



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

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

RE: Examination Report of Missouri Heritage Mutual Insurance Company for the period
ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Missouri Heritage Mutual Insurance Company for the period ended December 31, 2013, 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 Missouri Heritage 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 General Comments 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 15th day of May, 2015.




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

**REPORT OF THE
FINANCIAL EXAMINATION OF**

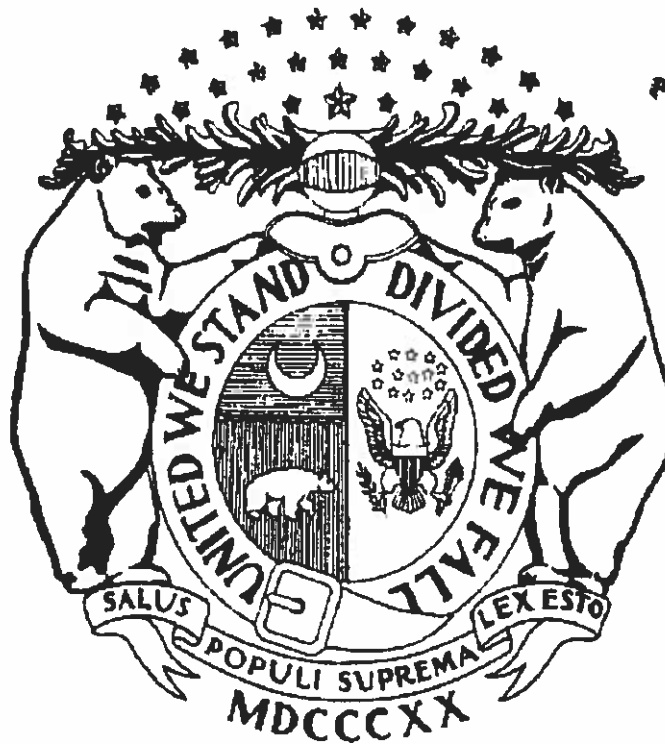
Missouri Heritage Mutual Insurance Company

**AS OF
DECEMBER 31, 2013**

FILED

MAY 15 2015

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

March 18, 2015
Gordonville, 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

Missouri Heritage 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 192 State Highway Z (P.O. Box 82), Gordonville, Missouri 63752, telephone number (573) 243-2884. This examination began on December 11, 2014, and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009 through December 31, 2013, 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 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

This prior examination, as of December 31, 2008, did not result in any report comments.

HISTORY

General

Missouri Heritage Mutual Insurance Company was originally organized as Cape Girardeau County Farmers Mutual Aid Society and began business on June 7, 1869. On September 30, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State. On September 2, 1972, the Company changed its name to Gordonville Mutual Insurance Company. Effective January 1, 2006, the DIFP approved a merger between Gordonville Mutual Insurance Company and Community Mutual Insurance Company. Pursuant to this merger, Gordonville Mutual Insurance Company was the surviving corporation, and its name was changed to Missouri Heritage Mutual Insurance Company.

On January 3, 2006 the Company was issued a Certificate of Authority by the DIFP, placing the Company under Sections 380.201 through 380.611 RSMo, which govern Extended Missouri Mutual Insurance Companies.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in March at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members.

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 five members, each of whom serves a three-year term. All directors must be policyholders of the Company. The Board of Directors meets approximately five times per year. Directors are compensated \$100 for each evening meeting and \$150 for meetings during the daytime.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Lawrence D. Bill Jackson, Missouri	Real Estate Investor	2016
Larry Deneke Whitewater, Missouri	Maintenance	2017
Alan C. Grebing Frohna, Missouri	Farmer	2016
James P. Lichtenegger* Jackson, Missouri	UofM Extension	2015
David Wessel Jackson, Missouri	Farmer	2015

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2013, were as follows:

James Lichtenegger*	President
Lawrence D. Bill	Vice-President
Kathryn Miller	Secretary/Treasurer/Manager
James Deneke	Assistant Secretary/Treasurer/Manager

*On April 17, 2014, James Lichtenegger was employed as Manager by the Company subject to resignation from the Board. On May 5, 2014, Mr. Lichtenegger resigned from the board and was replaced by Bruce Bundy whose current appointment expires in 2015.

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. Two relationships were disclosed as possible conflicts of interest; however, there are no concerns or issues with these relationships.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended in 2010 to change the meeting date to the second Tuesday of March at 6:00 pm. The change was incorrectly typed as the meeting being at 6:00 am and the attorney has been contacted to correct. The articles were amended again in 2011 to change the number of directors from 7 to 5.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains employee dishonesty coverage providing a liability limit of \$50,000. The bond is underwritten by RLI Insurance Company. This coverage fails to meet the minimum amount of \$75,000 suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company (Sikeston, Missouri) with a limit of liability of \$3,000,000.

The Company currently uses a total of 13 independent agents/agencies. The agents are required to maintain errors and omissions coverage. The coverage is through various insurance companies and has limits of liability ranging from \$500,000 to \$4 million. The Company does not reimburse agents for errors and omissions coverage.

The Company has a business property policy issued by the Company. The policy insures the Company's office building and contents, valued at \$161,775 as of December 31, 2013. The Company also has a commercial liability policy issued by the Company. The policy has liability limits of \$1 million general aggregate, \$500,000 each occurrence and \$10,000 medical payments per person. The Company's net liability under these coverages is subject to reinsurance retentions, as described in the "Reinsurance" section of this report.

With the exception of the fidelity coverage, the Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four employees, including a full-time Secretary/Treasurer/Manager, a full-time Clerk Receptionist, and two part-time Office Assistants. Salaries of employees are determined by the Board of Directors. The Company has a health insurance reimbursement plan and makes contributions to a simple IRA plan for its employees. The Company also provides paid vacation and holidays. The Company maintains a detailed employee handbook and procedure manual.

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 the State of Missouri.

The Company's policies are sold by a total of 13 independent agents. Agents receive a 15% commission on both new and renewal premiums written.

Policy Forms and Underwriting Practices

The Company utilizes AAIS (American Association of Insurance Services) policy forms provided by the Missouri Association of Mutual Insurance Companies. The AAIS forms have been approved by the DIFP.

Policies are written for a one-year period and renewed annually. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

The Company utilizes outside parties for inspections and claims adjusting. Completed inspections are received by the Manager for review. The settlements of claims are handled by the Manager based upon the adjuster's findings. Claims are referred to the reinsurance company for adjusting and settling.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	2009	2010	2011	2012	2013
Admitted Assets	\$1,373,521	\$1,831,817	\$1,631,128	\$1,714,616	\$2,123,931
Liabilities	453,855	531,112	577,693	722,266	678,938
Gross Premiums	1,151,231	1,319,700	1,439,244	1,626,148	1,594,411
Gross Losses	345,787	367,064	373,297	403,523	402,042
Investment Income	40,830	25,693	20,603	14,857	12,697
Underwriting Income	(399,344)	358,673	(267,873)	(75,943)	530,700
Net Income	(364,128)	384,366	(247,269)	(61,086)	452,643

At year-end 2013, 2,004 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct	\$1,151,231	\$1,319,700	\$1,439,244	\$1,626,148	\$1,594,411
Assumed	0	0	0	0	0
Ceded	(344,887)	(452,403)	(509,453)	(628,522)	(477,265)
Net	<u>806,344</u>	<u>867,297</u>	<u>929,791</u>	<u>997,626</u>	<u>1,117,146</u>

Assumed

None.

Ceded

The Company has a reinsurance agreement with Wisconsin Reinsurance Corporation (the Reinsurer). The following is a description of coverage provided by these agreements.

Quota Share and Excess of Loss Agreement

The Company cedes 100% of their casualty or liability business at a 25% commission rate. For the first layer of the Excess of Loss Reinsurance, the Reinsurer indemnifies the Company 100% for each loss in excess of \$65,000. The limit of liability to the Reinsurer is \$110,000. At the second layer, the Reinsurer indemnifies the Company 100% of net losses in excess of \$175,000. The limit of liability to the Reinsurer is \$325,000. This agreement also includes an aggregate attachment point of \$1,052,063 whereby the Reinsurer covers 100% of losses that is subject to an annual premium of 75% of the Annual Deposit Premium.

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 "Extended Missouri Mutual Companies' Financial Reinsurance Requirements". This statute requires an exposure index of less than 20% and the Company reports an exposure index of 24.6% for 2013.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The Company's accountant, Van De Ven, LLC, prepares the Company's Statutory Annual Statement and Federal Income Tax return and performs an annual review of the Company's financial statements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013

Real Estate	\$ 61,947
Cash on Deposit	2,053,856
Reinsurance Recoverable on Paid Losses	527
Computer Equipment	2,723
Federal Income Tax Recoverable	1,219
Interest Due and Accrued	2,408
Other Assets	<u>1,251</u>
 Total Assets	 <u>\$ 2,123,931</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Losses Unpaid	\$ 93,209
Gross Loss Adjustment Expense	2,344
Ceded Reinsurance Premiums Payable	2,547
Unearned Premium	573,831
Taxes	2,779
Accounts Payable	554
Other Liabilities	<u>6,674</u>
Total Liabilities	<u>\$ 678,938</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,294,993</u>
Total Surplus	<u>1,444,993</u>
Total Liabilities and Surplus	<u>\$2,123,931</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 1,218,392
Net Losses & Loss Adjustment Expenses Incurred	(272,953)
Other Underwriting Expenses Incurred	<u>(402,042)</u>
Net Underwriting Income (Loss)	<u>\$ 530,700</u>
Investment Income	\$ 12,697
Gross Profit (Loss)	\$ 543,397
Federal Income Tax	<u>90,754</u>
Net Income (Loss)	<u>\$ 452,643</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 992,350
Net Income (Loss)	<u>452,643</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 1,444,993</u>

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 4)

The Company needs to increase their employee dishonesty coverage to meet the minimum amount of \$75,000 suggested in the guidelines promulgated by the NAIC.

Reinsurance (Page 6)

The Company should review its reinsurance program and take the necessary actions to ensure the program is in compliance with the regulation 20 CSR 200-12.030.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Missouri Heritage Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
City of St. Louis)

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 17 day of Feb, 2015.

My commission expires:

July 17, 2017

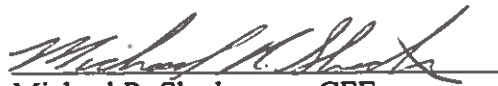


Notary Public

CHERYL A. ECK
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: July 17, 2017
Commission Number: 13837618

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 R. Shadowens, CFE
Audit Manager-St. Louis
Missouri DIFP