



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

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

RE: Examination Report of Hickory County Farmers Mutual Insurance Company for the period ended December 31, 2014

**ORDER**

After full consideration and review of the report of the financial examination of Hickory County Farmers 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 380.061, 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 Hickory County 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) 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 21<sup>st</sup> day of January, 2016.



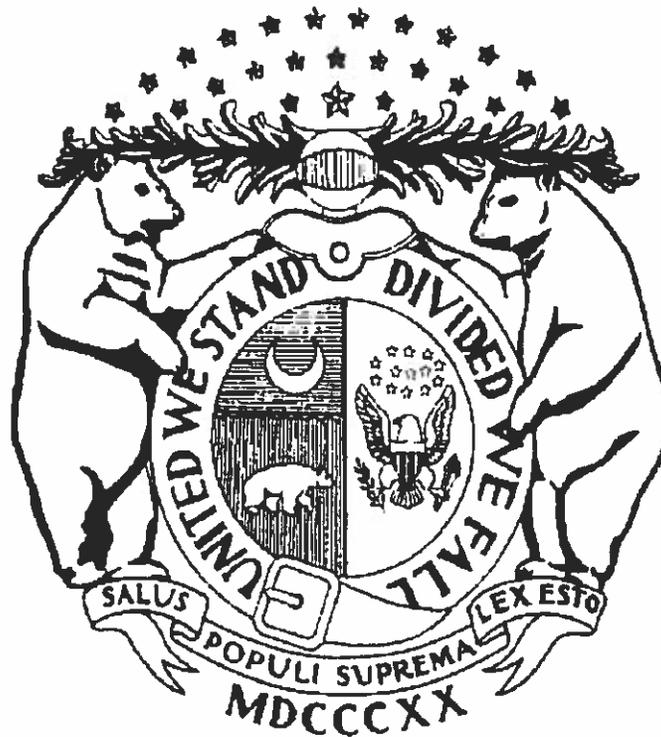
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
HICKORY COUNTY FARMERS MUTUAL  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2014**

**FILED**  
**JAN 21 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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July 8, 2015  
Hermitage, 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

**HICKORY COUNTY FARMERS MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 107 Polk Street (P.O. Box 132), Hermitage, Missouri 65668, telephone number (417) 745-6722. This examination began on July 6, 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.

### **Accounts and Records**

*Comment:* It was recommended the Company continue to closely monitor surplus levels and take any additional actions necessary to ensure the Company's future as a going concern.

*Company Response:* The Company responded that it had reduced the retention level exposure on a per risk level effective January 2010. Other steps taken by the Company included: increasing deductibles on all lines, rate increases on all lines, increasing policy fees, lowering age limits on dwellings for homeowners, adding surcharges on higher value homes, tightened underwriting guidelines and performing inspections of the entire book of business with new inspections every five years.

*Current Findings:* As of December 31, 2014, the Company is continuing the inspections on all new business and inspects all properties every five years. The Board reviews rate adequacy and historic loss trends on an annual basis to ensure rate sufficiency. The Board also monitors premium levels, surplus levels and in-force exposure on a monthly basis.

## **HISTORY**

### **General**

The Company was originally organized and incorporated on May 27, 1892, as Farmers Mutual Aid Society of Hickory County. The Company changed its name to Hickory County Farmers Mutual Insurance Company on March 27, 1999. The Company has a Certificate of Authority dated September 28, 1982 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 fourth 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 a two-thirds majority vote of 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 not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors meets approximately each month. Compensation per each meeting attended is \$170 for the President and \$130 for all other directors and \$0.50 for mileage.

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>
Kelly Nunn Urbana, Missouri	Farmer	2017
Gary Box Wheatland, Missouri	Construction & Motel Owner	2015
Patrick Johnson Ash Grove, Missouri	Investment Advisor	2015
Robb Pitts Hermitage, Missouri	Farmer	2016
Larry Wilson Flemington, Missouri	Retired State Representative	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:

Kelly Nunn	President
Gary Box	Vice-President
Darlene McLerran	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 a conflict of interest statement on an annual basis. A number of concerns and weaknesses were noted during the examination in the Company's conflict of interest procedures and disclosures. These concerns and related recommendations were communicated to the Company in a separate letter to the Company's management.

## **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 \$250,000. 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 property insurance on the home office and contents, workers compensation, commercial automobile and commercial liability insurance.

## **EMPLOYEE BENEFITS**

The Company has five full-time employees. The Company provides health insurance for the employees, children and their spouses and provides a \$25,000 life policy to the employee. The Company also offers access to dental, short-term disability and long-term disability at the employee's expense. The employees receive paid vacation, paid holidays, and paid sick leave. The Company also makes an annual contribution to each employee's individual retirement account.

## **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 and writes all three lines.

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

## Policy Forms and Underwriting Practices

The Company mainly utilizes a combination of AAIS forms, MAMIC forms and a few approved in-house 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 were performed by both a full-time inspector and a contract inspector in 2014. Claim adjustments were performed by the Company and an outside adjuster in 2014. In 2015, the Company has hired a full-time inspector/adjuster but will also use outside inspectors and adjusters as needed.

## **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

<u>Year</u>	<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>
2014	\$2,152,001	\$1,308,379	\$3,890,433	\$1,670,055	\$ 28,435	\$ 204,261	\$ 242,135
2013	1,957,002	1,355,515	3,586,951	1,855,564	27,304	98,965	126,328
2012	1,764,134	1,288,975	3,765,145	3,635,330	33,174	(20,702)	12,593
2011	1,803,907	1,341,341	3,940,434	3,371,150	40,701	(389,825)	(347,358)
2010	2,157,933	1,344,034	4,394,592	2,453,164	38,027	199,295	237,476

At year-end 2014, 5,168 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>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct	\$3,890,433	\$3,586,951	\$3,765,145	\$3,504,144	\$3,340,697
Assumed	0	0	0	436,290	1,053,895
Ceded	2,174,823	2,020,961	1,922,749	2,341,191	2,448,517
Net	<u>\$1,715,610</u>	<u>\$1,565,990</u>	<u>\$1,842,396</u>	<u>\$1,599,243</u>	<u>\$1,946,075</u>

### Assumed

Prior to 2012, the Company assumed business through a pooling arrangement with four other Missouri mutual companies. The arrangement was terminated in 2011.

## **Ceded**

The Company's property and casualty reinsurance program is placed through intermediary Guy Carpenter & Company, Inc. and consists of various contracts with multiple participating reinsurers (reinsurer).

Under the property per risk agreement, the Company retains \$30,000 per risk and the reinsurer covers 100% of the excess, limited to \$60,000 per risk. Under the property first surplus agreement, the reinsurer is liable for losses in excess \$90,000 per risk, limited to \$100,000 per risk and the Company receives a 20% ceding commission. The contract contains a loss corridor provision under which the Company retains losses in excess of a 65% percent loss ratio, limited to 20% of premium ceded under the contract. Under the property facultative agreement, the Company cedes the surplus liability on coverages in excess of \$190,000 per risk, and the maximum cession is limited to \$275,000 per risk.

Under the casualty excess of loss agreement, the Company retains \$25,000 per loss occurrence and the reinsurer is liable for the excess, limited \$590,000 per loss occurrence. The special casualty excess of loss agreement pertains to liability policies with limits in excess of \$500,000, and adds additional reinsurer limits of \$500,000. Under the umbrella facultative agreement the reinsurer accepts a 95% share of losses up to \$1 million.

The aggregate excess of loss agreement covers both property and casualty business. The reinsurer is liable for 100% of losses which exceed the greater of \$1,288,000 or 63% of the Company's gross net earned premium income during the year.

It was noted that the projected potential loss as a percentage of surplus reported in the Company's exposure calculation exceeded the 20% limitation as prescribed in 20 CSR 200-12.030 (Extended Missouri Mutual Companies' Financial Reinsurance Requirements) for the calendar years of 2013 and 2014. This should have triggered the Company to either adjust its reinsurance program to comply with the requirements, or to file a request for exception in accordance with the provisions of 20 CSR 200-12.030(3). However, neither of these actions were taken by the Company.

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 utilizes IMT Computer Services Company software for general ledger, claims reports and policy maintenance. The Company also uses AVG for online backup of data not backed up by IMT.

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	\$ 799,775
Stocks	1,500
Real Estate	20,162
Cash on Deposit	1,243,853
Reinsurance Recoverable on Paid Losses	70,669
Computer Equipment	3,783
Interest Due and Accrued	5,173
Prepaid Insurance	<u>7,086</u>
Total Assets	<u>\$ 2,152,001</u>

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

Net Losses Unpaid	\$ 85,903
Ceded Reinsurance Premium Payable	89,144
Unearned Premium	994,865
Payroll Tax	5,448
Commissions Payable to Agents	114,128
Other Liabilities	4,823
Premium Payable	<u>\$14,068</u>
Total Liabilities	<u>\$ 1,308,379</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>693,622</u>
Total Surplus	<u>843,622</u>
Total Liabilities and Surplus	<u>\$ 2,152,001</u>

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

Net Premiums Earned	\$ 1,683,980
Other Insurance Income	435,126
Net Losses & Loss Adjusting Expenses Incurred	(822,181)
Other Underwriting Expenses Incurred	<u>(1,092,664)</u>
Net Underwriting Income (Loss)	204,261
Net Investment Income	28,435
Other Income	<u>9,439</u>
Gross Profit (Loss)	\$ 242,135
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 242,135</u>

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

Policyholders' Surplus, December 31, 2013	\$ 601,487
Net Income (Loss)	<u>242,135</u>
Policyholders' Surplus, December 31, 2014	<u>\$ 843,622</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

#### **Reinsurance Exposure Calculation (Page 6)**

The Company should ensure the results of the exposure calculation page of the Annual Statement does not exceed the 20% loss limitation set in 20 CSR 200-12.030.

### **SUBSEQUENT EVENTS**

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Hickory County Farmers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, Are, examiner for the DIFP, participated in this examination.

**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.

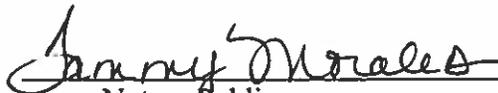
  
\_\_\_\_\_  
Jay Buschmann, AFE  
Financial Examiner/Analyst  
Missouri DIFP



Sworn to and subscribed before me this 4th day of DECEMBER, 2015.

My commission expires:

01/07/2018

  
\_\_\_\_\_  
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, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP