

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

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


ORDER

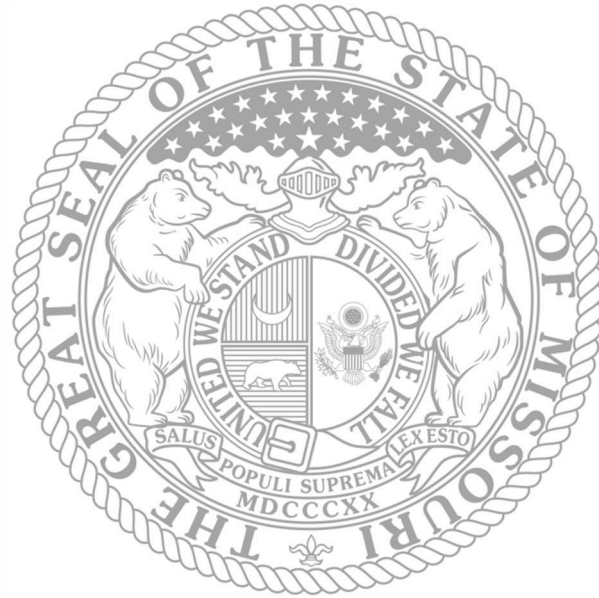
After full consideration and review of the report of the financial examination of Southeast Missouri Mutual Fire Insurance Company for the period ended December 31, 2021, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance 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 Southeast Missouri Mutual Fire 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) 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 27th day of March, 2023.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

SOUTHEAST MISSOURI MUTUAL FIRE INSURANCE COMPANY

AS OF
DECEMBER 31, 2021

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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Dexter, Missouri
December 14, 2022

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Southeast Missouri Mutual Fire Insurance Company

hereinafter referred to as such, or as the Company. Its administrative office is located at 18 Vine Street, Dexter, Missouri 63841, telephone number (573) 624-5561. The fieldwork for this examination began on November 2, 2022, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Southeast Missouri Mutual Fire Insurance Company (Company). The last examination of the Company by the Department covered the period of January 1, 2014, through December 31, 2018. The current examination covers the period of January 1, 2019, through December 31, 2021, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company was originally incorporated as Stoddard County Mutual Fire Insurance Company on September 15, 1910. On May 3, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State as the Southeast Missouri Mutual Fire Insurance Company.

On December 10, 1970, the Company amended its Articles of Incorporation to establish the duration of the Company as perpetual. The Company has a Certificate of Authority dated March 8, 2001, 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 AND CONTROL

Board of Directors

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held the last Thursday in May, 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 the Board of Directors at any time or upon petition by one-fourth of the members. Proxy voting is allowed.

The management of the Company is vested in a Board of Directors consisting of five members that are elected by the policyholders. The Board of Directors elected and serving as of December 31, 2021, was as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Earlene Hunt Dexter, Missouri	Retired	2022
Scott Wethington Dexter, Missouri	Farmer	2022
Darrel Pyle Dexter, Missouri	Farmer	2022
Marilyn Vancil Qulin, Missouri	Retired	2022
Gregg Miller Dexter, Missouri	Inspector/Adjuster	2022

Senior Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Darrel Pyle	President
Scott Wethington	Vice President
Gary Trammell	Secretary/Treasurer

Conflict of Interest

The Company's directors sign conflict of interest statements on an annual basis.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period. The minutes of the annual membership meetings and Board of Directors meetings were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company had six full-time employees as of the examination date. The Company provides health insurance, dental insurance, life insurance, retirement contributions, and paid time off for all full-time employees.

The Company indicated two of its employees are shared with Lee W. Trammell & Son Insurance Agency & Real Estate, Inc. (Trammell, Inc.), of which the Company Secretary/Treasurer is an owner/officer. Trammell, Inc. reimburses the Company for 50% of these employees' salaries. The Company indicated there was no agreement covering this arrangement and no documentation to support the allocation rationale.

An additional Company employee was observed to be performing real estate duties related to Trammell, Inc. during our on-site examination visit. Trammell, Inc.'s website lists this employee as a Broker Officer of Trammell, Inc. Contrary to these observations, the Company indicated this employee only performs duties related to the Company. This employee's salary is paid by the Company, and no costs are allocated to Trammell, Inc.

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 meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company also carries a business owner's, workers compensation, and professional liability policy.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Commerce and Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire and wind insurance in all counties in the state of Missouri. The Company writes fire and wind coverages. The Company’s policies are sold by eleven licensed agents, who receive a 15% commission on new and renewal business.

Policy Forms and Underwriting Practices

The Company utilizes forms from its reinsurer. Policies are written on a continuous basis. Property inspections are performed by the Company. Claim adjusting services are performed by the Company and third parties.

GROWTH OF COMPANY AND LOSS EXPERIENCE

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2021	\$2,420	\$140	\$1,593	\$293	\$ 5	\$ 277	\$ 311
2020	2,182	213	1,639	475	15	(102)	(35)
2019	2,049	87	1,631	350	21	68	86

At year-end 2021, there were 1,422 policies in force.

REINSURANCE

General

The Company’s premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

	2019	2020	2021
Direct	\$ 1,631	\$ 1,639	\$ 1,593
Assumed	0	0	0
Ceded	(429)	(408)	(406)
Net Written	\$ 1,202	\$ 1,231	\$ 1,188

Assumed Reinsurance

The Company does not reinsure other companies.

Ceded Reinsurance

The Company has property reinsurance through Grinnell Mutual Reinsurance Company (Grinnell). Under the per risk excess of loss agreement, the Company retains \$100,000 per risk, and Grinnell’s maximum limit is \$20 million per risk. Under the aggregate excess of loss agreement, Grinnell is liable for all losses in excess of the Company’s annual aggregate net retention, or attachment point. The attachment point for 2021 was \$700,000 of ultimate net losses.

The Company also cedes to Grinnell 100% of the liability related to earthquake, special personal property, and equipment breakdown coverage that it writes. For the equipment breakdown coverage, 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 an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified accrual basis. The CPA firm of Jean & Company, CPA performs a compilation and a limited agreed upon procedures engagement for the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Southeast Missouri Mutual Fire Insurance Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2021

Stocks	\$	1,500
Mutual Funds		8,922
Real Estate		217,544
Cash		2,152,820
Premiums/Assessments/Agent's Balances Uncollected		37,286
Federal Income Tax Recoverable		1,838
TOTAL ASSETS	\$	<u>2,419,910</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2021

Unpaid Losses	\$	21,496
Ceded Reinsurance Premium Payable		34,313
Payroll Tax		4,738
Accounts Payable to Agents		21,501
Accounts Payable (Other)		1,560
Long Term Note Payable		56,255
TOTAL LIABILITIES	\$	<u>139,863</u>
Guaranty Fund		100,000
Other Surplus		2,180,047
TOTAL POLICYHOLDER SURPLUS	\$	<u>2,280,047</u>
TOTAL LIABILITIES AND SURPLUS	\$	<u>2,419,910</u>

STATEMENT OF INCOME

For the Year Ended December 31, 2021

Net Earned Assessment/Premium Income	\$ 1,187,734
Other Insurance Income	21,109
Net Losses & Loss Adjustment Expense	(137,390)
Underwriting Expenses	(793,479)
Underwriting Income (Loss)	\$ 277,974
Investment Income	10,047
Interest Expenses	(4,212)
Net Investment Gain (Loss)	\$ 5,835
Other Income	28,089
Gross Profit or Loss	\$ 311,898
Federal Income Tax	(1,070)
NET INCOME (LOSS)	\$ 310,828

RECONCILIATION OF CAPITAL AND SURPLUS

Changes from January 1, 2019 to December 31, 2021

	2019	2020	2021
Beginning Policyholder's Surplus	\$ 1,875,544	\$ 1,961,893	\$ 1,969,219
Net Income (Loss)	86,349	(34,572)	310,828
Building Adjustment	0	41,898	0
Ending Policyholder's Surplus	\$ 1,961,893	\$ 1,969,219	\$ 2,280,047

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Employee Benefits – Page 3

The Company should enter into a written agreement for any shared employee arrangements with Trammel, Inc. The agreement should clearly state the cost allocation methods and the rationale used to arrive at the allocated amounts. The agreement should be reviewed by the Board of Directors for fairness and reasonableness, and Board of Director approval should be clearly stated in the meeting minutes.

The following comments and recommendations relate to issues that were present during the prior examination. These issues were brought to the Company's attention as a result of the prior examination; however, the Company failed to adequately address the issues.

Board of Director Terms

The Company's Articles of Incorporation prescribe that members of the Board of Directors are to be elected to three-year terms. The Company's Board of Director meeting minutes indicate that directors are elected annually. The Company should adhere to the provisions of its Articles of Incorporation in regard to Board of Directors terms and elections and document this accordingly in the meeting minutes.

Conflicts of Interest

Several issues related to conflicts of interest continue to be noted:

- One of the Company's directors is an agent for an entity that is contracted to manage the Company. This director's spouse is also an employee of the Company. These potential conflicts have not been disclosed in the annual conflict disclosure forms, and there was no indication in the Board of Director meeting minutes that the director abstained from voting on issues where these potential conflicts may have applied.
- All Company officers do not complete annual conflict of interest disclosure forms. Two officers, who are not directors, regularly attend Board of Director's meetings and provide significant input concerning the Company's decisions. These officers have multiple outside affiliations that could be considered potential conflicts and could have the potential to affect these officers' recommendations to the Board.

The Company should require all officers, in addition to all directors, to complete conflict of interest disclosures on at least an annual basis. All potential conflicts of interest should be disclosed in the conflict of interest disclosures. The Board of Directors should review the conflict of interest disclosures and assess the potential conflicts that are disclosed. Abstention from meeting discussions and voting should be observed as applicable, based upon potential conflicts. This activity should clearly be disclosed in the Board of Directors meeting minutes.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.


ACKNOWLEDGMENT

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

VERIFICATION

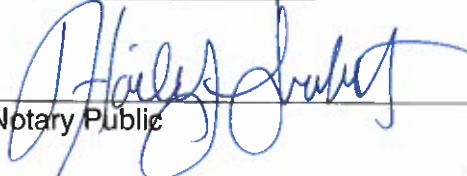
State of Missouri)
) ss
County of Cole)

I, Joshua Nash, CPA, CFE, 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 facts appearing upon the books, records, or other documents of Southeast Missouri Mutual Fire Insurance 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.



Joshua Nash, CPA, CFE
Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 15th day of February, 2023.

My commission expires: March 30, 2023 

Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366

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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.

Michael R. Shadowens

Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance