

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

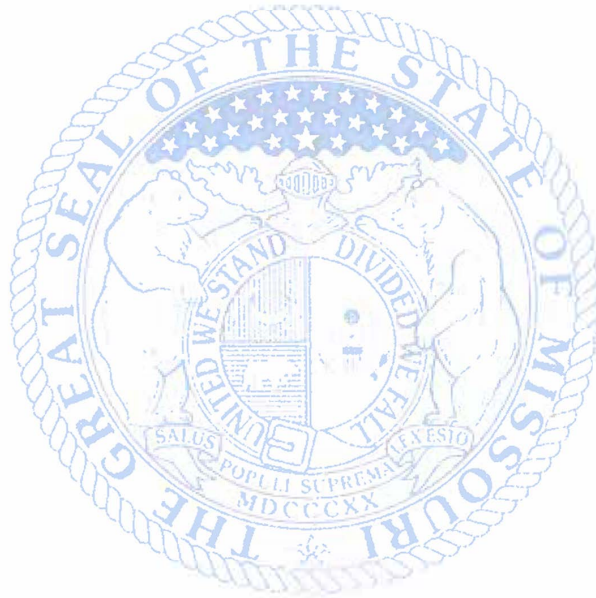
After full consideration and review of the report of the financial examination of Missouri Heritage Mutual Insurance Company for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, 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 Missouri Heritage 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 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 12<sup>th</sup> day of December, 2019.



*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



**FILED**

**DEC 12 2019**

**DIRECTOR OF  
MISSOURI DEPARTMENT OF  
COMMERCE AND INSURANCE**

REPORT OF THE  
FINANCIAL EXAMINATION OF

# **MISSOURI HERITAGE MUTUAL INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2018

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

**JEFFERSON CITY, MISSOURI**

## TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	3
FIDELITY BOND AND OTHER INSURANCE	3
EMPLOYEE BENEFITS	3
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	4
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	4
REINSURANCE:	
General	4
Assumed	5
Ceded	5
ACCOUNTS AND RECORDS	5
FINANCIAL STATEMENTS:	
Assets	7
Liabilities, Surplus and Other Funds	7
Statement of Income	8
Reconciliation of Surplus	8
NOTES TO THE FINANCIAL STATEMENTS	9
EXAMINATION CHANGES	9
SUBSEQUENT EVENTS	9
SUMMARY OF RECOMMENDATIONS	9
ACKNOWLEDGMENT	10
VERIFICATION	10
SUPERVISION	11

October 9, 2019  
Gordonville, MO

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce & 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

**MISSOURI HERITAGE MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 192 State Highway Z, Gordonville, MO 63752, telephone number (573) 243-2884. This examination began on September 23, 2019, was concluded on the above date, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a single-state examination of Missouri Heritage Mutual Insurance Company. The last examination covered the period of January 1, 2009 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2018.

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 Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Commerce & Insurance (DCI) and statutes of the State of Missouri prevailed.

## HISTORY

### General

Missouri Heritage Mutual Insurance Company was originally organized as Cape Girardeau County Farmers Mutual Aid Society and began business on June 7, 1869. On September 7, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State. On September 2, 1972, the Company changed its name to Gordonville Mutual Insurance Company. Effective January 1, 2006 the DCI approved a merger between Gordonville Mutual Insurance Company and Community Mutual Insurance Company. Pursuant to this merger, Gordonville Mutual Insurance Company was the surviving corporation, and its name changed to Missouri Heritage Mutual Insurance Company.

The Company has a Certificate of Authority dated January 3, 2006, 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 Tuesday of March at the home office of the Company or at such other place as may be designated by the Board of Directors. Eight members constitute a quorum at any membership meeting. Proxy voting is 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 five members, serving staggered three-year terms. All directors must be policyholders of the Company. The Board of Directors meet four times each year, and each director is compensated \$175 per 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 End</u>
Alan Grebing Frohna, Missouri	Farmer	2019
Bruce Bundy Jackson, Missouri	Manager	2021
Larry Deneke Whitewater, Missouri	Retired	2020
Donna Beshar Marble Hill, Missouri	Business Owner	2019
Jimmie Henson Oran, Missouri	Real Estate Owner	2021

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Alan Grebing	President
Bruce Bundy	Vice-President
Kirk Miller	Secretary / Treasurer
James Deneke	Assistant Secretary/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. A review of the executed conflict of interest statements noted no significant potential conflicts disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not amended during the examination period. 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, which is between \$75,000 and \$100,000.

The Company carries liability coverage for its directors and officers and requires its agents to obtain errors and omissions coverage.

The Company self-insures its home office. The Company purchases commercial liability and cyber coverage from an outside carrier.

## **EMPLOYEE BENEFITS**

The Company has two full-time employees and one part-time employee. The benefits package offered by the Company to its employees includes participation in a retirement plan, with the Company matching employee contributions, and paid time off.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed by the DCI 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's policies are sold by eighteen insurance agencies located throughout Missouri.

### Policy Forms and Underwriting Practices

The Company utilizes AAIS forms. The policies are annually renewed. Property inspections and adjusting functions are performed by third parties. Rates are determined by the Board of Directors.

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

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2018	\$3,118,509	\$746,392	\$1,691,668	\$595,911	\$44,928	\$209,132	\$246,085
2017	2,834,373	708,341	1,615,678	684,063	26,860	7,775	31,553
2016	2,792,442	697,963	1,552,383	567,790	19,273	303,780	214,187
2015	2,580,051	699,759	1,552,026	439,845	12,977	138,757	106,093
2014	2,402,932	628,733	1,483,255	428,187	11,203	482,763	329,206

At year-end 2018, 1,946 policies were in force.

### REINSURANCE

#### General

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

	2014	2015	2016	2017	2018
Direct	\$1,483,255	\$1,552,026	\$1,552,383	\$1,615,678	\$1,691,668
Assumed	0	0	0	0	0
Ceded	(439,280)	(470,088)	(460,839)	(550,644)	(512,455)
Net	<u>\$1,043,975</u>	<u>\$1,081,938</u>	<u>\$1,091,544</u>	<u>\$1,065,034</u>	<u>\$1,179,213</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company cedes business to Wisconsin Reinsurance Corporation (the reinsurer) through a reinsurance agreement that provides per risk excess of loss and aggregate excess coverage for property risks, as well as coverage for liability and earthquake risks.

Under the per risk excess of loss section of the property agreement, the Company retains \$65,000 of losses per risk, and the reinsurer's maximum limit is \$500,000 per risk. Under the aggregate excess section of the property agreement, the reinsurer is liable for 100% of losses in excess of the Company's annual retention, which is equal 72.5% of the Company's net written premiums.

For the liability coverage, the Company cedes 100% of its premium and losses to the reinsurer and receives a 25% ceding commission. The reinsurer's maximum limit under the agreement is \$1,000,000 per occurrence.

For the earthquake coverage, the Company cedes 100% of its premiums and losses to the reinsurer and receives a 15% ceding commission. The reinsurer's maximum limit of coverage is the amount of the policyholder's coverage on the underlying property policy.

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 Van de Ven, LLC performs an annual compilation of the Company's financial statements and prepares the annual statement and federal 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**

Real Estate	\$ 58,107
Cash on Deposit	3,013,726
Computer Equipment	8,012
Interest Due and Accrued	17,438
Funds Held by Reinsurer	1,747
Ceded Reinsurance Premium Receivable	<u>19,479</u>
Total Assets	<u>\$ 3,118,509</u>

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

Unpaid Losses	\$ 136,800
Unpaid Loss Adjustment Expenses	11,333
Unearned Premium	583,174
Payroll Tax	3,209
Accounts Payable (Other)	6,448
Income Tax Payable	4,855
Accrued Pension Expense	269
Accrued Vacation	<u>304</u>
Total Liabilities	<u>\$ 746,392</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>2,222,117</u>
Total Surplus	<u>\$ 2,372,117</u>
Total Liabilities and Surplus	<u>\$ 3,118,509</u>

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

Net Premiums Earned	\$ 1,159,473
Other Insurance Income	115,598
Net Losses & Loss Adjusting Expenses Incurred	(585,335)
Other Underwriting Expenses Incurred	<u>(480,604)</u>
Net Underwriting Income (Loss)	\$ 209,132
Net Investment Income	<u>44,928</u>
Gross Profit (Loss)	\$ 254,060
Federal Income Tax	<u>(7,975)</u>
Net Income (Loss)	<u><u>\$ 246,085</u></u>

**RECONCILIATION OF SURPLUS**  
**Changes from January 1, 2014 to December 31, 2018**

	2014	2015	2016	2017	2018
Capital and Surplus, Beginning of Year	\$1,444,993	\$1,774,199	\$1,880,292	\$2,094,479	\$2,126,032
Net Income	<u>329,206</u>	<u>106,093</u>	<u>214,187</u>	<u>31,553</u>	<u>246,085</u>
Capital and Surplus, End of Year	<u><u>\$1,774,199</u></u>	<u><u>\$1,880,292</u></u>	<u><u>\$2,094,479</u></u>	<u><u>\$2,126,032</u></u>	<u><u>\$2,372,117</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

None.

**SUBSEQUENT EVENTS**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

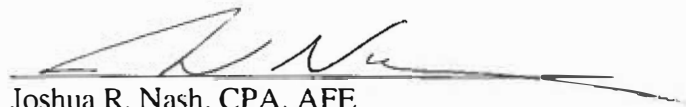
**ACKNOWLEDGMENT**

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

**VERIFICATION**

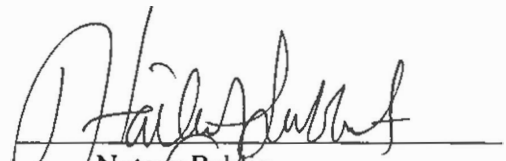
State of Missouri        )  
                                  )  
County of Cole         )

I, Joshua R. Nash, 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.

  
Joshua R. Nash, CPA, AFE  
Financial Examiner  
Missouri Department of Commerce & Insurance

Sworn to and subscribed before me this 26<sup>th</sup> day of November 2019.

My commission expires:  
March 30, 2023

  
Notary Public



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

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



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