



DEPARTMENT OF COMMERCE & INSURANCE

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

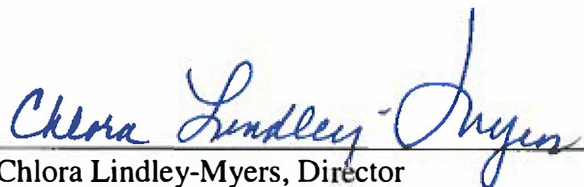
ORDER

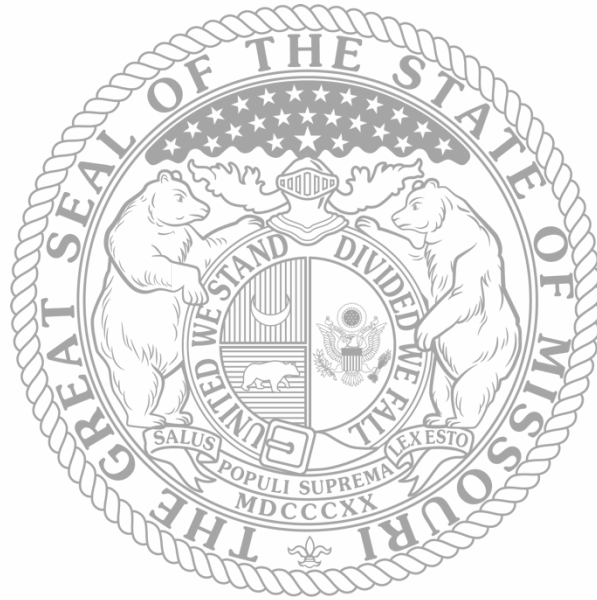
After full consideration and review of the report of the financial examination of Hickory County Farmers Mutual Insurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, 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 Hickory County Farmers 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 22nd day of March, 2021.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

HICKORY COUNTY FARMERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Hermitage, MO
February 16, 2021

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

HICKORY COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, as Hickory County FMIC, or as the Company. Its administrative office is located at 23646 Polk Street (P.O. Box 132), Hermitage, Missouri 65668, telephone number (417) 745-6722. The fieldwork for this examination began on January 28, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Hickory County Farmers Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2010 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2019, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination 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.

COMPANY HISTORY

General

The Company was originally organized and incorporated on May 27, 1892, as Farmers Mutual Aid Society of Hickory County. The Company changed its name to Hickory County Farmers Mutual Insurance Company on March 27, 1999. The Company has a Certificate of Authority dated September 14, 2017, 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 AND CONTROL

Board of Directors

In accordance with the Articles of Incorporation (Articles), the annual meeting of the Company’s members is held on the fourth Saturday in March, 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 a two-thirds majority vote of the Board of Directors at any time or upon 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 a Board of Directors, who are elected by the general membership. The Board of Directors consists of seven members, serving staggered, four-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately each month.

Members serving on the Board of Directors as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Robb Pitts Hermitage, Missouri	Farmer	2020
Kelly Nunn Urbana, Missouri	Farmer	2021
Larry Wilson Flemington, Missouri	Retired State Representative	2021
Teresa M. Bybee Preston, Missouri	Retired Mutual Company Manager	2023
John E. Moore Urbana, Missouri	Retired Payroll Department Employee	2022
Jessie Sawyer Wheatland, Missouri	Enrolled Agent/ Accountant	2022
Mike Barclay Urbana, Missouri	Retired Teacher	2020

Officers

The Board of Directors appoints the Officers of the Company, who serve a term of one year. The Officers serving, as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Robb Pitts	President
Kelly Nunn	Vice-President
G. Darlene McLerran	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’s directors and officers sign conflict of interest statements on an annual basis. A review of the executed conflict of interest statements noted that one officer disclosed their spouse performs inspections for the Company.

Corporate Records

The Company's Articles and Bylaws were reviewed. At the 2017 annual meeting of the Company’s members, the Articles were amended to change the number and term length of directors, along with multiple revisions to clarify language in the document. The amended Articles were approved by the Department on July 18, 2017, and were filed with the Secretary of State on July 22, 2017.

The meeting minutes of the membership and the Board were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The Company provides full-time employees with health insurance and life insurance and offers access to dental, short-term disability, and long-term disability insurance. Employees receive paid vacation, paid holidays, and paid sick leave. The Company also makes matching contributions to retirement accounts, and employees participate in a Company profit-sharing plan.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000 and a \$1,000 deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$100,000 and \$125,000 in coverage.

The Company carries liability coverage for its Directors and Officers. The Company requires its agents to carry errors and omissions insurance and provide evidence of such coverage to the Company.

Other insurance coverages carried by the Company include property insurance on its home office and contents, business liability insurance, commercial auto insurance, cyber liability insurance, and workers compensation and employer’s liability insurance.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Commerce and Insurance 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’s policies are sold by 30 independent agents, who receive a 15% commission on all business written and are able to earn bonus commission.

Policy Forms and Underwriting Practices

The Company utilizes American Association of Insurance Services (AAIS) policy forms, as well as Missouri Association Mutual Insurance Companies (MAMIC) forms and custom forms approved by the Department. The policies are written for one year and are continuous. Property inspections are mainly performed in-house by the Company’s inspector/adjuster and overflow inspections are done by a contracted inspector. Claim adjustments are performed by both the Company and an independent adjuster. Rates are determined by the Board of Directors.

GROWTH OF COMPANY AND LOSS EXPERIENCE

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2019	\$3,660	\$1,569	\$4,339	\$2,851	\$70	\$ (39)	\$ 23
2018	3,673	1,604	4,271	1,673	51	507	439
2017	2,962	1,332	4,134	3,362	50	0	43
2016	3,110	1,523	4,088	1,696	42	534	381
2015	2,777	1,572	4,029	1,164	37	411	362

At year-end 2019, there were 5,059 policies in force.

REINSURANCE

General

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

(\$000s omitted)

Premium Type	2015	2016	2017	2018	2019
Direct Premiums Written	\$ 4,029	\$ 4,088	\$ 4,134	\$ 4,271	\$ 4,339
Reinsurance Assumed	-	-	-	-	-
Reinsurance Ceded	(2,167)	(2,162)	(2,164)	(2,247)	(2,311)
Net Premiums Written	\$ 1,861	\$ 1,926	\$ 1,970	\$ 2,024	\$ 2,028

Assumed Reinsurance

The Company does not reinsure other companies.

Ceded Reinsurance

The Company's property and casualty reinsurance is placed through intermediary Guy Carpenter & Company, Inc. and consists of various agreements with multiple participating reinsurers (reinsurer).

Under the property section of the multiple-line excess of loss agreement, the Company retains \$30,000 per property risk and the reinsurer covers 100% of the excess, limited to \$60,000 per risk. Under the property first surplus agreement, the Company has a minimum retention of \$15,000 per risk and the reinsurer is responsible for six times the Company's net retained liability up to a maximum cession of \$180,000. Under the property facultative pro rata agreement, the Company has minimum retention of \$15,000 per risk, and the maximum cession is limited to \$275,000 per risk.

Under the casualty section of the multiple-line excess of loss agreement, the Company retains \$30,000 per casualty loss occurrence and the reinsurer is liable for the excess up to \$590,000. The special casualty excess of loss agreement pertains to liability policies with limits in excess of \$500,000 and adds additional reinsurer limits of \$500,000. Under the umbrella facultative agreement, the reinsurer accepts a 95% share of losses up to \$1 million.

The aggregate excess of loss agreement covers both property and casualty business. Under the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 63% of gross net earned premium income. The reinsurer is responsible for 100% of losses in excess of this attachment. The attachment point for 2019 was \$1,428,099.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Certified Public Accountant (CPA) firm of Van De Ven, LLC of Cape Girardeau, Missouri, performs a compilation of the Company's financial statements and prepares the Company's federal tax filings.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Hickory County Farmers Mutual Insurance Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

ASSETS

As of December 31, 2019

Bonds – Book Value	\$ 552,061
Stocks	1,500
Real Estate – Book Value	22,250
Cash on Deposit	2,632,403
Reinsurance Recoverable on Paid Losses	304,557
Federal Income Tax Recoverable	110,076
Interest Due and Accrued	13,870
Prepaid Insurance	7,379
Prepaid Expenses	16,333
TOTAL ASSETS	<u>\$ 3,660,429</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2019

Gross Losses Unpaid, Less Reinsurance Recoverable	\$ 259,436
Ceded Reinsurance Premium Payable	84,808
Unearned Premium	1,076,528
Payroll Tax	5,793
Accounts Payable to Agents	103,684
Accounts Payable (Other)	1,236
Accrued Employee Profit Sharing	2,600
Accrued Pension Expense	997
Members Funds Held in Suspense	34,020
TOTAL LIABILITIES	<u>\$ 1,569,102</u>
Guaranty Fund	150,000
Other Surplus	1,941,327
TOTAL POLICYHOLDER SURPLUS	<u>\$ 2,091,327</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$ 3,660,429</u>

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ended December 31, 2019

Net Earned Assessment/Premium Income	\$ 2,024,570
Other Insurance Income	549,763
Net Losses & Loss Adjustment Expense	(1,406,459)
Underwriting Expenses	(1,206,794)
Underwriting Income (Loss)	\$ (38,920)
Investment Income	76,950
Investment Expenses	(6,830)
Net Investment Income	\$ 70,120
Other Income	119
Gross Profit or Loss	\$ 31,319
Federal Income Tax	8,771
NET PROFIT OR (LOSS)	\$ 22,548

GAIN OR LOSS IN SURPLUS

Changes from January 1, 2015 to December 31, 2019

(\$000s omitted)

	2015	2016	2017	2018	2019
Beginning Policyholder's Surplus	\$ 844	\$ 1,206	\$ 1,586	\$ 1,630	\$ 2,069
Net Profit or (Loss)	362	381	43	439	23
Ending Policyholder's Surplus	\$ 1,206	\$ 1,586	\$ 1,630	\$ 2,069	\$ 2,091

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

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

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

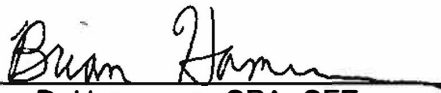
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole) ss

I, Brian D. Hammann, CPA, CFE, 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 Hickory County Farmers 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.



Brian D. Hammann, CPA, CFE
Financial Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 4th day of March, 2021.

My commission expires:

May 18, 2024



Notary Public



KIMBERLY LANDERS
My Commission Expires
May 18, 2024
Callaway County
Commission #12558402

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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