

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of German Mutual Insurance Company for the period ended
December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of German Mutual Insurance Company for the period ended December 31, 2013, 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 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER German 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 and/or Recommendations, if any, 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 6th day of May, 2015.



A blue ink signature of John M. Huff, written in a cursive style.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
GERMAN MUTUAL INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2013**



FILED
MAY 6 2015
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
Comments - Previous Examination Report	2
HISTORY:	
General	3
Management	3
Conflict of Interest	4
Corporate Records	5
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
SUBSEQUENT EVENTS	11
SUMMARY OF RECOMMENDATIONS	11
ACKNOWLEDGMENT & VERIFICATION	12
SUPERVISION	13

March 18, 2015
Russellville, 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

GERMAN MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 58885 Highway C, Russellville, Missouri 65074, telephone number (573) 634-0175. This examination began on January 28, 2015, and 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, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Territory & Plan of Operation

Comment: It was recommended the Company draft an agent compensation schedule and attach a copy of the schedule to each agent agreement.

Company Response: A copy of the agent compensation schedule was provided, which will be attached to each agent agreement.

Current Findings: The Company's agent agreements currently contain compensation schedules.

Reinsurance

Comment: It was recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company's reinsurance contracts. All pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to this Company.

Company Response: In the future, the Company will require original documents from its reinsurer with original signatures.

Current Findings: The Company's current reinsurance contracts included original signature pages, executed exclusively for the Company.

Accounts and Records

Comment: The Company was directed to create and maintain a formal claims register. Entries to the register should be initiated when a claim is reported. The register should include, at a minimum, claim number, policy number, date of loss, policy effective and expiration dates, amounts paid and estimated amounts unpaid.

Company Response: The Company currently utilizes a claim register that contains the recommended items.

Current Findings: The Company currently has a formal claims register in place to track claims.

Comment: The Company was directed to take necessary measures to ensure that its cash deposits are fully insured.

Company Response: The Company stated that its bank deposits will be within FDIC limits at each institution by December 21, 2009, in accordance actions of the board of directors at the November 14, 2009 meeting.

Current Findings: The Company's deposits in one financial institution at December 31, 2013, exceeded insured limits (See the "Accounts and Records" section of this report).

HISTORY

General

The Company was originally organized on November 8, 1891, as the German Mutual Fire Insurance Association and was incorporated on March 13, 1939. In 1974, the Company changed its name to German Mutual Insurance Company.

The Company has a Certificate of Authority dated September 22, 2005, 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 Saturday 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. 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 Articles of Incorporation require the Board of Directors to consist of nine members, serving staggered three-year terms. All directors must be policyholders of the Company. The Board of Directors meets on approximately a quarterly basis, and each director is compensated \$85 per meeting attended.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Shawn Ehrhardt Russellville, Missouri	Financial Advisor	2011-2014
Elmer Heinrich Russellville, Missouri	Farmer	2011-2014
Larry Loesch Jefferson City, Missouri	Farmer	2011-2014
William Smith Henley, Missouri	Maintenance Employee	2013-2016
Cletus Heidbreder Lohman, Missouri	Retired	2013-2016
Edgar Kautsch Russellville, Missouri	Retired	2012-2015
Glen Steenbergen Russellville, Missouri	Banker	2013-2016
David Ott Russellville, Missouri	Farmer	2012-2015
Bob Duncan Centertown, Missouri	Retired	2012-2015

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, 2013, were as follows:

Elmer Heinrich	President
Bob Duncan	Vice-President
Shawn Ehrhardt	Secretary
Cletus Heidbreder	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 executed conflict of interest

statements noted disclosure that one of the directors is also a member of the board of directors of a bank utilized by the Company. No other significant potential conflicts were 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 of the membership and the Board of Directors; meeting were reviewed for the period under examination and 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 \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$25,000.

The Company carries liability coverage for its directors and officers. The Company's two agents carry errors and omissions coverage. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five part-time employees, including two agents. The Company does not offer a benefits package to its employees.

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 writes fire, wind, and liability coverages. The Company's policies are marketed by two agent/directors. Agents receive compensation of \$60 for each new policy issued with less than \$50,000 in coverage, for each policy renewal, and for each policy change. Agents receive compensation of \$70 for each new policy issued with greater than \$50,000 in coverage. Agents also receive an adjusting fee of

\$75 for each claim adjusted. In addition, agents receive 20% of the first year's premium for each liability policy issued.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. Policies are renewed annually, and renewal billings are mailed directly to the insureds. Property inspections and smaller claims adjusting are performed by agents. Independent adjusters are utilized for larger claims. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Admitted Assets	\$1,613,178	\$1,723,317	\$1,740,175	\$1,767,970	\$ 1,800,618
Liabilities	0	0	0	0	0
Gross Assessments	177,772	194,118	190,156	229,189	237,991
Gross Losses	73,303	32,926	106,782	152,610	124,508
Investment Income	46,050	25,938	17,280	11,886	9,432
Underwriting Income	20,248	84,202	(421)	15,909	23,216
Net Income	66,298	110,140	16,859	27,795	32,648

At year-end 2013, 461 policies were 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:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct	\$ 177,772	\$ 194,118	\$ 190,156	\$ 229,189	\$ 237,991
Assumed	0	0	0	0	0
Ceded	(58,914)	(44,122)	(42,161)	(70,250)	(71,332)
Net	<u>\$ 118,858</u>	<u>\$ 149,996</u>	<u>\$ 147,995</u>	<u>\$ 158,939</u>	<u>\$ 166,659</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has its property reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an agreement which includes first occurrence excess, individual occurrence excess and aggregate excess of loss coverages.

Under the first occurrence excess of loss coverage, the Company retains \$75,000 per loss, and the reinsurer's limit is \$25,000 per loss. Under the individual occurrence of loss excess coverage, the reinsurer is responsible for 100% of the losses in excess of \$100,000, which is the sum of Company retention and reinsurer limit of the underlying first occurrence coverage. The reinsurer's limits are \$1 million per exposure, with the exception of farm machinery and equipment storage buildings, which are limited to \$2 million per exposure.

Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's five-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2013 was \$128,260.

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

The Company has its liability reinsurance with Cameron Mutual Insurance Company (CMIC). Under the terms of the agreement, the Company cedes 100% of liability premiums and losses to CMIC and receives a 22% ceding commission. Lines of business covered by the agreement include farm, personal, homeowners and general liability.

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 cash basis. The Company utilizes the IMT policy maintenance system, and maintains other accounting information manually through spreadsheets. The Company prepares the annual statement and tax filings.

The Company's cash deposits in one financial institution exceeded deposit insurance limits by approximately \$100,000. 20 CSR 200-12.020(1)(E) (Extended Missouri Mutual Companies' Approved Investments) requires deposit accounts to be fully insured by the FDIC or substantially similar coverage. The Company should ensure all of its cash deposit accounts are fully insured.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Cash on Deposit	\$ 1,800,618
Total Assets	<u>\$ 1,800,618</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Total Liabilities	\$ 0
Guaranty Fund	\$ 150,000
Other Surplus	1,650,618
Total Surplus	<u>1,800,618</u>
Total Liabilities and Surplus	<u>\$ 1,800,618</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Assessments Earned	\$ 166,659
Net Losses & Loss Adjusting Expenses Incurred	(94,508)
Other Underwriting Expenses Incurred	(48,935)
Net Underwriting Income (Loss)	<u>\$ 23,216</u>
Net Investment Income	9,432
Gross Profit (Loss)	<u>\$ 32,648</u>
Federal Income Tax	0
Net Income (Loss)	<u><u>\$ 32,648</u></u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 1,767,970
Net Income (Loss)	32,648
Policyholders' Surplus, December 31, 2013	<u><u>\$ 1,800,618</u></u>

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

Effective June 9, 2014, Cletus Heidbreder resigned his position as Director and Treasurer. On the same day, the Board of Directors appointed Ethel Heidbreder to serve out the remainder of the terms for both positions.

SUMMARY OF RECOMMENDATIONS

Accounts & Records – Page 7

The Company should ensure all of its cash deposit accounts are fully insured.

ACKNOWLEDGMENT

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

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.

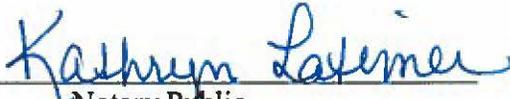

Shannon W. Schmoeger, CFE, ARe
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 17th day of February, 2015.

My commission expires:



KATHRYN LATIMER
My Commission Expires
March 4, 2016
Cole County
Commission #12418395


Notary Public

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 Shadowens, CFE
Audit Manager – St. Louis
Missouri DIFP