



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

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

RE: Examination Report of Perry County Mutual Insurance Company for the period ended  
December 31, 2015

**ORDER**

After full consideration and review of the report of the financial examination of Perry County Mutual Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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 Perry County 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 24<sup>th</sup> day of April, 2017.



A handwritten signature in blue ink, reading "Chlora Lindley-Myers".

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



**REPORT OF THE  
FINANCIAL EXAMINATION OF**

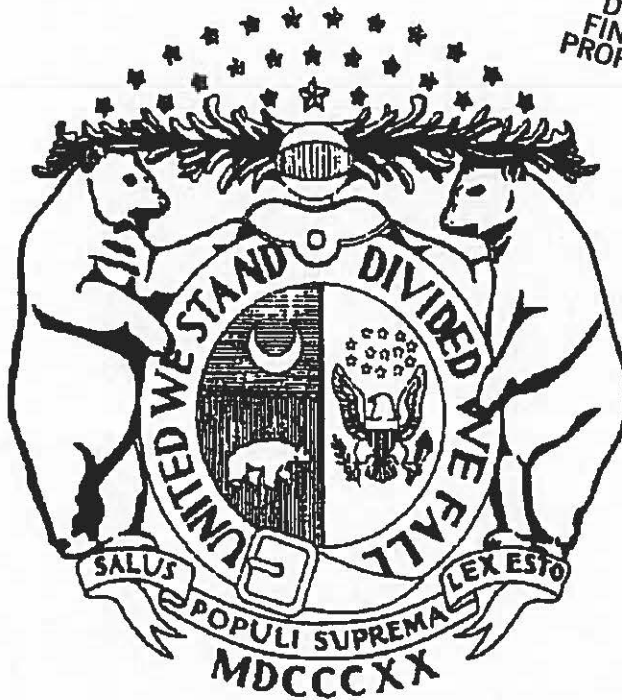
**Perry County Mutual Insurance Company**

**AS OF  
DECEMBER 31, 2015**

**FILED**

**APR 24 2017**

**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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February 7, 2017  
Perryville, Missouri

Honorable John F. Rehagen, Acting 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

**Perry County Mutual Insurance Company**

hereinafter referred to as such, or as the "Company" or "Perry County". The Company's administrative office is located at 218 W. Ste. Maries St., Perryville, Missouri 63775, telephone number (573) 547-6633. This examination began on January 26, 2016, and concluded on the date above.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2010, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2011, through December 31, 2015, 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 by 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**

*Comment:* It was recommended the Company file its management agreement with the DIFP as required by RSMo 380.611.

*Company Response:* The Company filed its management agreement with the DIFP.

*Current Findings:* The most recent copy of the management agreement has been filed with the DIFP as required by RSMo 380.611.

*Comment:* It was recommended the Company increase their fidelity bond coverage to at least \$75,000 to meet the minimum amount recommended by the NAIC.

*Company Response:* The Company increased its Fidelity Bond to meet the amount recommended by the NAIC.

*Current Findings:* The Company continues to maintain its Fidelity Bond at the amount recommended by the NAIC.

## **HISTORY**

### **General**

The Company was organized on May 31, 1890 as the Perry County Farmers Mutual Fire and Lightning Insurance Company and was subsequently incorporated on August 25, 1909. On August 19, 1972 the Company amended its Articles of Incorporation to change its name to the present name, Perry County Mutual Insurance Company. On March 16, 1985 the Company amended its Articles of Incorporation to change to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo). At that time the Company received a Certificate of Authority from the Missouri Division of Insurance.

### **Management**

The Company is managed by a board of five directors serving staggered, three-year terms. Directors are elected at annual member meetings held on the third Thursday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The directors meet quarterly plus any special meetings and at the annual meeting. Each director receives \$550 per quarter. All directors are also policyholders. Ten members constitute a quorum at annual meetings. Absentee ballot voting is not permitted but members may vote by proxy

Members serving on the Board of Directors as of December 31, 2015, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Michael K. Kiefer 20 Kiefer Lane Perryville, MO 63775	Retired Insurance Agent and Employee of the Company	2013-2016
Dale F. Schamburg 999 Schamburg Lane Perryville, MO 63775	Adjuster/Inspector of the Company	2015-2018
Ralph J. Schamburg 919 Edgemont Blvd. Perryville, MO 63775	Manager and Agent of the Company	2013-2016
Terry L. Leible 2025 Engle Creek Road Barnhart, MO 65012	Shipping & Receiving Mgr Designs For Tomorrow	2014-2017
Joseph Hacker 1609 PCR 801 Perryville, MO 63775	Leadman Rob Roy Nursery	2014-2017

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, 2015, were as follows:

Michael Kiefer	President
Dale Schamburg	Vice-President
Ralph Schamburg	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, and no potential material conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or the Bylaws 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 \$75,000. This coverage meets the \$75,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by Western Surety Company.

The Company carries directors' and officers' liability coverage through MAMIC Insurance Company with a limit of liability of \$2,000,000 per claim and aggregate.

Each of the Company's agents is required to carry errors and omissions liability coverage of at least \$500,000. Independent agents are required to purchase their own coverage.

The Company has a property insurance policy written by Grinnell Mutual Insurance Company (Grinnell). The insurance limits in 2015 were \$224,882 for the office building and \$18,000 for the contents.

The Company has a commercial general liability policy with Grinnell. The policy limit of liability is \$1,000,000.

The Company has a workers compensation and employers liability policy with Grinnell.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees and two part-time employees. Full-time employees receive life and health insurance benefits as well as paid vacation and sick leave, holidays, a cafeteria plan and a Simple IRA Plan.

## **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 Missouri counties, although the majority of the Company's business is concentrated in Perry County and the immediate surrounding counties. The Company has traditionally sold property and liability insurance for farms, homes, and personal property. The Company also sells

mechanical breakdown insurance which is 100% reinsured. Insurance is provided on an assessable basis. The Company advertises through local TV, newspaper and radio ads, newsletters, community involvement and with other promotional items such as pens, caps and calendars. The Company also has a web site at [www.pcmutual.com](http://www.pcmutual.com).

**Policy Forms and Underwriting Practices**

The Company writes policies for a one-year period. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses American Association of Insurance Services (AAIS) policy forms which are purchased through Missouri Association of Mutual Insurance Companies (MAMIC). Insurance products are sold by four captive agents, three dual career agents and five independent agents. The agents receive either 16% or 18% on all new and renewal business.

An onsite inspection is made of most properties by the company's adjustor/inspector prior to issuance of the policy. Renewals are inspected every third year. Claims adjusting is primarily handled by the office staff and the company adjustor/inspector. Outside independent adjustors are used occasionally.

**GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2015	\$3,555,892	\$224,521	\$ 2,668,354	\$ 561,676	\$ 108,126	\$ 194,169	\$ 272,816
2014	3,233,688	188,685	2,637,132	632,848	100,364	279,321	352,423
2013	2,822,612	145,196	2,397,378	561,676	96,171	55,284	124,590
2012	2,668,460	115,175	2,106,131	610,709	99,320	49,444	122,912
2011	2,494,547	64,174	1,815,907	1,621,154	71,769	(390,217)	(348,192)

At year-end 2015, 2,693 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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Direct	\$1,798,079	\$2,083,751	\$2,375,929	\$2,614,054	\$2,646,734
Assumed	17,828	22,380	21,449	23,078	21,620
Ceded	(719,208)	(835,521)	(1,048,868)	(1,059,762)	(1,052,038)
Net	<u>\$1,096,699</u>	<u>\$1,270,610</u>	<u>\$1,348,510</u>	<u>\$1,577,370</u>	<u>\$1,616,316</u>

### Assumed

The Company is a member of the Missouri Mutual Reinsurance Exchange, a group reinsurance pool. The Company assumed premium was \$21,620 in 2015.

### Ceded

The Company reinsures all of its Equipment Breakdown coverage to The Hartford Steam Boiler Inspection and Insurance Company through a 100% Quota Share Treaty.

The Company has a reinsurance agreement with Grinnell Mutual Insurance Company (Grinnell). The following coverage is provided under this agreement.

#### Individual Occurrence of Loss Excess

The Company retains the first \$200,000 of each fire and wind risk. Grinnell is liable for 100% of losses above the retention. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year. The fire component of the premium is also subject to an experience rating adjustment based on the loss ratio for the most recent five-year period.

#### Aggregate Excess

The Company maintains aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2015 contract year was \$1,215,351. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

#### Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to Grinnell by means of facultative reinsurance. Rates are determined by Grinnell on a case-by-case basis, and Grinnell determines which risks are acceptable for facultative coverage.

#### Earthquake Reinsurance

The Company cedes all earthquake risk to Grinnell, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

#### Liability Reinsurance

The Company cedes all liability premiums to Grinnell through a 100% Quota Share agreement.

The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate.

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 Company maintains its accounting on an accrual basis. Accounting records for premiums, claims, and financial reporting are maintained in the IMT software system. Filebound is used to store policy documents. The CPA firm of Van de Ven, LLC prepares financial statements and tax returns and compiles the Company's Annual Statement.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been differences found in the course of this examination, which are not shown in the "Comments on 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 work papers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2015**

Bonds	\$ 2,702,489
Stocks	7,140
Mutual Funds	173,879
Real Estate	68,717
Cash on Deposit	357,817
Reinsurance Recoverable	3,488
Other Investments	197,850
Computer Equipment	9,700
Interest Due & Accrued	24,718
Prepaid Insurance	7,091
Accounts Receivable	3,003
<b>Total Assets</b>	<b><u>\$ 3,555,892</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2015**

Losses Unpaid	\$ 108,575
Ceded Reinsurance Payable	83,965
Unearned Premium	-
Federal Income Tax Payable	-
Payroll Tax	17,779
Accounts Payable (Other)	14,202
<b>Total Liabilities</b>	<b><u>\$ 224,521</u></b>
Guaranty Fund	\$ 150,000
Other Surplus	3,181,371
<b>Total Surplus</b>	<b><u>\$ 3,331,371</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$ 3,555,892</u></b>



**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2015**

Net Premiums Earned	\$ 1,616,316
Other Insurance Income	47,604
Net Losses & Loss Adjustment Expenses Incurred	(600,093)
Other Underwriting Expenses Incurred	(869,658)
Net Underwriting Income (Loss)	<u>\$ 194,169</u>
Investment Income	76,062
Other Income	2,585
Gross Profit (Loss)	<u>\$ 272,816</u>
Federal Income Tax	-
Net Income (Loss)	<u><u>\$ 272,816</u></u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2015**

Policyholders' Surplus, December 31, 2014	\$ 3,045,003
Net Income (Loss)	272,816
Non-Admitted Mutual Funds Adjustment	13,552
Policyholders' Surplus, December 31, 2015	<u><u>\$ 3,331,371</u></u>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

In October 2016, a special meeting of the members was held. The membership voted 12-0 to approve a merger with the Farmers Mutual Insurance Company of Ste. Genevieve (Ste. Genevieve). The merger became effective January 1<sup>st</sup>, 2017. At the time of the examination, management of the Company was in the process of wrapping up the merger. As a result of the merger, Perry County Mutual Insurance Company will be the surviving entity and has changed its name to Missouri Alliance Mutual Insurance Company (Missouri Alliance). A Certificate of Authority was issued on December 28, 2016 for Missouri Alliance. Besides the name change, the membership voted to change the number of Board of Directors from 5 to 7. The 5 directors for Perry County will remain on the board of Missouri Alliance and 2 directors from Ste. Genevieve will join Missouri Alliance's Board. Two additional directors from Ste. Genevieve will be retained as consultants. The Company has indicated it plans to keep both offices open.

