



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

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

RE: Examination Report of Arnsberg Farmers' Mutual Insurance Company for the period  
ended December 31, 2016

**ORDER**

After full consideration and review of the report of the financial examination of Arnsberg Farmers' Mutual Insurance Company 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 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 Arnsberg Farmers' 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 29<sup>th</sup> day of March, 2018.



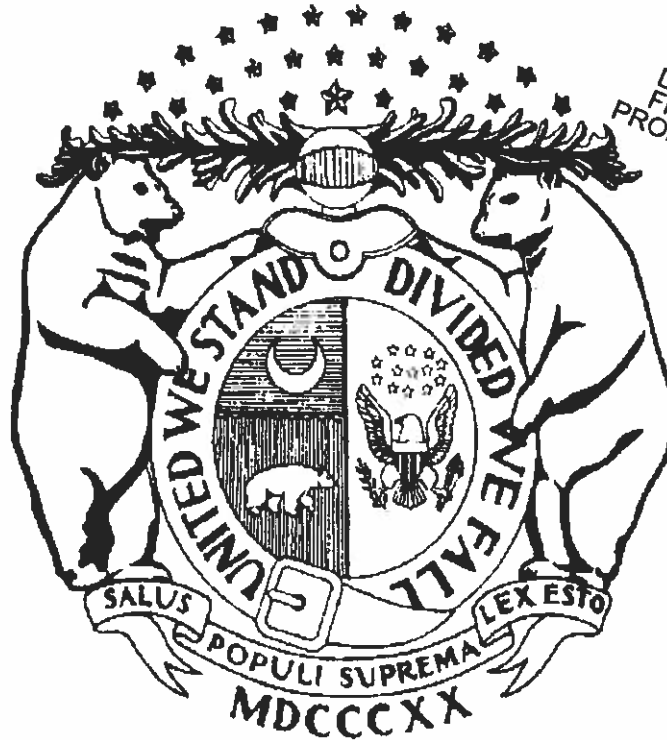
*Chlora Lindley-Myers*

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF**

**Arnsberg Farmers Mutual Insurance Company**

**AS OF  
DECEMBER 31, 2016**



**FILED**  
MAR 29 2018  
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 27, 2017  
Uniontown, 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

**Arnsberg Farmers Mutual Insurance Company**

hereinafter referred to as such, or as the "Company." The Company's home office and principal place of business is located at 11994 South Highway 61, Uniontown, Missouri 63783; telephone number (573)788-2304. This examination began October 11th, and concluded on October 20th, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination was made as of December 31, 2011 and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2012 through December 31, 2016, and was conducted by an examiner 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 by 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**

It was recommended that the Company monitor its investment positions in the future to ensure compliance with 20 CSR 12.020.

## **HISTORY**

### **General**

The Company was organized October 1, 1880 as The Arnsberg Mutual Fire Insurance Company. During the period 1890 to 1916 the Company underwent two name changes. The first change was to Arnsberg Fire and Lightning Insurance Company and then to Arnsberg Farmers Mutual Fire and Lightning Insurance Company. The Company adopted its name of Arnsberg Farmers Mutual Insurance Company in October 1969.

### **Management**

The Company is managed by a board of five directors, serving staggered, three-year terms. Directors are elected at annual member meetings held on the first Monday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets monthly and directors receive \$150 per meeting. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2016:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Dennis E. Lohmann Perryville, MO 63775	Retired	2014-2017
Michael Ponder Altenburg, MO 63732	Fabrication Owner	2015-2018
Keith D. Shrum Millersville, MO 63766	Production Paint Engineer	2014-2017
Donald O. Telle 12571 S Highway 61 Uniontown, MO 63783	Retired	2016-2017
Roger C. Thomas Perryville, MO 63775	Farmer	2016-2017

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:

Roger C. Thomas	President
Dennis E. Lohmann	Vice President
Donald A. Hemmann	Secretary/Treasurer
Karen L. Kohlfield	Assistant Secretary/Treasurer

### **Conflict of Interest**

Signed conflict of interest statements are obtained annually from all officers, directors and full-time employees. No potential material conflicts were disclosed during the examination period.

### **Corporate Records**

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory; however a quorum is not present. The Board formally acknowledged the previous examination report during its January 1, 2013 meeting.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company has fidelity bond coverage providing a liability limit of \$100,000 from Travelers Insurance Company. This coverage does not meet the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure which should be at least \$125,000.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of \$2 million.

Each of the Company's agents carries Errors and Omissions Liability insurance. Captive agents have a minimum limit of liability of \$300,000 while the independent agency has a \$2 million limit of liability. The agents are required to purchase their own coverage.

The Company maintains Commercial General Liability coverage through Grinnell Mutual on its office building. The limits of liability are \$500,000 per occurrence and \$1 million aggregate.

The Company has a workers compensation and employers liability policy with Missouri Employers Mutual Insurance Company. The workers compensation insurance complies with the workers compensation laws of the state of Missouri. The employers liability insurance has a limit of liability for bodily injury by accident of \$500,000 each accident and limits of liability for bodily injury by disease of \$500,000 per employee and a policy limit of \$500,000.

## **EMPLOYEE BENEFITS**

The Company has two full-time employees and three part-time employees. Full-time employees receive life, health and disability insurance benefits as well as paid vacation, sick leave and holidays. There is also a 401(k) retirement plan with a Company match up to 4% of the employees' salaries.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company has a Certificate of Authority dated December 1, 1988 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Perry and surrounding counties. Insurance is provided on a non-assessable basis. Advertising is done through local newspaper, through the Yellow Pages and giveaways of promotional items. The Company has a web site at [www.arnsbergins.com](http://www.arnsbergins.com).

### **Policy Forms and Underwriting Practices**

The Company writes policies on a continuous basis. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses policy forms from AAIS and from Grinnell Mutual Reinsurance Company. Insurance products are sold by five captive agents and one independent insurance agency. Agents receive 15% commissions on all new and renewal business.

An onsite inspection is made prior to the issuance of policies. Renewals are inspected every third year, which are performed by the agents. Adjusting of fire and windstorm claims is performed by independent adjustors. Grinnell Mutual performs claims adjusting on liability claims.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2016	\$8,553,827	\$2,211,468	\$3,056,007	\$ 989,358	\$218,148	\$1,251,463	\$1,162,807
2015	7,351,563	2,172,011	4,015,479	1,658,039	200,840	31,756	232,596
2014	6,730,534	1,783,578	3,812,749	1,561,912	189,938	252,283	442,221
2013	6,358,354	1,853,619	3,860,790	725,797	204,713	838,334	1,043,047
2012	4,962,891	1,263,411	3,015,085	1,967,083	193,793	(615,921)	(422,128)

At year-end 2016, there were 4,476 policies in-force.

The Company has experienced growth throughout the examination period with the exception of 2016. The Company experienced underwriting gains throughout the exam period with the exception of 2012. The Company reported consistent investment gains throughout the exam period. Total surplus increased by 41.9% during the exam period.

## REINSURANCE

### General

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

	2012	2013	2014	2015	2016
Direct	\$ 2,945,645	\$3,760,954	\$3,718,971	\$3,923,431	\$4,079,597
Assumed	27,690	26,811	28,848	27,024	28,529
Ceded	(1,143,060)	(878,698)	(1,139,644)	(1,107,868)	(1,052,119)
Net	<u>\$ 1,830,275</u>	<u>\$2,909,067</u>	<u>\$2,608,175</u>	<u>\$2,842,587</u>	<u>\$3,056,007</u>

### Assumed

The Company participates in the MAMIC Mutual Insurance Company Directors and Officers Liability and Error and Omissions reinsurance pool. An immaterial amount of assumed premiums and losses is reported due to the Company's participation in this pool.



## **Ceded**

The Company has a reinsurance agreement with Wisconsin Reinsurance Company (the reinsurer). The following coverage is provided under this agreement.

### **Aggregate Excess**

This coverage provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2016 contract year was \$2,722,303. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

### **Facultative Reinsurance**

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage.

### **Earthquake Reinsurance**

Under this section the Company cedes all earthquake premiums to the reinsurer, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

### **Liability Reinsurance**

Under this section the Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030. 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 Company uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on a personal computer based package developed by Rural Computers Consultants. The CPA firm Brown & Thomas, P.C. prepares financial statements and tax returns and compiles the Company's Annual Statement.

Company purchased stock in its reinsurer, Wisconsin Reinsurance Company, in 2016 with a market value of \$11,744. The Company did not request prior approval for such purchase as required under Section 380.471 RSMo (Investments).

## **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

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	\$ 6,249,152
Stocks	11,744
Real Estate	11,352
Cash on Deposit	1,964,549
Other Investments	253,930
Computer Equipment	862
Interest Due and Accrued	62,238
Total Assets	<u>\$ 8,553,827</u>

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

Gross Losses Unpaid	\$ 119,956
Ceded Reinsurance Premiums Payable	114,693
Unearned Premium	1,798,621
Federal Income Tax Payable	172,804
Payroll Tax	3,539
Accounts Payable (Other)	1,855
Total Liabilities	<u>\$ 2,211,468</u>
Guaranty Fund	\$150,000
Other Surplus	6,192,359
Total Surplus	<u>\$ 6,342,359</u>
Total Liabilities and Surplus	<u>\$ 8,553,827</u>

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

Net Premiums Earned	\$ 2,958,637
Other Insurance Income	20,770
Net Losses & Loss Adjustment Expenses Incurred	(773,731)
Other Underwriting Expenses Incurred	(954,213)
Net Underwriting Income (Loss)	<u>1,251,463</u>
Investment Income	\$218,148
Other Income	<u>0</u>
Gross Profit (Loss)	\$ 1,469,611
Federal Income Tax	<u>306,804</u>
Net Income (Loss)	<u><u>\$ 1,162,807</u></u>

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

Policyholders' Surplus, December 31, 2015	\$ 5,179,552
Net Income (Loss)	<u>1,162,807</u>
Policyholders' Surplus, December 31, 2016	<u><u>\$ 6,342,359</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

The Company has fidelity bond coverage that does not meet the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure. The Company should increase this coverage to at least \$125,000.

The Articles and Bylaws do not specify quorum requirements therefore the default minimum is 8 per Section 382.381 (2) RSMo. The Company should amend their Articles or Bylaws to include a quorum requirement with an appropriate number of board members.

In 2016 the Company purchased stock in their reinsurer. Per Section 380.471 RSMo (Investments), the Company must seek prior approval for this type of investment. The Company should seek retroactive approval from the Department for the purchase of the stock of their reinsurer.

### **SUBSEQUENT EVENTS**

The Company has experienced several wind storms in 2017 and has already exceeded the attachment point of the reinsurance agreement.

