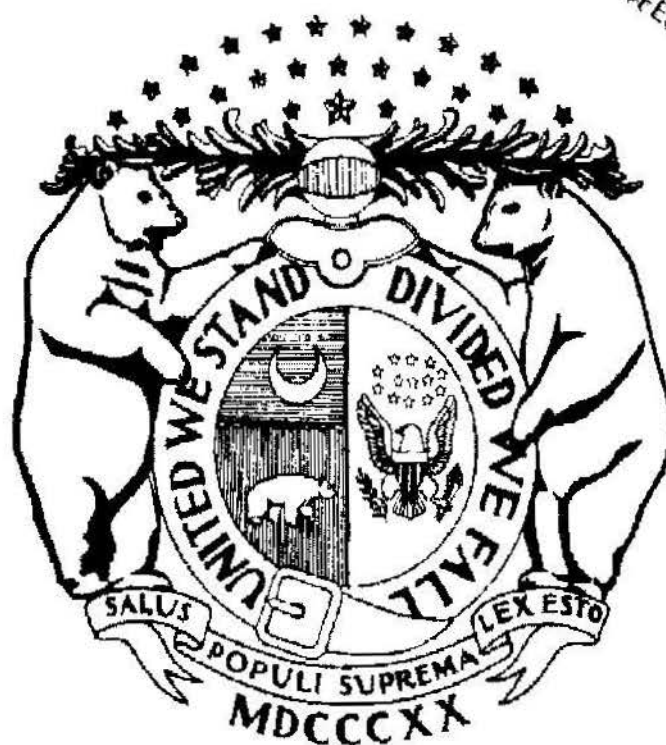


REPORT OF THE  
FINANCIAL EXAMINATION OF  
FARMERS HOME INSURANCE COMPANY  
OF RAY COUNTY

AS OF  
DECEMBER 31, 2008

**FILED**  
AUG 12 2009  
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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May 15, 2009  
Richmond, Missouri

Honorable John 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

### **FARMERS HOME INSURANCE COMPANY OF RAY COUNTY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 W. N. Main, Richmond, Missouri 64085, telephone number (816) 776-3457. This examination began on March 30, 2009, and concluded on April 3, 2009, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2003 and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, 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, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Fidelity Bond**

*Comment:* The Company was directed to increase its fidelity bond coverage to \$50,000.

*Company Response:* The Company increased its fidelity bond coverage to \$50,000.

*Current Findings:* The Company's current fidelity bond coverage level of \$50,000 appeared adequate per the NAIC guidelines.

## **HISTORY**

### **General**

The Company was originally organized on February 3, 1889, as the Patrons and Farmers Home Protection Company of Ray County and subsequently changed its name to Farmers Home Insurance Company of Ray County. The Company was incorporated on May 1, 1986. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company has a Certificate of Authority dated September 25, 1991. 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 February, 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 Board of Directors may be called by the President, the Board of Directors, or upon petition of one-fourth of the members. The members present in person and by proxy constitute a quorum for the transaction of business.

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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets quarterly and the directors are compensated \$200 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Dean Wall Hardin, Missouri	Retired/Teacher	2006-2009
Wilbur Arnold Orrick, Missouri	Farmer	2006-2009
Kenneth Burns Norborne, Missouri	Farmer	2006-2009
Allen Atkins Lawson, Missouri	Farmer	2007-2010
Ritchie Moberly Liberty, Missouri	Farmer	2007-2010
Larry Mahoney Excelsior Springs, Missouri	Company Manager	2007-2010
Forrest Wollard Richmond, Missouri	Retired	2008-2011
Al McKemy Hardin, Missouri	Retired Farmer	2008-2011
Bruce Renfro Richmond, Missouri	Farmer	2008-2011

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, 2008, were as follows:

Forrest Wollard	President
Al McKemy	Vice-President
Larry Mahoney	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 has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

## **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. The Bylaws were amended and restated on April 19, 2004. The amendment changed the quorum requirement for membership meetings so that members present either in person and/or by proxy shall constitute a quorum for the transaction of business. Previously the membership at meetings would consist of eight members to achieve a quorum. The restated Bylaws also allow the President to call special meetings, which is an addition to the previous provision that meetings may be called by the Board of Directors or upon a petition signed by not less than one-fourth of all members.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. 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 \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$3,000,000 and a \$2,500 per loss deductible.

The Company requires its agents to purchase a minimum of \$500,000 in errors and omissions insurance coverage at their own expense.

Other insurance coverages carried by the Company include home office and contents, business liability and workers compensation.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees and one part-time employee. The benefits package offered by the Company to its employees includes matching funds to individual retirement accounts 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. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and offers liability coverage through Grinnell Mutual Reinsurance Company. The Company's policies are sold by thirteen licensed agents and agencies, who receive a commission of 15%.

### Policy Forms and Underwriting Practices

The Company utilizes AAIS, Grinnell Mutual Reinsurance Company, and MAMIC policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Adjusting services are performed by Grinnell Mutual Reinsurance Company. Inspections are performed by an independent inspector.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$2,176,207	\$446,728	\$1,100,282	\$1,059,913	\$79,299	\$60,556	\$134,577
2007	2,078,082	441,360	1,018,161	357,665	83,256	72,634	153,168
2006	1,840,489	356,651	877,419	1,112,296	71,275	(49,134)	30,156
2005	1,800,633	340,079	817,490	329,067	60,845	49,521	112,489
2004	1,618,531	270,466	711,270	165,585	60,495	37,473	102,078

At year-end 2008, 1,718 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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct	\$1,100,282	\$1,018,161	\$877,419	\$817,490	\$711,270
Assumed	0	0	0	0	0
Ceded	<u>(264,837)</u>	<u>(219,954)</u>	<u>(211,404)</u>	<u>(190,840)</u>	<u>(205,326)</u>
Net	<u>\$ 835,445</u>	<u>\$798,207</u>	<u>\$666,015</u>	<u>\$626,650</u>	<u>\$505,944</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 of loss excess with aggregate excess plan reinsurance agreement for the property coverages written by the Company. Under the individual occurrence of loss section of the agreement, the Company retains \$75,000 per occurrence, and the reinsurer's limits are \$1,000,000 per exposure. Risks in excess of this limit may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis.

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 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 2008 was \$405,753.

Effective January 1, 2009, the Company began writing liability policies. Under the 2009 reinsurance program, the reinsurer assumes 100% of the premiums and risks associated with these liability policies, and the Company receives a 20% ceding commission.

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 an accrual basis. The Company's accounting firm, Steven P. Thurmon, CPA, performs an annual audit of the Company's financial statements and prepares the Company's annual statement and tax filings.

At December 31, 2008, the Company had deposits totaling approximately \$410,000 at one



financial institution. These deposits exceeded the FDIC insurance coverage of \$250,000 by over \$150,000. The Company should take the necessary measures to ensure all cash deposits 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, 2008, 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.

**ANALYSIS OF ASSETS**  
**December 31, 2008**

Bonds	\$ 423,638
Real Estate	54,978
Cash on Deposit	1,625,295
Premiums Uncollected	4,516
Reinsurance Recoverable on Paid Losses	29,061
Computer Equipment	24,324
Interest Due and Accrued	14,395
	-----
Total Assets	<u><u>\$ 2,176,207</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2008**

Losses Unpaid	\$ 4,338
Unearned Premium	444,958
Accrued Liabilities	(2,568)
	-----
Total Liabilities	\$ 446,728
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,579,479
	-----
Total Surplus	1,729,479
	-----
Total Liabilities and Surplus	\$ 2,176,207
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2008**

Net Premiums Earned	\$ 831,847
Other insurance Income	7,673
Net Losses & Loss Adjustment Expenses Incurred	(391,449)
Other Underwriting Expenses Incurred	(387,515)
	-----
Net Underwriting Income (Loss)	\$ 60,556
	-----
Investment Income	\$ 79,299
Other Income	2,716
	-----
Gross Profit (Loss)	\$ 142,571
Federal Income Tax	(7,994)
	-----
Net Income (Loss)	\$ 134,577
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2008**

Policyholders' Surplus, December 31, 2007	\$ 1,636,722
Net Income (Loss)	134,577
Unrealized Loss on Investments	(41,820)
	-----
Policyholders' Surplus, December 31, 2008	\$ 1,729,479
	=====

## **NOTES TO FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

### **Accounts and Records (Page 6)**

The Company should take the necessary measures to ensure all cash deposits are fully insured.

## **SUBSEQUENT EVENTS**

None.





816 776 3457

**FARM MUTUAL**  
SINCE 1877  
816 776 2666 Fax

888 823 8000

**Tammy Rodieck, Exam Coordinator**

**Re: Examination Report of the Farmers Home Insurance Company of Ray County.**

**In reference to page 2, under the history section: the company was established in 1877.**

**Page 11 of the exam, "The Company should take necessary measures to ensure all cash deposits are fully insured."**

**Farmers Home Insurance of Ray County had a Bank Guaranty Bond No. DG 2521 M002 with The Kansas Bankers Surety Co. guarantying deposits for an additional \$250,000.00.**

**The bond was purchased through The Community Bank of Missouri Therefore, the deposits were adequately insured.**

**You have my permission to use my response in the report as a public document.**

**I do not recall the examiner discussing the excess deposit.**