



DEPARTMENT OF COMMERCE & INSURANCE

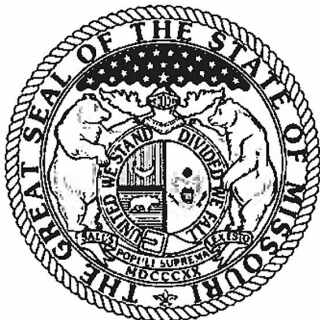
P.O. Box 690, Jefferson City, Mo. 65102-0690

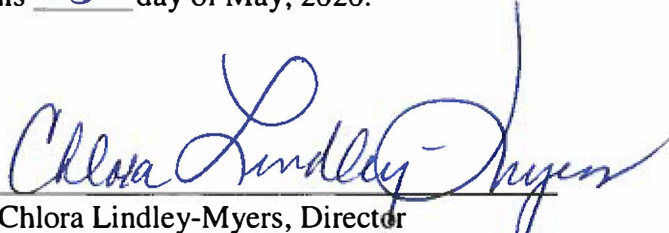
ORDER

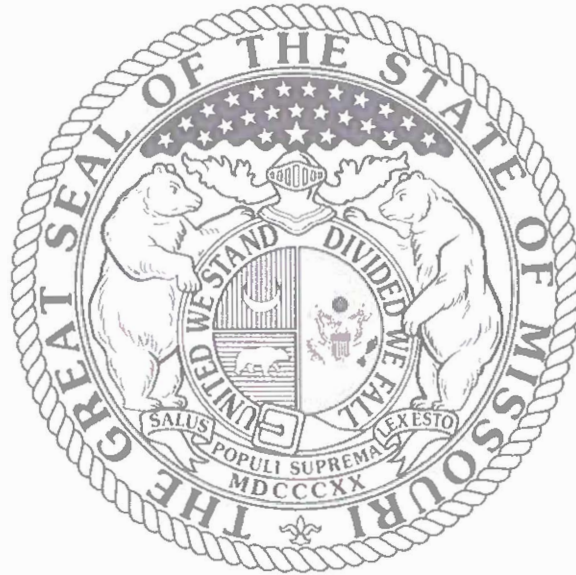
After full consideration and review of the report of the financial examination of Southeast Missouri Mutual Fire Insurance Company for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, 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 Southeast Missouri Mutual Fire 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 29th day of May, 2020.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

SOUTHEAST MISSOURI MUTUAL FIRE INSURANCE COMPANY

AS OF
DECEMBER 31, 2018

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January 9, 2020
Dexter, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce & Insurance
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

SOUTHEAST MISSOURI MUTUAL FIRE INSURANCE COMPANY

hereinafter referred to as such, or as the "Company" or "SEMO". The Company's administrative office is located at 18 Vine Street, Dexter, MO 63841, telephone number (573) 624-5561. This examination began on September 25, 2019 and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Southeast Missouri Mutual Fire Insurance Company. The last examination covered the period of January 1, 2009 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2018.

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 DCI and statutes of the State of Missouri prevailed.

HISTORY

General

Southeast Missouri Mutual Fire Insurance Company was originally incorporated as Stoddard County Mutual Fire Insurance Company on September 15, 1910. On May 3, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State as the Southeast Missouri Mutual Fire Insurance Company.

On December 10, 1970, the Company amended its Articles of Incorporation to establish the duration of the Company as perpetual. The Company has a Certificate of Authority dated March 8, 2001, 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 last Thursday in May at the home office of the Company or at such other place as may be designated by the Board of Directors. Ten members 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 five members, serving one-year terms. All directors must be policyholders of the Company, and the Board of Directors meet four times each year. Each director is compensated \$50 per meeting attended, and some directors receive Company-paid health insurance.

Members serving on the Board of Directors, as of December 31, 2018, were as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>	<u>Term End</u>
Darrel Pyle	Dexter, Missouri	Farmer	2019
Marilyn Vancil	Qulin, Missouri	Retired	2019
James Miller	Dexter, Missouri	Adjuster/Inspector	2019
Scott Wethington	Dexter, Missouri	Farmer	2019
Earlene Hunt	Dexter, Missouri	Retired	2019

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Darrel Pyle	President
Marilyn Vancil	Vice-President
Gary Trammell	Secretary and Treasurer
Justin Trammell	Assistant Secretary

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 sign conflict of interest disclosure statements on an annual basis.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and 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.

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 meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000.

The Company carries liability coverage for its directors and officers and requires its agents to obtain errors and omissions coverage. The Company also has professional liability coverage and maintains a businessowners policy.

EMPLOYEE BENEFITS

The Company has four full-time employees. The benefits package offered by the Company to its employees includes paid time off, health insurance, life insurance, dental insurance, and participation in a retirement plan with Company matching.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DCI 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 and wind insurance in all counties in the State of Missouri. The Company's policies are sold by twelve insurance agencies located throughout Missouri.

Policy Forms and Underwriting Practices

The Company utilizes forms from its reinsurer. The policies are annually renewed. Property inspections are performed by the Company, and adjusting is completed by the Company and an outside party. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2018	\$1,959,559	\$ 84,015	\$1,612,388	\$629,260	\$12,941	\$(162,791)	\$(151,332)
2017	2,134,839	107,963	1,759,594	442,927	8,913	154,201	162,505
2016	2,105,785	241,415	1,801,125	414,082	9,126	209,073	217,817
2015	1,985,697	331,534	1,801,394	168,587	6,318	158,987	164,964
2014	1,625,091	146,884	1,760,783	316,860	6,229	294,328	300,349

At year-end 2018, 1,650 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:

	2014	2015	2016	2017	2018
Direct	\$1,760,783	\$1,801,394	\$1,801,125	\$1,759,594	\$1,612,388
Assumed	0	0	0	0	0
Ceded	(450,777)	(509,021)	(502,841)	(512,029)	(509,116)
Net	<u>\$1,310,006</u>	<u>\$1,292,373</u>	<u>\$1,298,284</u>	<u>\$1,247,565</u>	<u>\$1,103,272</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company cedes business to Grinnell Mutual Reinsurance Company (the reinsurer) through a reinsurance agreement that provides per risk excess of loss and aggregate excess coverage for property, as well as coverage for equipment breakdown risks.

Under the per risk excess of loss section of the agreement, the Company retains \$125,000 of property losses per risk, and the reinsurer's maximum limit is \$20,000,000 per risk. Under the aggregate excess section of the agreement, the reinsurer is liable for 100% of the property losses in excess of the Company's retention, which was \$875,000 for 2018.

The Company also has an agreement with the reinsurer for equipment breakdown coverage. Under the agreement, the Company cedes 100% of its premiums and losses to the reinsurer, and receives a 20% ceding commission. The reinsurer limit is \$100,000 per loss.

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

General

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Jean and Company, LLC compiles the Company's financial statements, performs an annual audit of the Company's financial statements, and prepares the Company's taxes.

Office Lease, Office Addition and Promissory Note

The Company has an Office Lease with Gary Trammell, Secretary and Treasurer, that is effective from May 1, 2010 to May 1, 2025. Under the terms of the Office Lease, the Company pays Gary Trammell \$1,536.92 per month for the duration of the lease term. The subject property of this lease is the Company's home office building in Dexter, Missouri.

The Company explained that the purpose of the Office Lease was to compensate Gary Trammell for a personal loan that Gary Trammell obtained to finance a 2009 building addition for SEMO.

Records obtained during the examination indicate the promissory note used to fund the office addition is actually in the name of SEMO, with the SEMO-owned real property pledged as

collateral for the promissory note. Gary Trammell provided a personal guarantee to help gain financing for the addition. Neither the asset value of the office addition nor the liability associated with the promissory note have ever been reported in the Company's annual statement filings or audited financial statements, and the Company could not produce any records to determine the cost basis of the addition.

The Company should immediately terminate the lease agreement with Gary Trammell and begin paying the note directly or pay the outstanding principal balance on the note, whichever is most beneficial to SEMO. The Company is further directed to consult with their auditors and submit to the DCI for approval, information to be used to determine the book valuation of the home office with the current addition.

Contract with Trammell Agency

The Company has an Agency Contract with Lee W. Trammell and Son Insurance Agency and Real Estate Incorporated (Trammell Agency), effective March 19, 2015 to March 19, 2020. Gary Trammell is the owner of the Trammell Agency. The Agency Contract has been renewed a number of times but has not been substantially updated for decades. A number of provisions in the agreement are unusual for an agency contract and are carry over from prior arrangements or are intended to compensate Mr. Trammel directly through the agency agreement for his "management services"; however, those services are not clearly defined.

It is recommended that the Agency Contract be revised to remove any compensation or services not related to agency services. The Company should consider a separate management agreement with Gary Trammell or Trammell Agency which provides for clearly defined services and fees. The board should document their review and decision as to the appropriateness of the compensation for the contracted agency and management services in the board meeting minutes initially and upon each contract amendment or renewal.

Other Compensation to Trammell Agency

A review of the Company's bank statements indicated payments of \$4,500 per month (\$54,000 per year) were made to the Trammell Agency. The payments were characterized as "Reinsurance Service Fees" in the Company's audited financial statements and as reinsurance "Premium Ceded" in the 2018 Annual Statement filed with the Department. The Company explained that classification of these payments was carried over from previous reinsurance arrangements but are now really to compensate the Trammell Agency for their management services. There is no written agreement for these payments and no description of the service provided.

The Company should consider developing a management agreement with Gary Trammell or Trammell Agency which provides for clearly defined services and fees. The board should document their review and decision as to the appropriateness of the compensation for contracted agency and management services in the board meeting minutes initially and upon each contract amendment or renewal.

Corporate Governance

Our examination report has described several arrangements, transactions, and compensation with Gary Trammell and the Trammell Agency that were unusual in nature and that had no clear description of the services provided for the compensation received. Board of Director approval and oversight of many of these significant transactions was not documented in the Board of Directors meeting minutes.

The Board of Directors should increase its oversight to require the approval of all future SEMO contracts or agreements. Such approval should be clearly documented in the Board meeting minutes. An independent Board member should be a required signatory for any future SEMO contracts or agreements.

Further, the Board should be provided and review a check register that includes all disbursements made since the prior Board meeting. The check register should show the payee, date, amount, and business purpose. Board review of the check register should be documented in the Board meeting minutes.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2018, 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, 2018

Stocks	\$ 1,500
Mutual Funds	12,512
Real Estate	91,178
Cash on Deposit	1,842,332
Premium/Assessments/Agent's Balances Uncollected	11,843
Federal Income Tax Recoverable	194
	<hr/>
Total Assets	<u>\$ 1,959,559</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2018

Unpaid Losses	\$ 19,863
Ceded Reinsurance Premium Payable	38,761
Payroll Tax	5,356
Accounts Payable to Agents	20,035
	<hr/>
Total Liabilities	\$ 84,015
Guaranty Fund	\$ 100,000
Other Surplus	1,775,544
	<hr/>
Total Surplus	<u>\$ 1,875,544</u>
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Total Liabilities and Surplus	<u>\$ 1,959,559</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2018

Net Premiums Earned	\$ 1,103,272
Other Insurance Income	23,905
Net Losses & Loss Adjusting Expenses Incurred	(539,218)
Other Underwriting Expenses Incurred	(750,750)
	<hr/>
Net Underwriting Income (Loss)	\$ (162,791)
Net Investment Income	12,941
Other Income	124
	<hr/>
Gross Profit (Loss)	\$ (149,726)
Federal Income Tax	(1,606)
	<hr/>
Net Income (Loss)	\$ (151,332)
	<hr/>

RECONCILIATION OF SURPLUS
Changes from January 1, 2014 to December 31, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus, Beginning of Year	\$1,181,241	\$1,481,590	\$1,646,554	\$1,864,371	\$2,026,876
Net Profit (Loss)	<u>300,349</u>	<u>164,964</u>	<u>217,817</u>	<u>162,505</u>	<u>(151,332)</u>
Capital and Surplus, End of Year	<u>\$1,481,590</u>	<u>\$1,646,554</u>	<u>\$1,864,371</u>	<u>\$2,026,876</u>	<u>\$1,875,544</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

Office Lease, Office Addition and Promissory Note (pages 5-6)

The Company should immediately terminate the lease agreement with Gary Trammell and begin paying the note directly or pay the outstanding principal balance on the note, whichever is most beneficial to SEMO. The Company is further directed to consult with their auditors and submit to the DCI for approval, information to be used to determine the book valuation of the home office with the current addition.

Contract with Trammell Agency (pages 6-7)

It is recommended that the Agency Contract be revised to remove any compensation or services not related to agency services. The Company should consider a separate management agreement with Gary Trammell or Trammell Agency which provides for clearly defined services and fees. The board should document their review and decision as to the appropriateness of the compensation for agency and management services in the board meeting minutes initially and upon each contract amendment or renewal.

Other Compensation to Trammell Agency (page 7)

The Company should consider developing a management agreement with Gary Trammell or Trammell Agency which provides for clearly defined services and fees. The board should document their review and decision as to the appropriateness of the compensation for contracted agency and management services in the board meeting minutes initially and upon each contract amendment or renewal.

Corporate Governance (page 7)

The Board of Directors should increase its oversight to require the approval of all future SEMO contracts or agreements. Such approval should be clearly documented in the Board meeting minutes. An independent Board member should be a required signatory for any future SEMO contracts or agreements.

Further, the Board should be provided and review a check register that includes all disbursements made since the prior Board meeting. The check register should show the payee, date, amount, and business purpose. Board review of the check register should be documented in the Board meeting minutes.

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.

Michael R. Shadowens

Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce & Insurance