



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

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

RE: Examination Report of Drake-Beemont Mutual Insurance Company for the period ended December 31, 2014

**ORDER**

After full consideration and review of the report of the financial examination of Drake-Beemont Mutual Insurance Company for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, 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 Drake-Beemont 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) implement, and verify compliance with, each item mentioned in the Summary of Recommendations, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 27<sup>th</sup> day of May, 2016.



A handwritten signature in blue ink, reading "John M. Huff", written over a horizontal line.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

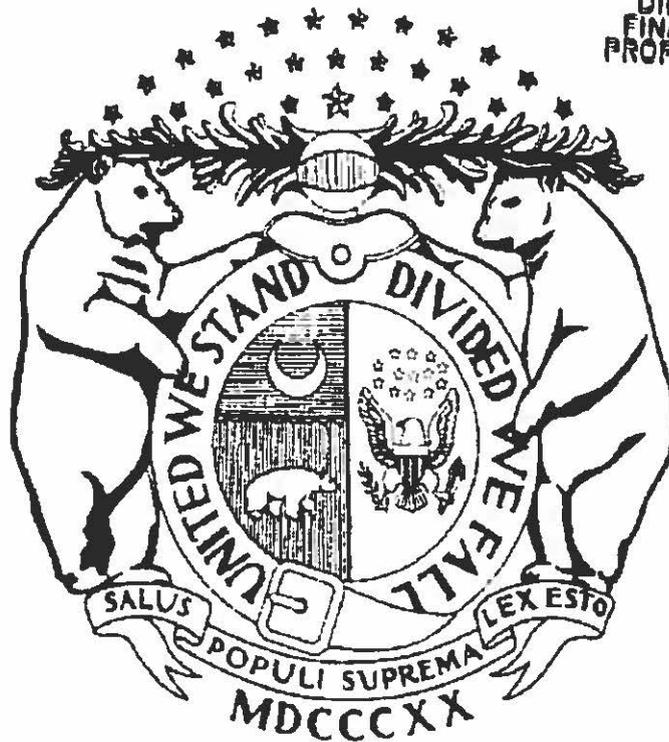
REPORT OF THE  
FINANCIAL EXAMINATION OF  
DRAKE-BEEMONT MUTUAL  
INSURANCE COMPANY

AS OF  
DECEMBER 31, 2014

FILED

MAY 27 2016

DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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November 24, 2015  
Owensville, Missouri

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

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

**DRAKE-BEEMONT MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 North First Street, Owensville, Missouri 65066, telephone number (573) 437-4625. This examination began on November 23, 2015, and was concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (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.

## **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2009, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Stocks**

*Comment:* Stocks are not an approved form of investment under the provisions of 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). The Company should either dispose of its stock investments or non-admit the related asset on future Annual Statement filings.

*Company Response:* The Company response dated June 14, 2011, stated the Board of Directors had reviewed the finding and stated it would dispose of the stock investments.

*Current Findings:* The Company has complied with the recommendation. The Company did not report any stock investments on the 2014 Annual Statement.

## **HISTORY**

### **General**

The Company was originally organized on July 29, 1911, as Drake-Beemont Mutual Aid Society. On November 1, 1984, the Company was incorporated in the State of Missouri as Drake-Beemont Mutual Insurance Company. The Company has a Certificate of Authority dated September 12, 1988 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 second 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 may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board consists of nine members, serving staggered, three-year terms.

The Board of Directors meets approximately each month. Compensation per each meeting attended is \$40 plus a mileage reimbursement. The President, Treasurer, and Investment Officer each receive \$2,860 per year and the Secretary receives \$1,250.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Charles Gross Owensville, Missouri	President/Retired	2015
Kaye Schneider Mt. Sterling, Missouri	Treasurer/Store Manager	2017
Lyle L. Scheible Berger, Missouri	Secretary/Farmer	2015
Craig Dozier Bland, Missouri	Construction	2016
Jeffrey Nolting Chamois, Missouri	Truck Driver	2017
William Steve Helterbrand St. James, Missouri	Vice President/Cartographer	2016
Harold Roethemeyer Gerald, Missouri	Investment Officer/Retired	2016
Nolan Hesemann Owensville, Missouri	Farmer	2015
Debbie Winters New Haven, Missouri	Banking	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, 2014, were as follows:

Charles Gross	President
William Steve Helterbrand	Vice-President
Lyle Scheible	Secretary
Kaye Schneider	Treasurer
Harold Roethemeyer	Investment Officer

### **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 executed conflict of interest statements noted no material potential conflicts disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws 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 of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and requires agents to carry errors and omissions coverage.

Other insurance coverages carried by the Company include workers compensation and commercial liability insurance.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees and one part-time employee. Benefits provided to full-time employees include health, life and accident insurance 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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri, but only writes fire and wind coverages directly.

The Company's policies are sold by six independent agents or agencies, who receive a 15% commission.

### Policy Forms and Underwriting Practices

The Company utilizes Grinnell Mutual Reinsurance 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. Property inspections are performed by two full-time inspector-adjusters. Claims adjusting is performed by the full-time inspector-adjusters, as well as by adjusters contracted through the Company's reinsurer.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Premiums</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	Net <u>Income</u>
2014	\$1,412,862	\$121,937	\$2,743,634	\$1,490,262	\$ 50,600	\$ (146,246)	\$ ( 95,433)
2013	1,493,495	101,109	2,516,544	2,002,235	52,979	(196,163)	(143,009)
2012	1,620,342	83,731	2,274,255	1,808,344	72,529	(198,557)	( 78,238)
2011	1,420,476	77,497	2,338,237	1,544,843	100,863	(211,737)	( 66,109)
2010	1,738,474	57,527	2,216,727	647,780	66,639	340,064	268,830

At year-end 2014, 3,904 policies were in force.

The Company has reported underwriting and net losses in each of the last four years under review. The losses have decreased surplus by \$390,022, or 23%, since year-end 2010. In addition, the Company's 2014 net premium to surplus ratio and gross insurance coverage in-force to surplus ratio both exceed industry averages by significant margins.

## REINSURANCE

### General

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct	\$2,743,634	\$2,516,544	\$2,274,255	\$2,338,237	\$2,216,727
Assumed	0	0	0	0	0
Ceded	<u>1,089,935</u>	<u>888,754</u>	<u>642,646</u>	<u>824,931</u>	<u>779,059</u>
Net	<u>\$1,653,699</u>	<u>\$1,627,790</u>	<u>\$1,631,609</u>	<u>\$1,513,306</u>	<u>\$1,437,668</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence with aggregate excess of loss plan of reinsurance for property risks.

Under the individual occurrence of loss excess section of the agreement, the Company retains \$100,000 for each loss occurrence. The reinsurer's limits are \$2 million per exposure for farm machinery and equipment storage buildings, and \$1 million per exposure for all other risks.

Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average loss ratio, plus a negotiated load, less a credit for the individual occurrence of loss premium rate. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2014 was \$1,047,768.

Under the facultative reinsurance section of the agreement, the Company may cede risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

Under the 100% Reinsured Earthquake section of the agreement, the Company cedes 100% of the risk to Grinnell and upcharges the policyholder a portion above the rate charged by Grinnell.

The Company writes liability insurance directly for Grinnell.

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 modified-cash basis. The Company utilizes IMT Computer Services Company software for general ledger, claims reports, policy maintenance, and performs backups to the system on a daily basis. The Company also maintains paper copies of its accounting and policy records. In addition, the Company uses a detachable hard drive to backup data that is not backed up by IMT and stores it offsite. The CPA firm of Van de Ven, LLC, performs an annual financial statement compilation and prepares the Company's Annual Statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2014, 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, 2014**

Bonds	\$ 931,352
Mutual Funds	129,723
Cash on Deposit	236,988
Other Investments	55,000
Reinsurance Recoverable on Paid Losses	48,096
Computer Equipment	1,225
Interest Due and Accrued	<u>10,478</u>
 Total Assets	 <u>\$ 1,412,862</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2014**

Net Losses Unpaid	\$ 7,755
Ceded Reinsurance Premium Payable	107,932
Payroll Tax	5,163
Other Liabilities	<u>1,087</u>
 Total Liabilities	 <u>\$ 121,937</u>
 Guaranty Fund	 \$ 100,000
Other Surplus	<u>1,190,925</u>
 Total Surplus	 <u>1,290,925</u>
 Total Liabilities and Surplus	 <u>\$ 1,412,862</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2014**

Net Premiums Earned	\$ 1,653,699
Other Insurance Income	68,707
Net Losses & Loss Adjusting Expenses Incurred	(1,089,107)
Other Underwriting Expenses Incurred	<u>(779,545)</u>
Net Underwriting Income (Loss)	(146,246)
Net Investment Income	50,600
Other Income	<u>213</u>
Gross Profit (Loss)	\$ (95,433)
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ (95,433)</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2014**

Policyholders' Surplus, December 31, 2013	\$ 1,392,386
Net Income (Loss)	(95,433)
Net Adjustment from Mutual Funds	<u>(6,028)</u>
Policyholders' Surplus, December 31, 2014	<u>\$ 1,290,925</u>

## NOTES TO THE FINANCIAL STATEMENTS

None.

## EXAMINATION CHANGES

None.

## SUMMARY OF RECOMMENDATIONS

### **Growth and Loss Experience and Effects on Surplus (Page 5)**

It is recommended the Company take remedial actions to increase surplus while reducing writing levels and exposures on both an individual retention level and on an aggregate level.

## SUBSEQUENT EVENTS

None.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
  )  
County of Cole        )

I, 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.

J. Buschmann  
Jay Buschmann, AFE  
Financial Examiner/Analyst  
Missouri DIFP

Sworn to and subscribed before me this 24<sup>th</sup> day of March, 2016.

My commission expires:

01/07/2018

Tammy Morales  
Notary Public



TAMMY MORALES  
My Commission Expires  
January 7, 2018  
Clay County  
Commission #14451086

**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  
Mark Nance, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP