

## DEPARTMENT OF COMMERCE & INSURANCE

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

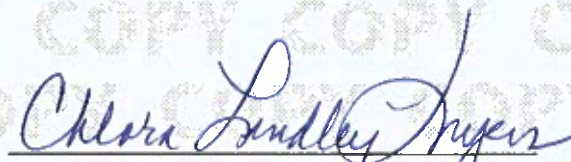
### ORDER

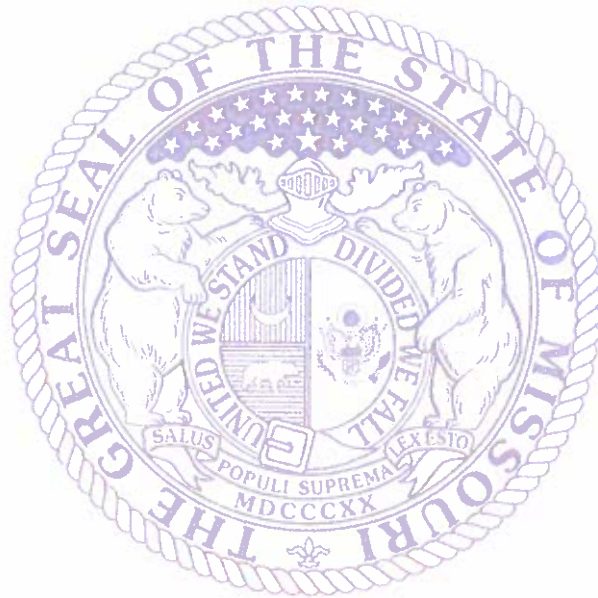
After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Adair County for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, 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 Farmers Mutual Insurance Company of Adair County 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 18<sup>th</sup> day of March, 2020.



  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



**FILED**

MAR 18 2020

DIRECTOR OF  
MISSOURI DEPARTMENT OF  
COMMERCE AND INSURANCE

REPORT OF THE  
FINANCIAL EXAMINATION OF

# FARMERS MUTUAL INSURANCE COMPANY OF ADAIR COUNTY

AS OF  
DECEMBER 31, 2018

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

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November 8, 2019  
Kirksville, Missouri

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

**FARMERS MUTUAL INSURANCE COMPANY OF ADAIR COUNTY**

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 1312 North Baltimore, Kirksville, Missouri 63501, telephone number (660) 665-6205. This examination began on October 15, 2019, was concluded on the above date, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2013, and was conducted by examiners from the Missouri Department of Commerce and Insurance (Department). The current full-scope examination covers the period from January 1, 2014, through December 31, 2018, and was conducted by examiners from the Department.

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 Department and statutes of the State of Missouri prevailed.

## HISTORY

### General

The Company was organized on May 8, 1894, and incorporated on October 7, 1939, as Farmers Mutual Insurance Company of Adair County. The Company has a Certificate of Authority dated June 17, 1991, 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 Wednesday in February at the home office of the Company or at such place as may be designated by the Board of Directors. Special meetings of the members may be called by petition of one-fourth of the members. 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 Articles of Incorporation require the Board of Directors to consist of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately four times per year. Directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Willa Ann Walker Kirksville, Missouri	Agent/Office Manager	2019
Garry Ledford Kirksville, Missouri	Sales	2019
Larry Smith Novinger, Missouri	Retired/Farmer	2020
Tammy Grgurich Novinger, Missouri	Agent/Employee	2021
Deborah Lawrence Greentop, Missouri	Teacher	2020

The Board of Directors consisted of only six members as of December 31, 2018, due to the resignation of Director James Forquer on February 15, 2018. There was no appointment made to fill this vacancy. The Articles of Incorporation were subsequently amended to reduce the required number of directors to from seven to six members, as detailed in the "Subsequent Events" section of this report.

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, 2018, were as follows:

Larry Smith	President
Garry Ledford	Vice-President
Ann Walker	Secretary/Treasurer
Tammy Grgurich	Asst. Secretary/Treasurer

### **Conflict of Interest**

The Company has a written conflict of interest procedure 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. A review of the completed statements noted no material potential conflicts.

### **Corporate Records**

A review was made of the Articles of Incorporation (Articles) and the Bylaws of the Company. Neither the Articles nor the Bylaws were amended during the examination period. The Articles were amended subsequent to the exam period as described in the "Subsequent Events" section of this report. 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 and approve 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 \$50,000 and no deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents. Other insurance coverages carried by the Company include property insurance coverage on its home office and contents, as well as commercial liability insurance.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees, two of which are also insurance agents of the Company. The Company provides health insurance for employees and spouses and long-term disability insurance for employees. The employees receive paid vacation, holidays, and sick leave. The Company also makes an annual contribution to each employee's individual retirement account.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Department as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 three agents, who receive a 12% commission.

### **Policy Forms and Underwriting Practices**

The Company mainly utilizes American Association of Insurance Services (AAIS) forms, as well as some forms of their reinsurer, Wisconsin Reinsurance Corporation. The policies are written on a continuous period and renewed annually, with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the Company's full-time inspector/adjuster.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2018	\$ 1,579,870	\$ 327,022	\$ 694,213	\$ 79,166	\$ 37,222	\$ 80,470	\$ 117,692
2017	1,438,376	257,187	763,080	310,254	29,492	33,700	64,445
2016	1,385,379	261,083	768,892	154,983	16,629	123,430	140,728
2015	1,248,518	268,069	775,935	40,130	19,528	135,991	156,538
2014	1,072,951	280,395	813,685	287,901	18,306	1,859	27,910

At year-end 2018, 801 policies were in force.

## REINSURANCE

### General

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

	2014	2015	2016	2017	2018
Direct	\$ 813,685	\$ 775,935	\$ 768,892	\$ 763,080	\$ 694,213
Assumed	0	0	0	0	0
Ceded	(312,118)	(290,601)	(271,026)	(300,738)	(244,509)
Net	\$ 501,567	\$ 485,334	\$ 497,866	\$ 462,342	\$ 449,704

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for property and casualty risks. The agreement includes per risk excess of loss and aggregate excess of loss coverage for property risks and quota share coverage for casualty risks.



Under the per risk excess of loss coverage, the Company retains \$55,000 per property risk, and the reinsurer's limit is \$400,000 per property risk. Under the aggregate excess of loss coverage, the Company's annual aggregate net retention, or attachment point, is equal to 60% of net premium. The reinsurer is responsible for 100% of losses in excess of this attachment point. The attachment point for 2018 was \$393,681.

Under the casualty quota share section of the agreement, the Company cedes 100% of the casualty risks and premium to the reinsurer and receives a 25% 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 Wade Stables P.C. of Hannibal, Missouri, performs an annual financial statement compilation and prepares the Company's 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, 2018, 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.

**ASSETS**  
**December 31, 2018**

Bonds	\$ 717,409
Mutual Funds	205,092
Real Estate	102,599
Cash on Deposit	552,869
Interest Due and Accrued	1,901
	<hr/>
Total Assets	<u>\$ 1,579,870</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2018**

Ceded Reinsurance Premium Payable	\$ 15,324
Unearned Premium	307,684
Payroll Taxes Payable	1,564
Accounts Payable	2,450
	<hr/>
Total Liabilities	<u>\$ 327,022</u>
Guaranty Fund	\$ 150,000
Other Surplus	1,102,848
	<hr/>
Total Surplus	<u>\$ 1,252,848</u>
	<hr/>
Total Liabilities and Surplus	<u>\$ 1,579,870</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2018**

Net Premiums Earned	\$ 392,261
Other Insurance Income	39,785
Losses & Loss Adjustment Expenses Incurred	(42,462)
Other Underwriting Expenses Incurred	<u>(309,114)</u>
Net Underwriting Income (Loss)	\$ 80,470
Net Investment Income	<u>37,222</u>
Gross Profit (Loss)	\$ 117,692
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u><u>\$ 117,692</u></u>

**RECONCILIATION OF SURPLUS**  
**Changes from January 1, 2014, to December 31, 2018**  
(\$000's omitted)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus, Beginning of Year	\$ 763	\$ 793	\$ 980	\$ 1,124	\$ 1,187
Net Income (Loss)	28	156	141	64	118
Change in Net Unrealized Gains (Losses)	0	(7)	3	(1)	(52)
Change in Non-Admitted Assets	<u>2</u>	<u>38</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Capital and Surplus for the Year	<u>\$ 30</u>	<u>\$ 187</u>	<u>\$ 144</u>	<u>\$ 63</u>	<u>\$ 66</u>
<b>Capital and Surplus, End of Year</b>	<u><b>\$ 793</b></u>	<u><b>\$ 980</b></u>	<u><b>\$ 1,124</b></u>	<u><b>\$ 1,187</b></u>	<u><b>\$ 1,253</b></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

None.

### **SUBSEQUENT EVENTS**

At the 2019 annual meeting of the Company's members, the Articles of Incorporation were amended, changing the number of directors from seven to six. The amended Articles were approved by the Department on May 16, 2019, and were filed with the Secretary of State on May 22, 2019.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri        )  
                                      )  
County of Cole            )

I, Brian D. Hammann, 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.

*Brian Hammann*

Brian D. Hammann, CPA, AFE  
Financial Examiner  
Missouri Department of Commerce & Insurance

Sworn to and subscribed before me this 20<sup>th</sup> day of February, 2020.

My commission expires:

March 30, 2023

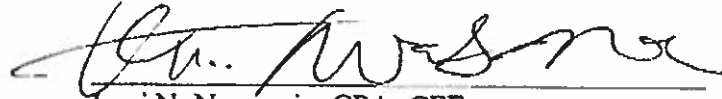
*Hailey Luebbert*  
Notary Public



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.



Levi N. Nwasoria, CPA, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce & Insurance