has a Certificate of Authority dated July 26, 2011, 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 AND CONTROL

### Board of Directors

In accordance with the Articles of Incorporation (Articles), the annual meeting of the Company's members is held on the third Monday in February 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 not permitted.

The management of the Company is vested in a Board of Directors, who are elected by the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately each month.

Members serving on the Board of Directors as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Arlene Lear Humansville, Missouri	Insurance Agent	2020
Larry Crocker Pittsburg, Missouri	Self-employed	2022
Velma Lear Humansville, Missouri	Retired	2020
Robert Rowles Tipton, Missouri	Insurance Agent	2022
Freddie Martin Humansville, Missouri	Farmer	2021

**Senior Officers**

The Board of Directors appoints for a term of one year, the officers of the Company. The officers serving, as of December 31, 2019, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Arlene Lear	President
Larry Crocker	Vice President
Velma Lear	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's directors and officers sign conflict of interest statements on an annual basis. A review of the executed conflict of interest statements noted that two directors disclosed being agents of the Company and one director disclosed being on the Board of Directors of another insurance company.

**Corporate Records**

The Company's Articles and Bylaws were reviewed. There were no revisions to either document during the examination period. The meeting minutes of the membership and the Board were reviewed for the period under examination.

**EMPLOYEE BENEFITS**

The Company has four full-time employees. The Company provides full-time employees with health insurance and paid time off. The Company also makes matching contributions to individual retirement accounts.

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000 with no deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$100,000 and \$125,000 in coverage.

The Company carries liability coverage for its directors and officers. The Company requires its agents to carry errors and omissions insurance and to provide evidence of such coverage to the Company.

Other coverages carried by the Company include property insurance on its home office and contents, and commercial liability insurance.

**INSURANCE PRODUCTS AND RELATED PRACTICES**

**Territory and Plan of Operations**

The Company is licensed by the Missouri Department of Commerce and 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, and liability insurance in all counties in the state of Missouri. The Company's policies are sold by 21 independent agencies, who receive a 15% commission on all policies written.

**Policy Forms and Underwriting Practices**

The Company utilizes American Association of Insurance Services (AAIS) policy forms and customized forms approved by the Department. The policies are written for one year and are continuous. Property inspections are initially performed by the writing agent and subsequent inspections are performed by the Company inspector. Claims adjusting is performed by a contracted adjuster. Rates are determined by the Board of Directors.

**GROWTH OF COMPANY AND LOSS EXPERIENCE**

*(\$000s omitted)*

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Gross Premiums</b>	<b>Gross Losses</b>	<b>Investment Income (Loss)</b>	<b>Underwriting Income (Loss)</b>	<b>Net Income (Loss)</b>
2019	\$ 2,702	\$ 268	\$ 3,769	\$ 2,965	\$ 50	\$ (35)	\$ 14
2018	2,866	470	3,826	2,255	45	198	196
2017	2,372	158	3,824	3,625	27	(515)	(485)
2016	3,278	574	3,836	1,405	48	823	584
2015	2,479	388	3,861	1,928	36	(67)	(31)

At year-end 2019, there were 3,833 policies in force.

**REINSURANCE**

**General**

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

*(\$000s omitted)*

<b>Premium Type</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Direct Premiums Written	\$ 3,861	\$ 3,836	\$ 3,824	\$ 3,826	\$ 3,769
Reinsurance Assumed	-	-	-	-	-
Reinsurance Ceded	(1,380)	(1,061)	(735)	(680)	(761)
<b>Net Premiums Written</b>	<b>\$ 2,481</b>	<b>\$ 2,775</b>	<b>\$ 3,088</b>	<b>\$ 3,145</b>	<b>\$ 3,008</b>

**Assumed Reinsurance**

The Company does not reinsure other companies.

**Ceded Reinsurance**

The Company's property and casualty reinsurance is placed through intermediary Somerset Holdings Limited and consists of various agreements with multiple participating reinsurers (reinsurer).

Under the property per risk excess of loss agreement, the Company retains \$100,000 per property risk, and the reinsurer covers 100% of the excess, limited to \$500,000 per risk and further subject to a limit of liability of \$1 million per loss occurrence. Under the property catastrophe excess of loss agreement, the Company has a retention of \$200,000 each loss occurrence and the reinsurer is responsible for the excess up to \$1,000,000 per loss occurrence.

Under the casualty risk excess of loss agreement, the Company retains \$100,000 per casualty loss occurrence and the reinsurer is liable for the excess up to \$900,000.



The aggregate excess of loss agreement covers both property and casualty business. Under the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 70% of gross net earned premium income. The reinsurer is responsible for 100% of losses in excess of this attachment. The attachment point for 2019 was \$2,187,794.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The Certified Public Accounting (CPA) firm of Van de Ven, LLC of Cape Girardeau, Missouri, performs a compilation of the Company's financial statements and prepares the Company's annual statement and federal tax filings.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Polk County Mutual Insurance Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

**ASSETS**

As of December 31, 2019

Bonds – Book Value	\$ 1,281,387
Mutual Funds	273,512
Real Estate – Book Value	22,552
Cash on Deposit	756,892
Reinsurance Recoverable on Paid Losses	346,809
Computer Equipment (Hardware Only)	181
Interest Due and Accrued	18,268
Prepaid Insurance	2,642
<b>TOTAL ASSETS</b>	<b><u>\$ 2,702,243</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

As of December 31, 2019

Gross Losses Unpaid Less Reinsurance Recoverable	\$ 81,935
Ceded Reinsurance Premium Payable	87,849
Federal Income Tax Payable	50,837
Payroll Tax	3,348
Accounts Payable to Agents	41,985
Accounts Payable (Other)	2,150
<b>TOTAL LIABILITIES</b>	<b><u>\$ 268,104</u></b>
Guaranty Fund	150,000
Other Surplus	2,284,139
<b>TOTAL POLICYHOLDER SURPLUS</b>	<b><u>\$ 2,434,139</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$ 2,702,243</u></b>

**UNDERWRITING AND INVESTMENT EXHIBIT**

For the Year Ended December 31, 2019

Net Earned Assessment/Premium Income	\$ 3,007,667
Other Insurance Income	110,651
Net Losses & Loss Adjustment Expense	(2,225,247)
Underwriting Expenses	(928,082)
<b>Underwriting Income (Loss)</b>	<b>\$ (35,011)</b>
Investment Income	50,389
Investment Expenses	(167)
<b>Net Investment Income</b>	<b>\$ 50,222</b>
Other Income	549
<b>Gross Profit or Loss</b>	<b>\$ 15,760</b>
Federal Income Tax	(2,196)
<b>NET PROFIT OR (LOSS)</b>	<b>\$ 13,564</b>

**GAIN OR LOSS IN SURPLUS**

Changes from January 1, 2015 to December 31, 2019

*(\$000s omitted)*

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Beginning Policyholder's Surplus	\$ 2,132	\$ 2,092	\$ 2,704	\$ 2,215	\$ 2,395
Net Profit or (Loss)	(31)	584	(485)	196	14
Change in Net Unrealized Gains (Losses)	(10)	2	(5)	(16)	25
Prior Year Adjustment – Federal Tax Refund	-	27	-	-	-
<b>Ending Policyholder's Surplus</b>	<b>\$ 2,092</b>	<b>\$ 2,704</b>	<b>\$ 2,215</b>	<b>\$ 2,395</b>	<b>\$ 2,434</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

On March 11, 2020, The World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, United States President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the United States and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
 ) ss  
County of Cole )

I, Brian D. Hammann, CPA, CFE, 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 facts appearing upon the books, records, or other documents of Polk County Mutual Insurance 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.

Brian D. Hammann  
Brian D. Hammann, CPA, CFE  
Financial Examiner  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 17<sup>th</sup> day of May, 2021.

My commission expires: March 30, 2023  
Hailey Liebert  
Notary Public



**HAILEY LIEBERT**  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15834368

**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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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Sara McNeely, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance