



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

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

**ORDER**

After full consideration and review of the report of the financial examination of Shelter Mutual Insurance Company 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 of the Missouri Department of Insurance, Financial Institutions and Professional Registration 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 findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, reinsurance, accounts and records, financial statements, comments on financial statement items, examination changes and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Shelter Mutual Insurance Company as of December 31, 2016 be and is hereby ADOPTED as filed and for Shelter 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 07<sup>th</sup> day of June, 2018.



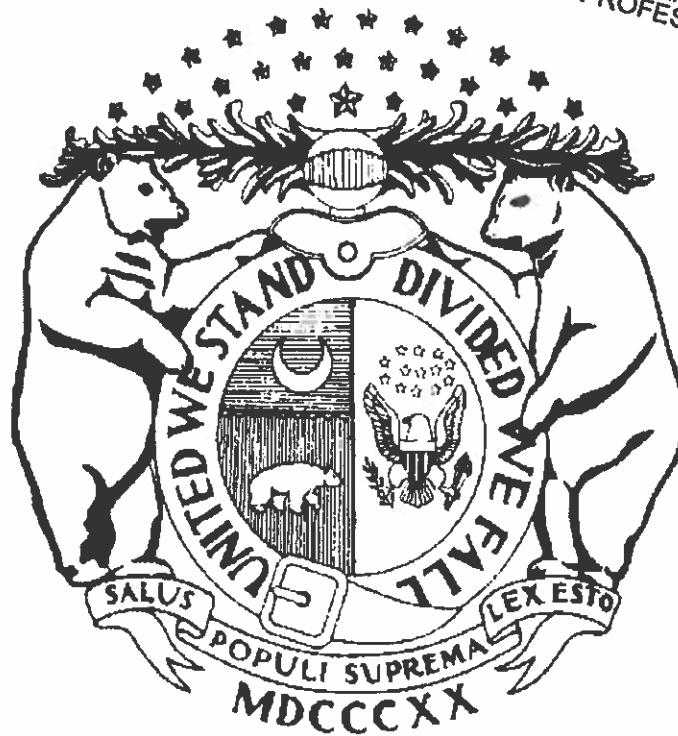
*Chlora Lindley-Myers*

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
SHELTER MUTUAL INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2016**

**FILED**  
JUN 18 2018  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



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

**JEFFERSON CITY, MISSOURI**

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Columbia, Missouri  
March 30, 2018

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 financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**Shelter Mutual Insurance Company**

hereinafter referred to as Shelter Mutual, SMIC, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri, 65218, telephone number (573) 445-8441. This examination began on August 7, 2017 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a multi-state examination of Shelter Mutual. The last examination was completed as of December 31, 2012. This examination covers the period of January 1, 2013, through December 31, 2016. This examination also included the material transactions or events occurring subsequent to December 31, 2016.

**Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination was conducted concurrently with the examinations of the Company's Missouri domiciled subsidiaries, Shelter General Insurance Company (Shelter General or SGIC), Shelter Life Insurance Company (Shelter Life or SLIC), Shelter Reinsurance Company (Shelter Re or SRC), and AmShield Insurance Company (AmShield).

The examinations of Shelter Mutual and its Missouri subsidiaries were coordinated with the concurrent examination of the Company's Tennessee domiciled subsidiary, Haulers Insurance Company (Haulers), that was conducted by the Tennessee Department of Commerce and Insurance. The Missouri DIFP was the lead state in the coordinated examinations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating 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 is documented separately following the Company's financial statements. The following key activities were identified during the examination: Investments, Premiums, Underwriting, Claims Handling, Reserving, and Reinsurance.

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.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events noted from December 31, 2016 through the date of this report.

## COMPANY HISTORY

### General

Shelter Mutual was incorporated on August 31, 1945 and was originally named M.F.A. Mutual Insurance Company. It was issued a Certificate of Authority on December 31, 1945 and commenced business on January 1, 1946. The Company's name was changed to Shelter Mutual Insurance Company on July 1, 1981. The Company operates as a mutual property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

### Dividends and Capital Contributions

Shelter Mutual does not have any stockholders due to its organization as a mutual entity. The Company's Bylaws allow for dividends to be paid to its policyholders. However, no dividends were declared or paid during the examination period.

The Company received dividends from subsidiaries in the examination period, which are summarized in the table shown in the Intercompany Payments section of this report.

### Mergers and Acquisitions

The Company's savings and loan subsidiary, Shelter Financial Bank, was converted to Shelter Bank, N.A. (Shelter Bank) on March 22, 2013 as part of the process of merging with the direct parent, Shelter Financial Corporation (SFC). Shelter Bank's deposits and loans were transferred to third parties to facilitate the merger. Shelter Bank and SFC were merged, effective March 30, 2013, with SFC as the surviving entity.

Shelter Mutual invested \$5 million to form a new subsidiary, AmShield Insurance Company, which was incorporated on May 13, 2014. Shelter Mutual owns 100% of AmShield.

SFC was voluntarily liquidated and dissolved, effective March 31, 2016. SFC's remaining assets after liquidation totaled \$5,557,124, and this amount was transferred to Shelter Mutual.

## CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors' and policyholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

**MANAGEMENT AND CONTROL**

**Corporate Governance**

The management of the Company is vested in a Board of Directors, which is appointed by the policyholders. The Company’s Bylaws specify that the Board of Directors shall consist of nine (9) members. The Board of Directors appointed and serving, as of December 31, 2016, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Don A. McCubbin <sup>1</sup> (Chair)	Retired, former Executive Vice President, SMIC
Ricky L. Means <sup>1</sup> (Vice Chair)	President and CEO, SMIC
Deborah L. Douglas	President, Douglas Group
Stephen E. Erdel	Chairman and CEO, Central Bank of Boone County
Andrés Jiménez	Retired, former Chairman and CEO, Mapfre Re
H. Baker Kurrus	Former Superintendent, Little Rock School District
David R. Monday	Retired, former Partner, PricewaterhouseCoopers
J. David Moore	Retired, former President and CEO, SMIC
Madison “Matt” M. Moore	Executive Vice President, SMIC

<sup>1</sup> Mr. McCubbin will retire and Mr. Means was elected Chairman, effective July 1, 2018.  
Randa C. Rawlins was elected to replace Mr. McCubbin as a director, effective July 1, 2018.

**Committees**

The Bylaws require an Audit Committee and an Executive and Compensation Committee to be maintained by the Board of Directors. The Bylaws allow for additional committees to be maintained, as deemed necessary. An Investment Committee of the Board of Directors has historically been maintained in addition to the mandatory committees. The committee members appointed and serving, as of December 31, 2016, were as follows:

<u>Audit Committee</u>	<u>Corporate Governance Committee</u>
Deborah L. Douglas (Chair)	Ricky L. Means (Chair)
H. Baker Kurrus	H. Baker Kurrus
David R. Monday	Randa C. Rawlins
	Don A. McCubbin



Investment Committee  
 Ricky L. Means (Chair)  
 S. Daniel Clapp  
 Deborah L. Douglas  
 Stephen E. Erdel  
 Don A. McCubbin  
 J. David Moore  
 Madison “Matt” M. Moore

Executive and Compensation Committee  
 Don A. McCubbin (Chair)  
 Andrés Jiménez  
 Stephen E. Erdel  
 Ricky L. Means  
 David R. Monday

**Officers**

The officers elected by the Board of Directors and serving as of December 31, 2016, were as follows:

<u>Officer</u>	<u>Position</u>
Ricky L. Means <sup>2</sup>	President and Chief Executive Officer
S. Daniel Clapp	Executive Vice President
Teresa K. Magruder	Executive Vice President and Treasurer
Madison M. Moore <sup>3</sup>	Executive Vice President
Rockne P. Corbin	Senior Vice President
Randa C. Rawlins <sup>4</sup>	Senior Vice President, Secretary and General Counsel
Paul J. LaRose	Assistant Secretary
David N. Abbott	Vice President of Investments
Terry L. Dykes	Vice President of Claims
H. Lloyd Montgomery, Jr.	Vice President of Alternate Channels
John T. Rooney	Vice President of Information Services
Frank L. Thompson IV	Vice President of Marketing
Todd J. Weyler	Vice President of Underwriting
Christina M. Workman	Vice President of Accounting, Assistant Treasurer

<sup>2</sup> Mr. Means’ title is Chief Executive Officer only, effective January 1, 2018.

<sup>3</sup> Mr. Moore was elected President and Chief Operating Officer, effective January 1, 2018.

<sup>4</sup> Ms. Rawlins was elected Executive Vice President, effective January 1, 2018.

**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 Shelter Mutual for each year of the examination period.

Shelter Mutual is the ultimate controlling entity in a holding company system that includes six insurance companies and five non-insurance entities. Below is a brief synopsis of the business operations of the Company's subsidiaries:

**Shelter General Insurance Company** – A property and casualty insurer that mostly writes commercial auto policies. However, Shelter General began selling a new personal auto product in August 2016 under the brand name "Say Insurance." Say Insurance is sold directly to consumers on the internet, which diversifies the distribution channel from the captive agency model that has historically been used for personal auto policies sold by Shelter Mutual.

**Shelter Reinsurance Company** – A property reinsurer that assumes business from nearly 300 insurers in the United States, United Kingdom, Europe, the Caribbean, and other areas around the world. Most of Shelter Re's business is property catastrophe coverage that adds diversification from Shelter Mutual's heavy concentration in the Midwestern United States.

**Shelter Life Insurance Company** – A life insurer that primarily writes whole life, term life and universal life products. Shelter Life's business plan leverages the policyholders of Shelter Mutual to market life insurance policies in addition to existing auto and homeowners insurance policies.

**AmShield Insurance Company** – A property and casualty insurer that was incorporated in May 2014 and commenced business in October 2017. AmShield's business plan is to write personal auto and homeowners business through independent agents in territories in the western states that are distinct from Shelter Mutual and Shelter General's operating territory.

**Haulers Insurance Company** – A property and casualty insurer that was acquired by Shelter Mutual in 2008. Haulers writes personal and commercial auto business in eight states in the Midwest and Southeast regions of the United States.

**Shelter Investments, LLC (Shelter Investments)** – An entity used to hold limited partnership investments of Shelter Mutual. The Company reported a book value of \$88 million for this subsidiary, as of December 31, 2016.

**Shelter Financial Services, Inc. (SFS)** – A holding company for Shelter Benefits Management, Inc. with no business operations.

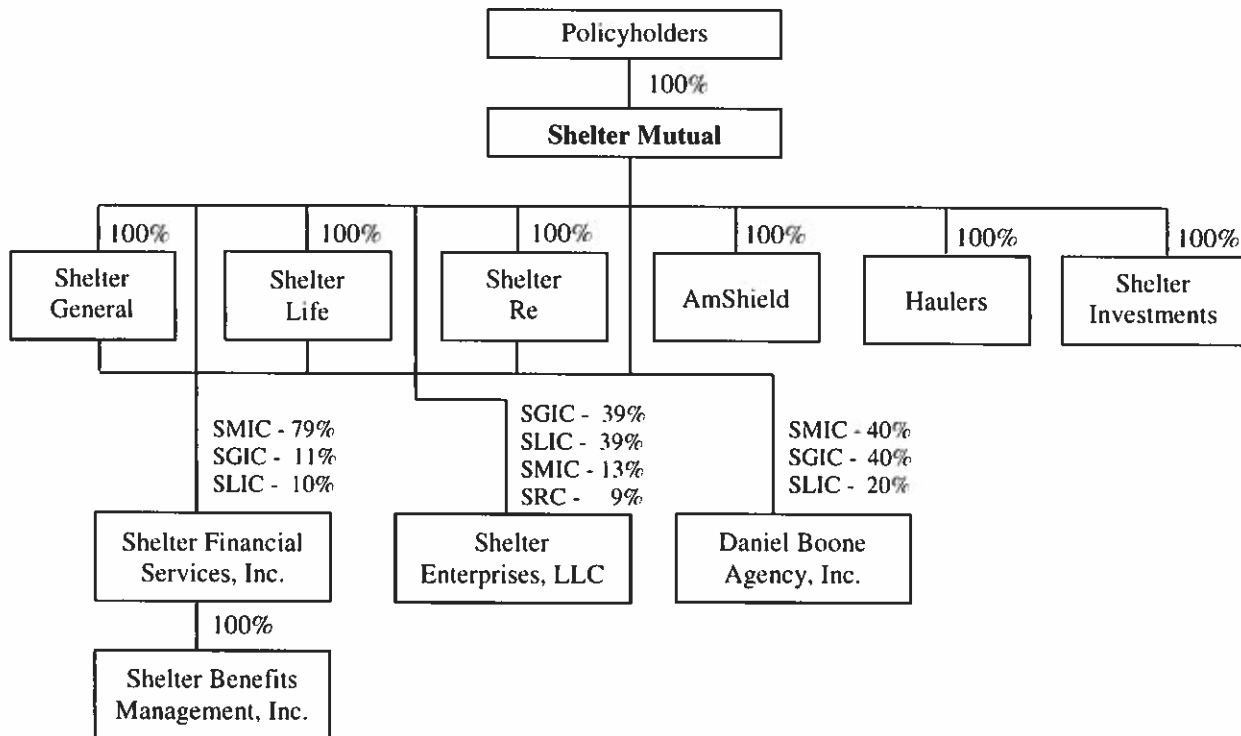
**Shelter Benefits Management, Inc. (SBMI)** – Manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.

**Shelter Enterprises, LLC (Shelter Enterprises)** – Owns real estate, property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and other non-affiliated entities.

**Daniel Boone Agency, Inc. (DBA)** – An insurance broker that places risks from leads generated by agents of the Shelter Mutual. The risks placed by DBA do not meet the underwriting standards for personal lines policies or are in lines of business that are not written by Shelter Mutual or its insurance subsidiaries.

**Organizational Chart**

Below is the organizational chart of Shelter Mutual and its subsidiaries, as of December 31, 2016.



**Intercompany Agreements**

The Company's agreements with related parties that were in effect, as of December 31, 2016, and subsequent periods are outlined below.

- 1. Type:** Agreement for Management Services and Facilities (eight separate agreements)

**Affiliates:** Shelter General, Shelter Re, Shelter Life, AmShield, SFS, DBA, Shelter Enterprises, Shelter Investments (collectively referred to as the "subsidiaries")

**Effective:** January 1, 1997 for Shelter Life, Shelter Re, and SFS; October 1, 2003 for Shelter Enterprises and DBA; December 12, 2005 for Shelter General; April 26, 2013 for Shelter Investments; September 30, 2014 for AmShield.

**Terms:** The terms of all eight agreements are nearly identical. Shelter Mutual will provide the employees to operate all aspects of the subsidiaries. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the subsidiaries' business. Shelter Mutual also provides office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the subsidiaries will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the subsidiaries.
  
- 2. Type:** Joint Expense Allocation Agreement

**Affiliates:** Shelter General, Shelter Re, Shelter Life, AmShield, SFS, SBMI, DBA, Shelter Enterprises, Shelter Investments

**Effective:** December 1, 2004 (revised and restated version) for all parties except AmShield and Shelter Investments; April 26, 2013 for Shelter Investments; September 30, 2014 for AmShield.

**Terms:** Each party pays its direct expenses in instances when each entity's actual usage can be determined. Any joint expenses will be allocated for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

  - (1) Personnel – estimated or actual time
  - (2) Real Estate – square footage and employee count
  - (3) Investment – portfolio value
  - (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
  - (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
  - (6) Other Expenses – assets, employee count, or written premium

- 3. Type:** Management Services Agreement  
**Affiliate:** SBMI  
**Effective:** May 19, 1999  
**Terms:** Shelter Benefits will provide all human resource functions, payroll processing, and benefits administration for the employees and agents of Shelter Mutual. The costs of Shelter Benefits providing services will be allocated in accordance with the Joint Expense Allocation Agreement.
- 4. Type:** Transfer and Assumption Agreement  
**Affiliates:** SBMI, Shelter General, Shelter Life  
**Effective:** May 19, 1999  
**Terms:** Shelter Mutual, Shelter General and Shelter Life transferred agent liabilities and employee benefit liabilities to SBMI in 1999. The liabilities transferred included agents termination benefits, post-retirement benefits, accrued vacation benefits, and directors' retirement plan benefits. In exchange, Shelter Mutual assigned its rights to a promissory note issued by Shelter Life to SBMI. SBMI also issued shares of preferred stock to Shelter Mutual as part of the 1999 transactions. SBMI agrees to assume future agent liabilities and employee benefit liabilities from Shelter Mutual. Each year, Shelter Mutual makes a payment to SBMI for the incurred expenses for the agent and employee benefits under its administration.
- 5. Type:** Tax Allocation Agreement  
**Affiliates:** Shelter General, Shelter Re, Shelter Life, AmShield, Haulers, SFS, SBMI  
**Effective:** No stated effective date, but signed May 19, 1999 by all parties except Haulers and AmShield. Haulers added by amendment effective June 30, 2008; AmShield added by amendment effective September 30, 2014.  
**Terms:** Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries for the 1999 tax year and all subsequent tax years. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

6. **Type:** Lease Agreement – Agent Signs, Office Furniture and Office Equipment  
**Affiliate:** Shelter Enterprises  
**Effective:** January 1, 2004  
**Terms:** Shelter Mutual leases agent signs, furniture and equipment from Shelter Enterprises for the purposes of subleasing the property to its agents. The lease rates to be paid by Shelter Mutual are to be equal to the sublease rates paid by the agents.
7. **Type:** Lease of Aircraft  
**Affiliate:** Shelter Enterprises  
**Effective:** November 7, 2015 to November 6, 2020  
**Terms:** Shelter Mutual leases a 2005 Beechcraft King Air airplane from Shelter Enterprises. The lease rates to be paid by Shelter Mutual are \$18,075 per month, which includes hangar space rental and ground lease rental.
8. **Type:** Lease Agreement  
**Affiliates:** Shelter Enterprises  
**Effective:** July 1, 2013 to June 30, 2023  
**Terms:** Shelter Mutual leases office space in an office building in Thompson's Station, Tennessee from Shelter Enterprises. The lease rates to be paid by Shelter Mutual are \$29,708 per month.
9. **Type:** Services and Board of Directors Costs  
**Affiliates:** Haulers, SBMI  
**Effective:** January 1, 2009  
**Terms:** Shelter Mutual and SBMI agree to provide the various services to conduct the operations of Haulers. Services to be provided by Shelter Mutual include investments, taxes, information services, printing, training, legal, planning and research, internal audit, claims and underwriting. SBMI will provide human resources and benefit consulting services. The costs for services provided by the Company and SBMI will be calculated using the actual time spent at the average hourly rate of the department providing each service. Haulers also agrees to an allocation of Shelter Mutual's Board of Directors costs based upon the ratio of Haulers' net assets to total net assets of the Shelter companies. Haulers will be billed for allocated costs on a monthly basis.

**10. Type:** Line of Credit Promissory Note

**Affiliate:** Shelter Financial Services, Inc.

**Effective:** September 19, 2001

**Terms:** SFS extends credit to allow Shelter Mutual to borrow up to \$8,000,000 as needed. Shelter Mutual pays interest on loan amounts at a rate of 0.25% over the Targeted Federal Funds Rate on an “interim reset date,” which is mutually agreed upon at the time of the advance. The principal amounts are to be paid upon demand. The outstanding loan balance was \$2,860,000 as of December 31, 2016.

**11. Type:** Revolving Line of Credit

**Affiliate:** Shelter Investments

**Effective:** June 9, 2014 and March 21, 2016 (two separate agreements)

**Terms:** The terms of both the 2014 and 2016 agreements are identical. Shelter Mutual extends credit to allow Shelter Investments to borrow up to \$55,000,000 in each agreement. Shelter Investments will pay monthly interest on any outstanding principal balance at a rate of 1% under the Bloomberg Current Prime Rate. The interest rate will be adjusted daily to correspond to any changes in the referenced interest rate. The principal amounts are to be paid upon demand. The outstanding loan balance for the 2014 agreement was \$55,000,000 as of December 31, 2016. The outstanding loan balance for the 2016 agreement was \$21,540,000 as of December 31, 2016.

**12. Type:** Revolving Line of Credit

**Affiliates:** Shelter General, Shelter Life, Shelter Re, AmShield, Haulers, SFS, SBMI, Shelter Enterprises

**Effective:** May 19, 2017

**Terms:** Shelter Mutual extends credit to allow each entity to borrow up to the following amounts: Shelter General - \$5,000,000, Shelter Life - \$30,000,000, Shelter Re - \$20,000,000, AmShield - \$3,000,000, Haulers - \$2,000,000, SBMI - \$7,500,000, SFS - \$2,500,000, Shelter Enterprises - \$1,000,000. Each borrower will pay monthly interest on any outstanding principal balance at a rate equal to the U.S. Federal Funds Effective Rate, as published by Bloomberg Finance, LP. The interest rate will be adjusted daily to correspond to any changes in the referenced interest rate. The principal amounts are to be paid upon demand.

The Company has reinsurance agreements with Shelter Reinsurance, AmShield, and Haulers that are described in the Reinsurance Assumed section of the report.

Shelter Mutual has also pledged assets as collateral on behalf of Shelter Re. As of December 31, 2016, \$1.2 million of assets were pledged as collateral for letters of credit issued by Shelter Re.

**Intercompany Payments**

The following table summarizes the payments made during the examination period, between Shelter Mutual and its affiliates, pursuant to intercompany agreements and other transactions.

Affiliate	Agreement / Transaction	Net Expense / (Revenue)			
		2013	2014	2015	2016
SGIC	Joint Expense Alloc.	(\$16,596,272)	(\$ 5,390,302)	(\$ 6,216,229)	(\$ 6,035,299)
SLIC	Joint Expense Alloc.	(14,379,516)	(13,314,335)	(13,203,161)	(12,367,977)
SRC	Joint Expense Alloc.	(1,625,216)	(1,638,083)	(1,757,881)	(1,693,272)
AmShield	Joint Expense Alloc.	0	0	(11,486)	(25,904)
Investments	Joint Expense Alloc.	(60,000)	(42,150)	(19,452)	(37,656)
DBA	Joint Expense Alloc.	(353,848)	(319,206)	(297,751)	(328,724)
Enterprises	Joint Expense Alloc.	(241,212)	(216,700)	(255,612)	(283,044)
SBMI	Joint Expense Alloc.	(957,200)	(991,425)	(880,920)	(1,084,056)
SFC	Joint Expense Alloc.	(67,196)	(162,231)	(71,104)	0
Haulers	Services / Board Costs	(211,801)	(213,740)	(29,327)	(251,181)
SBMI	Management Services	18,263,421	21,193,732	21,816,662	22,725,911
SBMI	Transfer & Assumption	2,215,120	3,769,810	8,298,626	4,667,992
SGIC	Tax Allocation	(262,893)	4,943,921	798,124	1,422,242
SLIC	Tax Allocation	(802,558)	(707,878)	(764,863)	(2,854,227)
SRC	Tax Allocation	(12,817,473)	(11,536,799)	(11,525,101)	(13,778,624)
AmShield	Tax Allocation	0	(6,578)	(21,202)	(32,626)
Haulers	Tax Allocation	211,741	(583,365)	334,020	(360,689)
SFS	Tax Allocation	(8,043)	(6,463)	(8,432)	(11,242)
SBMI	Tax Allocation	1,124,225	1,632,512	2,019,132	1,657,354
SFC	Tax Allocation	(816,983)	(516,801)	(319,687)	0
Enterprises	Lease (Agent Signs)	335,532	331,864	317,637	318,552
Enterprises	Lease (Aircraft)	528,459	528,459	476,124	214,452
Enterprises	Lease (Building)	178,250	377,341	356,500	356,500
SFS	Line of Credit	7,352	7,150	8,952	15,436
SFC	Line of Credit (2011)	450,000	0	0	0
SFC	Line of Credit (2013)	46,689,458	(19,263,309)	(28,130,274)	0
Investments	Line of Credit (2014)	0	14,973,581	34,177,041	3,552,462
Investments	Line of Credit (2016)	0	0	0	21,190,883
Enterprises	Mortgage Loan	1,341,136	0	0	0
SGIC	Dividends	(8,200,000)	(7,900,000)	0	0
DBA	Dividends	(1,080,000)	(1,080,000)	(1,200,000)	(1,360,000)
SFC	Dividends	(6,274,725)	(1,000,000)	(780,000)	0
SRC	Capital Contribution	50,000,000	0	0	0
AmShield	Capital Contribution	0	5,000,000	0	1,250,000
Investments	Capital Contribution	56,000,000	0	0	0
SFC	Return of Capital	(7,737,396)	0	0	0
<b>TOTAL</b>		<b>\$104,852,362</b>	<b>(\$12,130,995)</b>	<b>\$ 3,110,336</b>	<b>\$16,867,263</b>



The Company purchased and sold investments with subsidiaries during the examination period, as follows:

- 2013 – Shelter Mutual sold bonds to Shelter Life for a total sales price of \$84,245,154.
- 2014 – Shelter Mutual purchased bonds at a total cost of \$16,799,343 and \$8,077,781 from Shelter General and Shelter Investments, respectively.
- 2016 – Shelter Mutual purchased bonds at a total cost of \$15,318,635 from Shelter Re. The Company also sold common stock to Shelter Re for a sales price of \$13,103,036.

### TERRITORY AND PLAN OF OPERATION

Shelter Mutual is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed in eighteen (18) states and wrote business in fifteen (15) states during 2016. The Company is also a qualified reinsurer in nineteen (19) states. The states with the largest written premiums are as follows:

<u>State</u>	<u>2016 Direct Written Premiums</u>	<u>Percent of Total</u>
Missouri	\$ 378,871,351	25.9%
Arkansas	265,992,627	18.2%
Oklahoma	173,106,558	11.8%
Kansas	98,914,836	6.8%
Louisiana	94,428,170	6.4%
All Other	<u>453,330,147</u>	<u>31.0%</u>
Total	<u>\$1,464,643,689</u>	<u>100.0%</u>

The Company is predominately a personal lines insurer with approximately 2 million policyholders at the end of 2016. The significant lines of business are shown below.

<u>Line of Business</u>	<u>2016 Net Written Premiums</u>	<u>Percent of Total</u>
Private Passenger Auto Liability	\$ 454,209,974	31.3%
Homeowners	398,974,716	27.5%
Auto Physical Damage	339,647,297	23.4%
All Other	<u>256,225,390</u>	<u>17.7%</u>
Total	<u>\$1,449,057,377</u>	<u>100.0%</u>

The Company's business is produced mostly by a captive agency system that was comprised of 1,319 agents as of the examination date.

## REINSURANCE

### General

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct Business	\$1,221,962,854	\$1,339,260,734	\$1,394,988,567	\$1,464,643,688
Assumed:				
Affiliates	9,122,740	6,292,770	5,599,330	5,592,772
Non-affiliates	45,490,121	43,100,601	43,705,879	48,966,558
Ceded:				
Affiliates	(44,282,737)	(41,871,761)	(42,918,891)	(48,450,506)
Non-affiliates	<u>(24,091,076)</u>	<u>(23,163,573)</u>	<u>(21,631,514)</u>	<u>(21,695,135)</u>
Net Premiums Written	<u>\$1,208,201,902</u>	<u>\$1,323,618,771</u>	<u>\$1,379,743,371</u>	<u>\$1,449,057,377</u>

### Assumed

Shelter Mutual assumes business under a fronting arrangement with its subsidiary, Shelter Re. The Company assumes property business on an excess of loss and quota share basis from approximately 125 insurers in the United States and approximately 40 insurers, mainly in Europe and Japan. The assumed portfolio is retroceded 100% to Shelter Re pursuant to an intercompany agreement effective January 1, 1987. This arrangement has historically existed to leverage the stronger ratings and capitalization of Shelter Mutual to obtain more favorable contract terms with ceding companies than Shelter Re could obtain directly. The fronting arrangement with Shelter Re accounted for 99% of non-affiliated assumed premiums in the examination period.

The Company has a property catastrophe reinsurance agreement, effective March 1, 2016 to February 28, 2017, with Shelter Re. Shelter Mutual covers a maximum loss of \$80,000,000 per occurrence, in excess of a \$55,000,000 retention for Shelter Re. The Company's maximum liability is \$160,000,000 for all losses incurred in the treaty year. Shelter Mutual and Shelter Re executed a new property catastrophe reinsurance agreement, effective March 1, 2017 to February 28, 2018. The terms and coverage of the 2017-18 agreement are the same as the 2016-17 agreement with the exception that Shelter Re's retention was increased to \$60,000,000.

The Company has a stop loss reinsurance agreement, effective January 1, 2017, with Haulers. Shelter Mutual will assume 95% of Haulers' losses in excess of a 57.5% loss ratio, up to a maximum liability of \$30,000,000 for each agreement year. Haulers cedes premium to Shelter Mutual equal to 5% of Haulers' net earned premiums for each agreement year.

Shelter Mutual has a quota share agreement, effective September 1, 2014, with AmShield to assume 100% of net earned premiums and incurred losses for all business written by AmShield. AmShield receives a ceding commission equal to 100% of its underwriting expenses.

Shelter Mutual’s only other assumed premiums are immaterial amounts from involuntary pools and associations.

**Ceded**

Shelter Mutual retains nearly all of the risks from auto and homeowners policies that are written on a direct basis. The Company’s reinsurance program is designed to protect the Company against losses from very large risks and catastrophes. The Company’s subsidiaries, Shelter General, AmShield and Haulers, are also named insureds in many ceded reinsurance agreements. Reinsurance premiums and loss recoveries are allocated to Shelter General, AmShield and Haulers pursuant to terms of separate intercompany agreements.

Shelter Mutual has agreements with General Reinsurance Corporation (Gen Re) to reinsure property risks on an excess of loss basis. The Company’s retention is \$1,500,000 per risk and losses up to \$3,500,000 in excess of the retention are ceded to Gen Re under the terms of both the 2016 and 2017 agreements. The Company also has property facultative reinsurance agreements with Gen Re in 2016 and 2017 that cover losses from accepted risks up to a maximum of \$10,000,000, in excess of a \$5,000,000 retention per risk.

Reinsurance coverage for casualty and personal umbrella risks was also provided through agreements with Gen Re in 2016 and 2017. The terms of the agreements for both years cover losses up to \$8,500,000 in excess of a Shelter Mutual retention of \$1,500,000 per risk.

Shelter Mutual has a six layer property catastrophe program for 2016 with several participating reinsurers. The first five layers are included in a property catastrophe excess of loss agreement with 33 reinsurers. The four reinsurers with the largest participation in the first five layers for 2016 were Everest Reinsurance Company, Hiscox Insurance Company Limited, MS Frontier Reinsurance Limited, and R+V Versicherung AG. The sixth layer for 2016 is included in a catastrophe excess of loss agreement with the Mutual Reinsurance Bureau (MRB), which is an association of five U.S. insurers with equal participation percentages (20% each). The reinsurance coverages for the combined subject net losses of Shelter Mutual and subsidiaries for each layer are as follows:

<b><u>Layer</u></b>	<b><u>2016 Subject Net Losses</u></b>	<b><u>Reinsurer Participation %</u></b>
First	\$20,000,000 excess of \$100,000,000	100%
Second	\$30,000,000 excess of \$120,000,000	100%
Third	\$50,000,000 excess of \$150,000,000	100%
Fourth	\$50,000,000 excess of \$200,000,000	100%
Fifth	\$135,000,000 excess of \$250,000,000	100%
Sixth	\$50,000,000 excess of \$385,000,000	100%

New agreements for catastrophe coverage are executed each year. There was little change in the reinsurance coverages or the mix of reinsurers used in 2017 in comparison to 2016. The four largest participating reinsurers for the first five layers in 2017 were the same as those listed above for the 2016, except for R+V Versicherung AG, which did not participate in the 2017 agreements. Lloyd's Syndicate No. 4444 replaced R+V Versicherung AG as one of the four largest participating reinsurers for 2017. The sixth (MRB) layer for 2017 was comprised of the same five reinsurers that were in the 2016 agreement.

Shelter Mutual has an agreement, effective January 1, 1987, with its subsidiary, Shelter Re, in which Shelter Mutual acts as a fronting company for Shelter Re. Shelter Mutual retrocedes 100% of the risks from its entire book of assumed business to Shelter Re, except for business from involuntary pools and associations. A further description of the fronting arrangement is included in the Assumed section of this report.

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 agreement.

## ACCOUNTS AND RECORDS

### Independent Accountants

The certified public accounting (CPA) firm, BKD, LLP (BKD), in Cincinnati, Ohio, performed the 2016 statutory audit of the Company. BKD's 2016 audit workpapers were reviewed and used in the course of the examination as deemed appropriate. The CPA firm, Ernst & Young, LLP, in Kansas City, Missouri, performed the statutory audits for 2013, 2014 and 2015.

### Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Thomas P. Conway, ACAS, MAAA, for all years in the examination period. Mr. Conway is employed by Ernst & Young, LLP, in Chicago, Illinois.

### Consulting Actuary

Pursuant to a contract with the Missouri DIFP, Kristine M. Fitzgerald, ACAS, MAAA of Actuarial & Technical Solutions, Inc., reviewed the underlying actuarial assumptions and methodologies used by Shelter Mutual 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, 2016.

**Information Systems**

In conjunction with this examination, Andy Balas, CFE, AES, CPA, Information Systems Financial Examiner with the Missouri DIFP, conducted a review of the Company's information systems.

**FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by Shelter Mutual Insurance Company with the Missouri DIFP and present the financial condition of the Company for the period ending December 31, 2016. The accompanying "Comments on Financial Statement Items" section reflects any examination adjustments to the amounts reported in the 2016 Annual Statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items" section. 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 Annual Statement item.

**ASSETS**  
as of December 31, 2016

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,754,716,678	\$ 0	\$1,754,716,678
Common Stocks	1,041,470,330	330,000	1,041,140,330
Real Estate	33,349,626	0	33,349,626
Cash and Short-Term Investments	(53,010,221)	0	(53,010,221)
Other Invested Assets	313,110,885	16,210,640	296,900,245
Investment Income Due and Accrued	16,254,784	0	16,254,784
Uncollected Premiums & Agents' Balances	4,665,376	115,207	4,550,169
Deferred Premiums	135,800,702	0	135,800,702
Amounts Recoverable from Reinsurers	1,859,566	0	1,859,566
Funds Held by Reinsured Companies	266,000	0	266,000
Federal Income Tax Recoverable	692,536	0	692,536
Net Deferred Tax Asset	82,228,799	29,590,775	52,638,024
Guaranty Funds Receivable	7,072	0	7,072
EDP Equipment and Software	2,643,472	1,549,754	1,093,718
Furniture and Equipment	6,021,290	6,021,290	0
Receivable from Parent, Sub., Affiliates	11,278,019	0	11,278,019
Aggregate Write-In Assets	<u>35,639,736</u>	<u>27,664,107</u>	<u>7,975,629</u>
<b>TOTAL ASSETS</b>	<b><u>\$3,386,994,650</u></b>	<b><u>\$81,481,773</u></b>	<b><u>\$3,305,512,877</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
as of December 31, 2016

Losses	\$ 440,648,472
Reinsurance Payable on Paid Losses and LAE	157,609
Loss Adjustment Expenses	80,914,127
Commissions Payable	43,648,716
Other Expenses	17,175,405
Taxes, Licenses and Fees	6,543,508
Federal Income Taxes Payable	3,879,096
Borrowed Money	23,144,345
Unearned Premium	524,441,867
Advance Premium	29,326,094
Ceded Reinsurance Premiums Payable	1,440,346
Funds Held Under Reinsurance Treaties	8,673
Amounts Withheld	32,789,283
Remittances and Items Not Allocated	2,104,504
Payable to Parent, Subsidiaries and Affiliates	6,750,002
Aggregate Write-In Liabilities	<u>215,400,073</u>
<b>TOTAL LIABILITIES</b>	<b>\$1,428,372,120</b>
Aggregate Write-Ins for Other Surplus Funds	1,250,000
Unassigned Funds (Surplus)	<u>1,875,890,755</u>
<b>CAPITAL AND SURPLUS</b>	<b><u>\$1,877,140,755</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$3,305,512,875</u></b>

**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2016**

Premium Earned	\$1,427,564,770
<b>DEDUCTIONS:</b>	
Losses Incurred	948,618,039
Loss Adjustment Expenses Incurred	105,955,482
Other Underwriting Expenses Incurred	387,032,348
Aggregate Write-Ins for Underwriting Deductions	<u>25,716,419</u>
Total Underwriting Deductions	\$1,467,322,288
Net Underwriting Loss	(\$ 39,757,518)
Net Investment Income Earned	67,996,209
Net Realized Capital Gains	<u>24,651,098</u>
Net Investment Gain	\$ 92,647,307
Other Income	6,698,502
Dividends to Policyholders	0
Federal Income Taxes Incurred	<u>(13,533,889)</u>
<b>NET INCOME</b>	<b><u>\$ 46,054,402</u></b>



**RECONCILIATION OF SURPLUS**  
**Changes from December 31, 2012 to December 31, 2016**  
**(\$000's omitted)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and Surplus, End of Prior Year	\$1,397,888	\$1,566,905	\$1,682,713	\$1,787,843
Net Income	65,537	66,844	80,086	46,054
Change in Net Unrealized Gains (Losses)	95,813	18,460	33,719	46,750
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	1,631	(1,034)	(2,503)	(761)
Change in Net Deferred Income Tax	(8,079)	30,968	13,066	7,954
Change in Non-Admitted Assets	60,336	60,170	(12,979)	77
Change in Provision for Reinsurance	4	0	(5)	5
Cumulative Effect of Changes in Accounting Principles	(46,225)	0	0	0
Agg. Write-Ins for Gains (Losses) in Surplus	<u>0</u>	<u>(59,600)</u>	<u>(6,254)</u>	<u>(10,781)</u>
Change in Capital and Surplus for the Year	<u>\$ 169,017</u>	<u>\$ 115,808</u>	<u>\$ 105,130</u>	<u>\$ 89,298</u>
<b>Capital and Surplus, End of Current Year</b>	<b><u>\$1,566,905</u></b>	<b><u>\$1,682,713</u></b>	<b><u>\$1,787,843</u></b>	<b><u>\$1,877,141</u></b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None.


**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Shelter Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Robert Jordan, CFE, Examiner-In-Charge, Scott Reeves, CPA, CFE, Josh Nash, CPA, Rick Stamper, CFE, and Andy Balas, CPA, CFE, examiners for the Missouri DIFP, participated in this examination. Kristine Fitzgerald, ACAS, MAAA, of Actuarial & Technical Solutions, Inc., also participated as a consulting actuary.

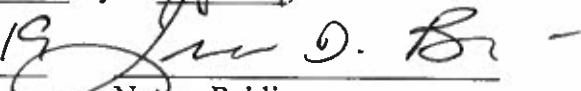
**VERIFICATION**

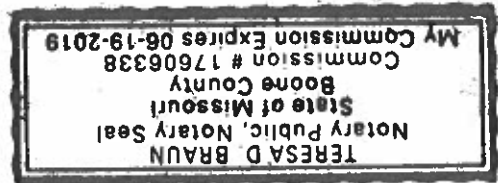
State of Missouri )  
 )  
County of )

I, Tim L. Tunks, 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 Shelter 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.

  
\_\_\_\_\_  
Tim L. Tunks, CPA, CFE  
Examiner-In-Charge  
Missouri DIFP

Sworn to and subscribed before me this 2<sup>nd</sup> day of April, 2018.

My commission expires: 6-19-19   
\_\_\_\_\_  
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.



Michael Shadowens, CFE  
Audit Manager  
Missouri DIFP