

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

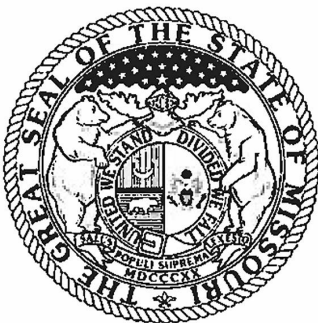
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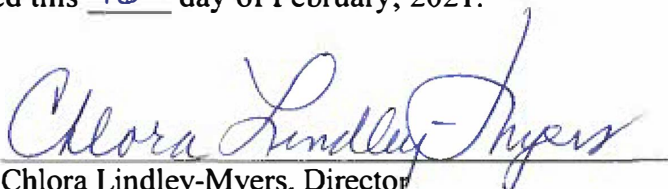
ORDER

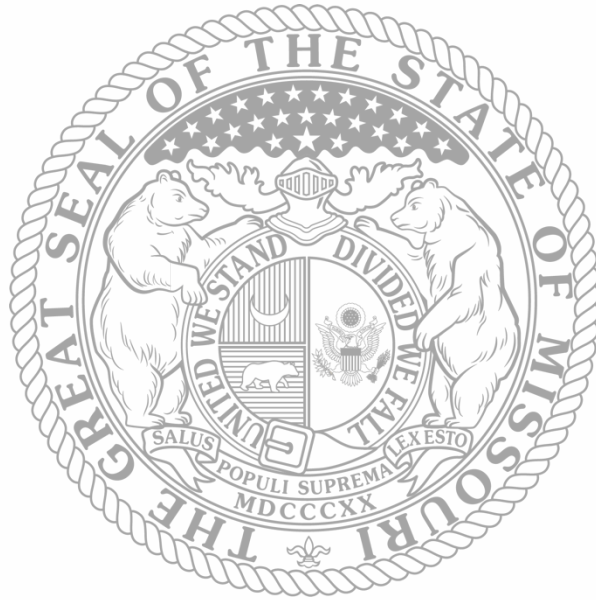
After full consideration and review of the report of the financial examination of Missouri Employers Mutual Insurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Employers Mutual Insurance Company as of December 31, 2019 be and is hereby ADOPTED as filed and for Missouri Employers 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 by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 16th day of February, 2021.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

MISSOURI EMPLOYERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO
January 5, 2021

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

Missouri Employers Mutual Insurance Company (NAIC #10191)

hereinafter referred to as such, as MEM, or as the Company. Its administrative office is located at 101 North Keene Street, Columbia, Missouri 65201, telephone number (573) 499-9714. The fieldwork for this examination began on June 29, 2020, 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 Missouri Employers Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2011 through December 31, 2015. The current examination covers the period of January 1, 2016 through December 31, 2019, 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 also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to MEM included Claims & Reserves, Expenses, Investments & Treasury, Premiums & Underwriting, Reinsurance and Related Parties. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) 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 are 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 balance sheet or income statement identified during the examination.

COMPANY HISTORY

General

MEM was created pursuant to Sections 287.900 to 287.920 of the Revised Statutes of Missouri (RSMo), which is referred to as the “Missouri Employers Mutual Insurance Company Act.” Section 287.920(5) RSMo specifies that the Company is “subject to all provisions of the statutes which relate to private insurance carriers.” In compliance with this statute, MEM operates under the statutes in Chapter 379 RSMo (Insurance Other Than Life) for property and casualty insurers.

The Company was created for the purpose of insuring Missouri employers against liability for workers’ compensation, occupational disease, and employers’ liability coverage. The laws creating MEM were enacted in 1993. The Company was subsequently organized on September 16, 1994 and commenced business on March 1, 1995. The initial Board of Directors were appointed by the Governor of the State of Missouri. The initial capitalization of MEM was from \$5 million received from the State of Missouri, as consideration for a surplus note that was issued in 1995. The note and all accrued interest was repaid on September 16, 1999. MEM was granted tax-exempt status by the Internal Revenue Service, as of December 1, 1998.

The Company was organized and operates as a domestic mutual insurance company, but it is not an agency of the State of Missouri. However, the Company’s Bylaws require that three of the five directors serving on the Board of Directors shall be appointed by the Governor of Missouri, subsequent to election by the policyholders. The Bylaws state that if the Governor rejects a director candidate, the policyholders must elect a new director candidate to be submitted to the Governor for appointment.

Mergers, Acquisitions, and Major Corporate Events

No mergers, acquisitions or other major corporate events occurred during the examination period.

Dividends and Capital Contributions

MEM does not have any stockholders; therefore, there are no stockholder dividends. Below are the policyholder dividends paid during the examination period.

<u>Year</u>	<u>Amount</u>
2016	\$6,027,378
2017	6,315,730
2018	8,459,239
2019	6,116,851

MEM has not received any capital contributions since inception.

Surplus Notes

MEM does not have any surplus notes outstanding.

MANAGEMENT AND CONTROL**Board of Directors**

The management of the Company is vested in a Board of Directors, which are elected by the policyholders. The Company's Bylaws specify that the Board of Directors shall consist of five directors. The Board of Directors appointed and serving, as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Charles A. Caisley Kansas City, Missouri	Sr. Vice President, Marketing and Public Affairs Eversource Companies
James J. Jura Springfield, Missouri	Retired General Manager/Chief Executive Officer Associated Electric Cooperative, Inc.
Joe L. Moseley Columbia, Missouri	Retired Vice President, Public Affairs Shelter Insurance Companies
William T. Reeves St. Louis, Missouri	Vice President, St. Louis Market Chairman Busey Bank
Herman A. Styles, Jr. Poplar Bluff, Missouri	Owner/Operator Colton's Restaurant & Grill

Senior Officers

The officers elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
James C. Owen	President & Chief Executive Officer
Jennifer L. Barth	Vice President & General Counsel
Andrew S. Ribaud	Chief Financial Officer
Timothy Jackman	Senior Vice President, Operational Services
Roger S. Walleck	Vice President, Underwriting and Consultative Services
Kevin Miller	Vice President
Jennifer A. Peck	Vice President
Susan R. Eslinger	Vice President

Principal Committees

The following Board committees were in place as of December 31, 2019: Audit Committee, Compensation Committee, Investment Committee and Nominating & Governance Committee. Each committee consists of all of the Board members.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. No amendments to the Articles of Incorporation were made during the examination period. The Bylaws were amended on September 13, 2016 and November 2, 2018. No material changes were noted during the review.

The minutes of the meetings of the policyholders, board of directors and committees were reviewed for the period beginning January 1, 2016, through current. The minutes appear to properly document and approve corporate events and transactions.

Holding Company, Subsidiaries, and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by MEM each year of the examination period. MEM does not have any stockholders or a controlling entity due to its formation as a mutual insurer. The Company is ultimately controlled by its policyholders, which elect the Board of Directors. As explained previously, a majority of directors elected by the policyholders are subject to approval by the Governor of Missouri.

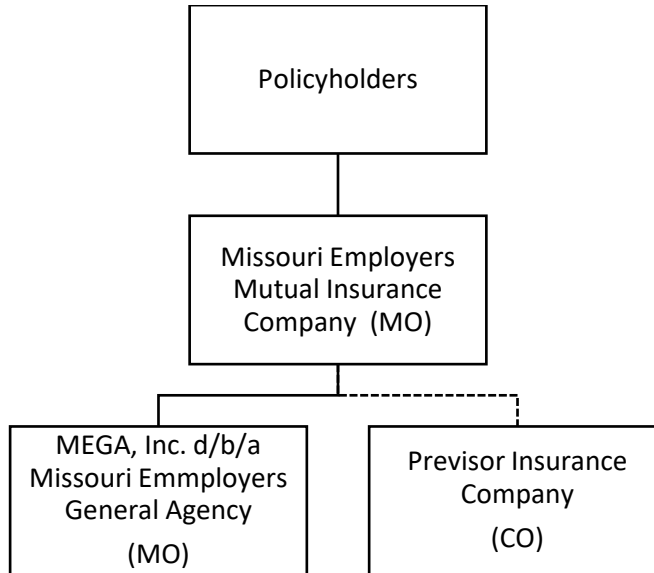
The only other entity in the holding company system, as of December 31, 2019, was MEM's subsidiary, MEGA, Inc., d/b/a Missouri Employers General Agency (MEGA). MEGA was previously utilized as the licensed agent for MEM risks insured outside of the State of Missouri through a fronting arrangement with unaffiliated ceding companies. MEGA's services were no longer needed when MEM contracted with a new ceding company, Argonaut Insurance Company, at the end of 2003. MEGA has been a shell entity with no active operations since the end of 2005. Management does not currently have any plans to liquidate MEGA in the event that a new business use could develop in the future.

MEM beneficially owns 100% of Previsor Insurance Company (Previsor), but the voting rights of Previsor's common stock are controlled by a voting trust agreement. As such, Previsor is

considered a related party but not a controlled affiliate under SSAP No 25. The voting trustee is an individual appointed by the trustee, Landmark Bank, N.A. (now Simmons Bank). The Trustee votes based on guidance voted on by dual policyholders of both MEM and Previsor. Previsor is a Colorado-domiciled property and casualty insurance company licensed in 18 states, and had total direct written premiums of \$8.7 million in six states in 2019.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2019. All subsidiaries shown are wholly-owned unless otherwise noted.



Missouri Employers Mutual Insurance Company owns 100% of Previsor's shares; however, Landmark Bank, N.A. votes the shares per the previously mentioned voting agreement.

Intercompany Transactions

The following is a brief description of the only significant contract executed with affiliated entities that was in effect as of December 31, 2019.

General Operating Agreement: This agreement, effective February 1, 2011, is between MEM and MEGA. Per the terms of the agreement, MEGA provides MEM with various agency related services and administrative services. MEM pays MEGA a commission on all business produced.

TERRITORY AND PLAN OF OPERATION

MEM is licensed as a property and casualty insurer by the Missouri Department under Chapter 379 RSMo (Insurance Other than Life). The Company is not licensed in any other states.

Some of MEM's policyholders have employees located outside of the State of Missouri. MEM has historically utilized a fronting arrangement with Argonaut Insurance Company (Argonaut) to

insure out-of-state risks. Beginning September 1, 2015, Previsor began writing small amounts of business for MEM in other states. The Company plans for Previsor to eventually replace Argonaut as the direct writer for most of MEM's out-of-state risks. Descriptions of the reinsurance agreements with Previsor and Argonaut are included in the Reinsurance section of this report.

The Company's only line of business is workers' compensation, as prescribed by the statutes in the Missouri Employers Mutual Insurance Company Act, which created MEM in 1994. MEM is the market share leader for workers' compensation insurance in Missouri with a 26.05% share of 2019 direct written premiums. Approximately 800 independent insurance agencies are used to produce the Company's business. The top 60 agencies produced the 76.4% of MEM's in-force premiums at year-end 2019.

Section 287.902 RSMo (Missouri Employers Mutual Insurance Company) requires that the Company shall give preference to Missouri employers with an annual premium of \$10,000 or less. As of December 31, 2019, 77% of MEM's policyholders had annual premiums of \$10,000 or less. This is an increase from 76% of policyholders with premiums of \$10,000 or less in the prior examination, as of December 31, 2015.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company's premium writings and writing ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Written	Change in Net Premiums	Benefit and Loss Payments	Capital and Surplus	Ratio of Net Premiums to Surplus	Net Income (Loss)
2016	219,861	17,307	122,978	255,150	.86	15,386
2017	238,529	18,668	123,223	252,828	.94	10,665
2018	243,117	4,588	128,418	236,324	1.03	10,758
2019	244,831	1,714	137,278	247,320	.99	1,998

The table below summarizes the Company's incurred losses and loss ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2016	\$ 208,360	\$ 143,580	68.9%
2017	231,297	163,153	70.5%
2018	241,405	175,350	72.6%
2019	249,274	185,058	74.2%

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)

Premium Type	2016	2017	2018	2019
Direct Premiums Written	\$ 216,524	\$ 233,294	\$ 238,989	\$ 237,214
Reinsurance Assumed:				
Affiliates	0	0	0	0
Non-Affiliates	13,291	16,180	17,352	16,589
Reinsurance Ceded:				
Affiliates	0	0	0	0
Non-Affiliates	9,954	10,944	13,225	8,973
Net Premiums Written	\$ 219,861	\$ 238,529	\$ 243,117	\$ 244,831

Assumed Reinsurance

MEM assumes workers' compensation business from Argonaut, pursuant to a 100% quota share reinsurance agreement effective January 1, 2010. The Company also has a quota share agreement with Previsor in which it assumes 90% of the workers' compensation business written by Previsor, beginning September 1, 2015. MEM's assumed business for 2019 was split between Argonaut and Previsor, 58.9% and 41.1% respectively.

Ceded Reinsurance

MEM has reinsurance placed with 39 participating reinsurers through their broker, Willis Re, as of December 31, 2019. The First Excess of Loss Contracts have a per occurrence retention of \$2,000,000, a per occurrence limit of \$8,000,000, and an annual aggregate limit of \$32,000,000. The Second Excess of Loss Contract has a per occurrence retention of \$10,000,000, a per occurrence limit of \$40,000,000, and an annual aggregate limit of \$80,000,000. All contracts renew annually on January 1.

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

Independent Auditor

The certified public accounting (CPA) firm, BKD, Ltd., of Kansas City, MO, performed the 2019 statutory audit of the Company. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's 2019 actuarial opinion regarding loss reserves, loss adjustment reserves, and other actuarial items was issued by John Herzfeld, FCAS, MAAA, of Milliman, Inc.

Consulting Actuary

Pursuant to a contract with the Department, Kristine Fitzgerald of Actuarial & Technical Solutions, Inc. reviewed the underlying actuarial assumptions and methodologies used by MEM to determine the adequacy of loss reserves and LAE reserves. Ms. Fitzgerald determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2019.

Information Systems

In conjunction with this examination, examiners conducted a review of the Company’s information systems and general controls. No material weaknesses were identified.

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 Missouri Employers Mutual Insurance Company for the period ending December 31, 2019. 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, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 529,058,474	\$ 0	\$ 529,058,474
Stocks:			
Preferred Stocks	2,745,879	0	2,745,879
Common Stocks	79,902,424	486,603	79,415,821
Real Estate:			
Properties Occupied by the Company	12,136,230	0	12,136,230
Cash, Cash Equivalents, and Short- Term Investments	13,964,166	0	13,964,166
Receivables for Securities	105	0	105
Investment Income Due and Accrued Premiums and Considerations:	3,927,257	0	3,927,257
Uncollected Premiums and Agents' Balances	89,869,347	6,949,895	82,919,452
Deferred Premiums	7,544,278	754,428	6,789,850
Reinsurance:			
Amounts Recoverable from Reinsurers	1,480,996	0	1,480,996
Funds Held by or Deposited with Reinsured Companies	1,208,319	0	1,208,319
Electronic Data Processing Equipment and Software	10,889,335	10,395,806	493,529
Furniture and Equipment	155,646	155,646	0
Aggregate Write-Ins for Other-Than- Invested Assets	5,752,409	4,405,946	1,346,463
TOTAL ASSETS	\$ 758,634,865	\$ 23,148,324	\$ 735,486,541

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2019

Losses	\$ 310,013,632
Reinsurance Payable on Paid Losses and LAE	735,105
Loss Adjustment Expenses	28,251,108
Commissions Payable	10,280,387
Other Expenses	12,273,045
Taxes, Licenses and Fees	2,862,342
Unearned Premiums	106,564,124
Advance Premiums	4,547,880
Dividends Declared and Unpaid - Policyholders	5,146,581
Ceded Reinsurance Premiums Payable	1,785,383
Amounts Withheld or Retained by Company	5,667,159
Payable to Parent, Subsidiaries and Affiliates	39,698
TOTAL LIABILITIES	\$ 488,166,444
Unassigned Funds (Surplus)	247,320,097
TOTAL CAPITAL AND SURPLUS	\$ 247,320,097
TOTAL LIABILITIES AND SURPLUS	\$ 735,486,541

STATEMENT OF INCOME
For the Year Ended December 31, 2019

Premiums Earned		\$ 249,273,587
DEDUCTIONS:		
Losses Incurred		159,662,551
Loss Adjustment Expenses Incurred		25,395,499
Other Underwriting Expenses Incurred		80,050,564
Aggregate Write-Ins for Underwriting Deductions		0
Total Underwriting Deductions		\$ 265,108,615
Net Income of Protected Cells		0
Net Underwriting Gain (Loss)		\$ (15,835,028)
Net Investment Income Earned		20,108,668
Net Realized Capital Gains		2,171,029
Net Investment Gain (Loss)		\$ 22,279,697
Net Gain (Loss) from Agents' or Premium Balances Charged Off		(436,032)
Finance and Service Charges Not Included in Premiums		0
Aggregate Write-Ins for Miscellaneous Income		2,106,674
Dividends to Policyholders		6,116,851
Federal and Foreign Income Taxes Incurred		0
		0
NET INCOME (LOSS)		\$ 1,998,461

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2016 to December 31, 2019

(\$000s omitted)

	2016	2017	2018	2019
Capital and Surplus, Beginning of Year	\$ 237,789	\$ 255,151	\$ 252,828	\$ 236,324
Net Income (Loss)	15,387	10,665	10,757	1,998
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	7,424	3,008	(14,883)	10,484
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(5,449)	4,004	(12,378)	(1,486)
Change in Nonadmitted Assets	5	(20,040)	0	0
Aggregate Write-Ins for Gains and Losses in Surplus	(5)	40	0	0
Net Change in Capital and Surplus	17,362	(2,323)	(16,504)	10,996
Capital and Surplus, End of Year	\$ 255,151	\$ 252,828	\$ 236,324	\$ 247,320

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with MEM regarding the impact of COVID-19 on its business operations and financial position.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Employers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Michael Borawski, CFE (Fraud); Josh Nash, CPA, CFE; Conner Nilges; and John Boczkiewicz, CPA, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

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

I, Scott Reeves, CFE, CPA, CAMS, 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 Missouri Employers Mutual 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.

Scott Reeves, CFE, CPA, CAMS
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

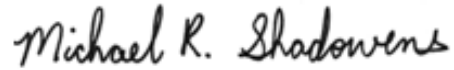


Sworn to and subscribed before me this 5th day of January, 2021.

My commission expires: 05/31/2022 Shermira Kimble
Notary Public

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