
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
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:

<table>
<thead>
<tr>
<th>Name / Address</th>
<th>Occupation</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Francis</td>
<td>Bank Officer</td>
<td>2015-2018</td>
</tr>
<tr>
<td>Crystal City, MO 63019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clifton Lane</td>
<td>Contractor</td>
<td>2015-2018</td>
</tr>
<tr>
<td>DeSoto, MO 63020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sandra L. Henry</td>
<td>Underwriter</td>
<td>2017-2020</td>
</tr>
<tr>
<td>Dittmer, MO 63023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richard Meyer</td>
<td>Insurance Agent</td>
<td>2017-2020</td>
</tr>
<tr>
<td>Cedar Hill, MO 63016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anna Portell</td>
<td>Bank Employee</td>
<td>2016-2019</td>
</tr>
<tr>
<td>DeSoto, MO 63020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan Wilson</td>
<td>Title Company Employee/Retired</td>
<td>2016-2019</td>
</tr>
<tr>
<td>DeSoto, MO 63020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Martin Wynn</td>
<td>Manager</td>
<td>2017-2020</td>
</tr>
<tr>
<td>Festus, MO 63028</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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

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

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$4,630,230</td>
<td>$4,571,910</td>
<td>$4,573,122</td>
<td>$4,438,197</td>
<td>$4,293,354</td>
</tr>
<tr>
<td>Assumed</td>
<td>2,146</td>
<td>5,897</td>
<td>4,111</td>
<td>2,577</td>
<td>(85)</td>
</tr>
<tr>
<td>Ceded</td>
<td>(1,151,024)</td>
<td>(1,312,577)</td>
<td>(1,114,913)</td>
<td>(1,084,843)</td>
<td>(1,070,264)</td>
</tr>
<tr>
<td>Net</td>
<td>$3,313,096</td>
<td>$3,049,599</td>
<td>$3,221,643</td>
<td>$3,140,237</td>
<td>$3,024,016</td>
</tr>
</tbody>
</table>

#### 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.
The Company has a reinsurance agreement through Guy Carpenter & Company, LLC. The reinsurers for the contract are: Hannover Rückversicherung 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

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$599,468</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>473,601</td>
</tr>
<tr>
<td>Real Estate</td>
<td>188,353</td>
</tr>
<tr>
<td>Cash on Deposit</td>
<td>3,757,088</td>
</tr>
<tr>
<td>Other Investments</td>
<td>358,962</td>
</tr>
<tr>
<td>Reinsurance Recoverable on Paid Losses</td>
<td>7,375</td>
</tr>
<tr>
<td>Federal Income Tax Recoverable</td>
<td>66,881</td>
</tr>
<tr>
<td>Interest Due &amp; Accrued</td>
<td>3,250</td>
</tr>
<tr>
<td>Other Write-In Assets</td>
<td>25</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$5,415,003</td>
</tr>
</tbody>
</table>

LIABILITIES, SURPLUS AND OTHER FUNDS  
December 31, 2016

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid Losses</td>
<td>$341,035</td>
</tr>
<tr>
<td>Unearned Premium</td>
<td>1,991,289</td>
</tr>
<tr>
<td>Borrowed Money</td>
<td>3,785</td>
</tr>
<tr>
<td>Accounts Payable to Agents</td>
<td>110,821</td>
</tr>
<tr>
<td>Other Write-In Liabilities</td>
<td>20,724</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$2,467,653</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Surplus</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranty Fund</td>
<td>$150,000</td>
</tr>
<tr>
<td>Other Surplus</td>
<td>2,797,350</td>
</tr>
<tr>
<td>Total Surplus</td>
<td>2,947,350</td>
</tr>
<tr>
<td>Total Liabilities and Surplus</td>
<td>$5,415,003</td>
</tr>
</tbody>
</table>
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.
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Meramec Valley Mutual Insurance Company, Inc. during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri  
County of Cole  

I, Amy E. Snyder 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.

Amy E. Snyder, CPA, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this ____ day of ___ , 2018.

My commission expires:

June 28, 2019

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