

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

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

RE: Examination Report of Meramec Valley Mutual Insurance Company, Inc. for the period ended December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Meramec Valley Mutual Insurance Company, Inc. 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 Meramec Valley Mutual Insurance Company, Inc. 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 23rd day of AUGUST, 2018.



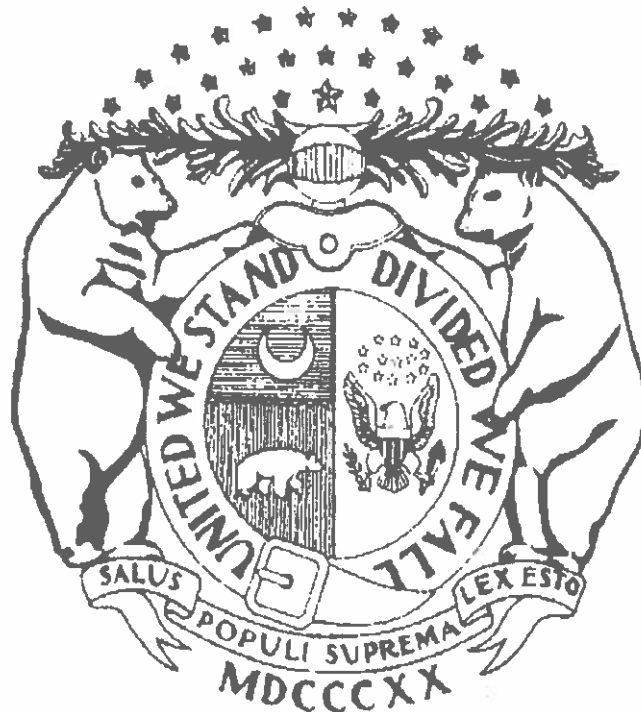
Chlora Lindley-Myers

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

REPORT OF THE
FINANCIAL EXAMINATION OF

Meramec Valley Mutual Insurance Company, Inc.

AS OF
DECEMBER 31, 2016



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 5, 2018
Hillsboro, 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

Meramec Valley Mutual Insurance Company, Inc.

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 535 Elm Street, Hillsboro, Missouri 63050; telephone number (888) 428-9180. This examination began November 20, 2017, and concluded on March 5, 2018, 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 or Department).

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

The prior exam contained six comments and recommendations relating to E&O coverage, Conflict of Interest Statements, Article and Bylaw Amendments, Annual Membership Meeting attendance, Fidelity Bond coverage, and Investment Limits. The issues appear to have been addressed by the Company and were not found to be on-going concerns in the current examination.

HISTORY

General

The Company was organized in 1887 as the Farmers Mutual Fire Insurance Company of Big River and Meramec Townships, Jefferson County, Missouri. The Company changed its name to Farmers Mutual Insurance Company of Jefferson and Franklin Counties in October of 1903. The name Meramec Valley Mutual Insurance Company, Inc. was adopted on October 26, 1970.

In January 1985, the Department of Insurance, Financial Institutions and Professional Registration authorized the Company to write fire, windstorm and liability insurance under the provisions of Sections 380.201 through 380.601 RSMO (Extended Missouri Mutual Companies).

Management

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at annual membership meetings held on the last Monday of every February. The board meets approximately every other month 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>
Robert Francis Crystal City, MO 63019	Bank Officer	2015-2018
Clifton Lane DeSoto, MO 63020	Contractor	2015-2018
Sandra L. Henry Dittmer, MO 63023	Underwriter	2017-2020
Richard Meyer Cedar Hill, MO 63016	Insurance Agent	2017-2020

Anna Portell DeSoto, MO 63020	Bank Employee	2016-2019
Susan Wilson DeSoto, MO 63020	Title Company Employee/Retired	2016-2019
Martin Wynn Festus, MO 63028	Manager	2017-2020

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:

<u>Name</u>	<u>Office</u>
Clifton Lane	President
Anna Portell	Vice President
Sandra Henry	Secretary
Richard Meyer	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. The Articles of Incorporation and Bylaws were amended in 2013 to provide details regarding the duties of employees and directors. The Department issued an approval letter April 12, 2013.

Board of Director meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board of Directors and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its May 16, 2013 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has a Business Owners Policy with Hartford Casualty Insurance Company which provides property and liability coverage for its office building and fidelity coverage.

The fidelity coverage of \$100,000 provided by this policy is meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook for the Company's level of exposure.

The property coverage has limits of liability of \$247,200 on the office building and \$117,800 on business personal property and includes earthquake coverage. The liability coverage has limits of \$1 million per occurrence and \$2 million aggregate.

The Company has a workers' compensation and employers' liability policy with Hartford Underwriters 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 \$1,000,000 each accident and bodily injury by disease of \$1,000,000 per employee and a policy limit of \$1,000,000.

The Company has a Commercial Automobile policy with Hartford Casualty Insurance Company. This policy provides coverage on the three company-owned automobile and includes liability coverage up to a limit of \$1 million.

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

The Company requires each of the independent agents writing for the Company to carry errors and omissions coverage of at least \$500,000. The coverage is purchased by the agents.

EMPLOYEE BENEFITS

The Company currently has six full-time employees and two part-time employees. Employee benefits include vacation, holidays, sick time, health insurance and a Simple IRA retirement plan with Company match.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed under Sections 380.201-601 RSMo as an extended MO Mutual Company. The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The Company's policyholders are spread throughout the southern half of the state of Missouri. Insurance is provided on an assessable basis. Advertising is primarily done through various conferences and shows held by the Missouri Association of Insurance Agents.

Policy Forms and Underwriting Practices

The Company writes policies on a continuous one-year term basis. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses policy forms supplied by the American Association of Insurance Services.

Inspections are handled by both Company employees and independent inspectors and are performed upon policy issuance and at least every three years thereafter. Claims are adjusted by both company personnel and independent adjusters. Grinnell Mutual Reinsurance Company

does the adjusting for liability claims. The Company's policies are marketed by more than 50 independent agents and agencies who receive commissions of 13% on new and renewal business.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted		Net				
	Assets	Liabilities	Premiums Written	Net Losses Paid	Investment Income	Underwriting Income	Net Income
2016	\$5,415,003	\$2,467,653	\$3,024,016	\$1,128,624	\$ 50,352	\$ 743,059	\$705,260
2015	4,951,627	2,709,538	3,140,237	1,994,526	39,334	(405,972)	(370,686)
2014	5,109,408	2,496,632	3,221,643	1,857,621	29,327	(103,812)	(74,121)
2013	5,094,330	2,407,433	3,049,599	1,600,911	35,331	(93,891)	(58,125)
2012	5,206,761	2,461,736	3,313,096	1,387,937	56,995	399,820	185,720

The Company has experienced a net loss 3 of the last 5 years. The Company saw a slight decrease in net premiums written over the last 2 years. The Company explained that the decrease in net premiums is due to the loss of membership to competitors because there was an increase in premiums assessed to policyholders. At year-end 2016, there were 4,603 policies 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:

	2012	2013	2014	2015	2016
Direct	\$4,630,230	\$4,571,910	\$4,573,122	\$4,438,197	\$4,293,354
Assumed	2,146	5,897	4,111	2,577	(85)
Ceded	(1,151,024)	(1,312,577)	(1,114,913)	(1,084,843)	(1,070,264)
Net	\$3,313,096	\$3,049,599	\$3,221,643	\$3,140,237	\$3,024,016

Assumed

The Company participates in the MAMIC Mutual Insurance Company Director and Officer and Errors and Omission reinsurance pool. An immaterial amount of assumed premiums and losses is reported in the financial statements due to the Company's participation in this pool.

Ceded

The Company has a reinsurance agreement through Guy Carpenter & Company, LLC. The reinsurers for the contract are: Hannover Ruckversicherung AG (7%), Swiss Reinsurance America Corporation (20%), The Toa Reinsurance Company of America (16.5%), Regional Treaty Services Corporation American Agricultural Insurance Company (18.5%), Berkley Re America, LLC (14%), Employers Mutual Casualty Company (15.25%) and Farmers Mutual Hail Insurance Company of Iowa (8.75%). The following coverage is provided under this agreement.

Individual Occurrence of Loss Excess

The Company retains \$100,000 per occurrence. The reinsurer covers 100% of losses above the retention to a maximum limit of \$1,000,000.

Aggregate Excess

This coverage provides unlimited aggregate excess coverage above an attachment point that is calculated yearly at a rate of 9.5% of gross net written premiums. For 2016, the deposit premium of \$342,000 payable in \$28,500 monthly installments.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained on an accrual basis. A conversion of policyholder and financial records to a web-based system called Britecore was completed in 2012. The CPA firm The Triton Group compiles the Company's financial statements and Annual Statement and prepares the Company's tax returns.

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 as filed by the Company to the DIFP. 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, 2016

Bonds	\$ 559,468
Mutual Funds	473,601
Real Estate	188,353
Cash on Deposit	3,757,088
Other Investments	358,962
Reinsurance Recoverable on Paid Losses	7,375
Federal Income Tax Recoverable	66,881
Interest Due & Accrued	3,250
Other Write-In Assets	25
Total Assets	<u>\$5,415,003</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Unpaid Losses	\$ 341,035
Unearned Premium	1,991,289
Borrowed Money	3,785
Accounts Payable to Agents	110,821
Other Write-In Liabilities	20,724
Total Liabilities	<u>\$ 2,467,653</u>
Guaranty Fund	\$ 150,000
Other Surplus	2,797,350
Total Surplus	<u>2,947,350</u>
Total Liabilities and Surplus	<u>\$ 5,415,003</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 3,079,753
Other Insurance Income	3,935
Net Losses & Loss Adjustment Expenses Incurred	(908,075)
Other Underwriting Expenses Incurred	(1,432,554)
 Net Underwriting Income (Loss)	 \$ 743,059
Investment Income	\$ 50,352
Other Income	163
 Gross Profit (Loss)	 \$ 793,379
Federal Income Tax	(88,119)
 Net Income (Loss)	 \$ 705,260

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 2,242,090
Net Income (Loss)	705,260
 Policyholders' Surplus, December 31, 2016	 \$ 2,947,350

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

