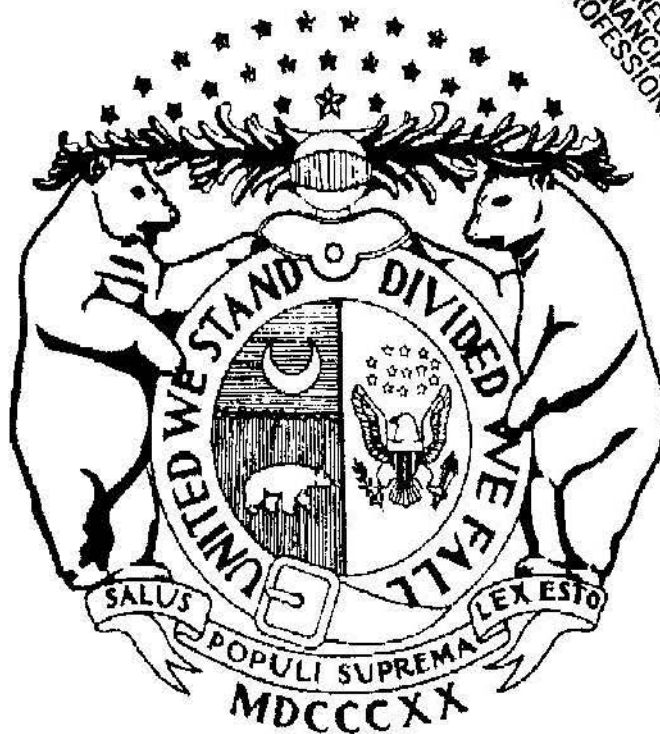


REPORT OF THE  
FINANCIAL EXAMINATION OF

UNITED MUTUAL INSURANCE COMPANY

AS OF  
DECEMBER 31, 2008



**FILED**  
JUN 16 2009  
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>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	3
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	6
Ceded	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	9
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

April 8, 2009  
Washington, 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

### **UNITED MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 113 Elm Street, Washington, Missouri 63090, telephone number (636) 239-6047. This examination began on March 30, 2009, and concluded on March 31, 2009, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2003, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, 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 in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

## **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Fidelity Bond and Other Insurance**

*Comment:* The Company should increase its fidelity bond to at least \$75,000, the minimum suggested for a company its size in the guidelines promulgated by the NAIC.

*Company Response:* The Company has secured a fidelity bond in the amount of \$100,000.

*Current Findings:* The Company increased its fidelity bond coverage as recommended.

### **Real Estate**

*Comment:* The Company must request approval for its office building from the DIFP to comply with Section 380.471 RSMo. This statute enumerates the investments available to Extended Missouri Mutual Insurance Companies and requires approval from the Director for any other investments.

*Company Response:* The Company contends that the noted real estate falls outside the prescribed statute.

*Current Findings:* 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments) allows for the investment in home office real estate with an asset value of no more than 50% of surplus net of guaranty fund, without prior approval from the DIFP. The home office real estate asset complies with the requirements of this regulation and thus does not require specific approval.

## **HISTORY**

### **General**

The Company was originally organized in June of 1895 as Farmers Mutual Fire Insurance Company of St. Johns and was incorporated on July 1, 1949. The Company subsequently changed its name several times and was known as St. Johns Mutual Insurance Company as of the prior examination date. On January 1, 2004, the Company merged with Farmers Mutual Insurance Company of Jefferson County and Missouri River Mutual Insurance Company, with St. Johns Mutual Insurance Company being the surviving entity. The Company was renamed

United Mutual Insurance Company at that time. On January 1, 2005, Tipton Mutual Insurance Company was merged with the Company, with United Mutual Insurance Company being the surviving entity. On January 1, 2006, Chamois Mutual Insurance Company was merged with the Company, with United Mutual Insurance Company being the surviving entity.

The Company has a Certificate of Authority dated January 30, 2004 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

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Saturday in February, at the home office or at such other place as designated by the membership or the Board of Directors. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

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 eleven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$75 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Pierce Glass Pacific, Missouri	Retired	2006-2009
Elmer Miller Tipton, Missouri	Retired	2007-2010
Dale Winters New Haven, Missouri	Accountant/Controller	2008-2011
Grant Glatt Cedar Hill, Missouri	Retired	2006-2009
Walter Luther Washington, Missouri	Retired	2007-2010
Charles Stiefermann Bonnots Mill, Missouri	Retired	2007-2010

Glennon Gildehaus Washington, Missouri	Painter/Construction	2006-2009
Leonard Vogel Arnold, Missouri	City Water Department	2008-2011
Don Peters Washington, Missouri	Building Inspector	2008-2011
Joy Haeflner Washington, Missouri	Financial Advisor	2008-2011
James Geisert Washington, Missouri	Retired	2007-2010

The Company's Articles of Incorporation set the minimum number of directors at nine members and state that the actual number of directors is to be established in the Bylaws. The Company's Bylaws establish the number of directors at twelve members; however, there were only eleven directors as of the examination date. It is recommended the Company abide by the provisions of its Articles of Incorporation and Bylaws regarding Board of Director membership.

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2008, were as follows:

Pierce Glass	President
Elmer Miller	Vice-President
Dale Winters	Secretary
Grant Glatt	Treasurer

### **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. No significant conflicts were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended effective January 1, 2004 to change language regarding director membership resulting from the two mutual mergers, and to change the name of the Company.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period

under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company utilizes an independent agency force. The individual agencies are required to purchase errors and omissions coverage.

The Company self-insures its home office and contents, and purchases commercial liability and workers compensation coverage from outside carriers.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has five full-time employees. The benefits package offered to employees includes matching funds to retirement accounts, employer subsidized health care plan, life insurance and paid leave.

### **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 all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by 20 independent agencies, consisting of approximately 45 licensed agents. Agents receive a 15% commission and are eligible for a contingent bonus of between .5% and 6.5% if certain loss ratio and premium volume criteria are met.

### Policy Forms and Underwriting Practices

The Company utilizes AAIS and Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by Company employees. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$4,611,442	\$1,347,735	\$2,166,979	\$ 876,962	\$191,857	\$(193,683)	\$ 4,255
2007	4,408,979	1,149,528	2,157,666	900,965	197,917	118,001	211,798
2006	3,970,497	922,843	2,107,912	1,464,637	153,042	(184,967)	10,658
2005	3,685,845	983,666	1,837,867	298,934	112,902	479,824	392,213
2004	2,777,374	907,602	1,769,073	524,703	71,943	188,449	193,741

At year-end 2008, 3,263 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct	\$ 1,769,073	\$ 1,837,867	\$ 2,107,912	\$ 2,151,140	\$2,160,526
Assumed	0	0	0	6,526	6,452
Ceded	(366,392)	(397,791)	(454,643)	(504,327)	(546,496)
Net	<u>\$ 1,402,681</u>	<u>\$ 1,440,076</u>	<u>\$ 1,653,269</u>	<u>\$ 1,653,339</u>	<u>\$ 1,620,482</u>

#### Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate



on all insurance agent and broker errors and omissions policies and 100% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% share in the interests and liabilities of the pool.

### **Ceded**

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess reinsurance agreement. The aggregate excess section of the agreement covers property risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2008 was \$1,286,105.

The agreement also provides quota share reinsurance coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability premiums and losses to the reinsurer and 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 any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Tochtrop & Associates, P.C. performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, 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, 2008**

Bonds	\$ 596,359
Real Estate	91,996
Cash on Deposit	3,686,208
Federal Income Tax Recoverable	106,000
Interest Due and Accrued	28,715
Asset Write-Ins	102,163
	-----
Total Assets	<u><u>\$ 4,611,442</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2008**

Unpaid Losses	\$ 397,302
Unearned Premium	871,610
Liability Write-Ins	78,822
	-----
Total Liabilities	\$ 1,347,735
	-----
Guaranty Fund	\$ 1,111,223
Other Surplus	2,152,483
	-----
Total Surplus	3,263,706
	-----
Total Liabilities and Surplus	<u><u>\$ 4,611,442</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2008**

Net Premiums Earned	\$ 1,638,353
Other Insurance Income	38,714
Net Losses & Loss Adjustment Expenses Incurred	(1,089,048)
Other Underwriting Expenses Incurred	(781,701)
	-----
Net Underwriting Income (Loss)	\$ (193,683)
Investment Income	191,857
Other Income	245
	-----
Gross Profit (Loss)	\$ (1,581)
Federal Income Tax	5,836
	-----
Net Income (Loss)	\$ 4,255
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2008**

Policyholders' Surplus, December 31, 2007	\$ 3,259,451
Net Income (Loss)	4,255
	-----
Policyholders' Surplus, December 31, 2008	\$ 3,263,706
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

### **Management (Page 4)**

It is recommended the Company abide by the provisions of its Articles of Incorporation and Bylaws regarding Board of Director membership.

## **SUBSEQUENT EVENTS**

None.


**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri )  
                          ) ss  
County of Cole    )

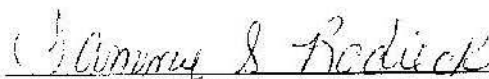
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the 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.

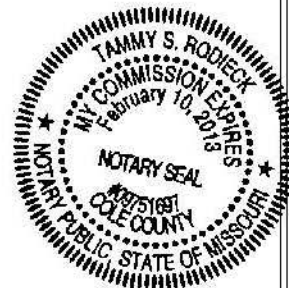
  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 07 day of April, 2009.

My commission expires:

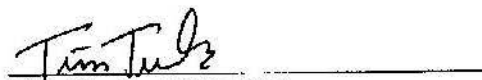
2-10-2013

  
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.

  
Tim Tunks, CFE, CPA  
Examiner In Charge  
Missouri DIFP

# UNITED MUTUAL

---

## INSURANCE COMPANY

Formed by the consolidation of:  
Farmers Mutual of Jefferson County  
Missouri River Mutual  
St. Johns Mutual Insurance  
Tipton Mutual Insurance  
Cherokee Mutual Insurance

113 Elm Street  
P.O. Box 231  
Washington, MO 63090  
Phone: 636-239-6047  
Fax: 636-239-9916

June 10, 2009

Tammy Rodieck, Exam Coordinator  
Missouri Department of Insurance  
301 West High Street  
Jefferson City, Missouri 65102-0690

Dear Tammy:

This letter is in response to the draft of our Financial Examination as of December 31, 2008.

We agree with the statements on page four regarding the need to revise our Bylaws and the summary recommendation on page 11. We will contact our attorney to have them revised at our next meeting which is scheduled for July 21, 2009.

Thank you for bringing this oversight to our attention.

Sincerely,



Pierce Glass  
President

PEG/su

