



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

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

RE: Examination Report of Ralls County Mutual Insurance Company for the period ended
December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Ralls County Mutual Insurance Company for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, 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 Ralls 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 6th day of June, 2016.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF**

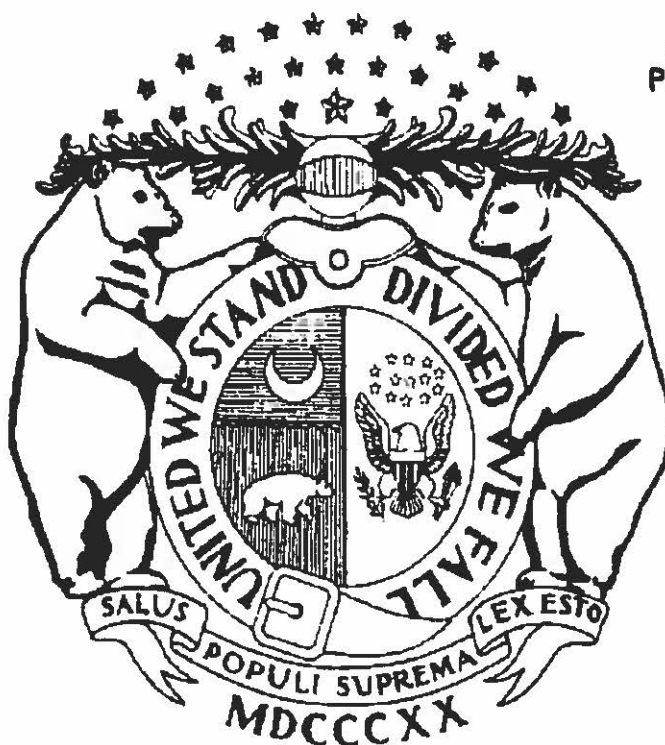
Ralls County Mutual Insurance Company

**AS OF
DECEMBER 31, 2014**

FILED

JUN 06 2016

**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 11, 2016
Center, 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

Ralls County Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 S. Public St., Center, Missouri 63436, telephone number (573) 267-3551. This examination began on January 19, 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, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, 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

The comments, recommendations, and notes of the previous examination report dated December 31, 2009, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations, and notes.

Fidelity Bond

Comment: The Company should increase its fidelity bond coverage to a minimum limit of \$75,000.

Company Response: The Company increased their fidelity bond coverage to \$100,000 after the prior examination.

Current Findings: The Company continues to exceed the minimum requirement.

Notes to the Financial Statements

Comment: The Company should ensure its level of investments in mutual funds complies with the limitations of the regulation.

Company Response: The Company requested an exemption for the limitation as the asset was in compliance when purchased.

Current Findings: On September 19, 2014, the Missouri DIFP approved an Exemption for the Mutual Funds

HISTORY

General

Ralls County Mutual Insurance Company was originally organized on May 27, 1890 as Ralls County Farmers Fire Insurance Association. In 1959, the Company changed its name to Ralls County Farmers Mutual Fire Insurance Company. The Company changed its name to Ralls County Mutual Insurance Company in 1991. On July 1, 1991, the Company received a Certificate of Authority to provide insurance under Sections 380.201 to 380.611, RSMo (Extended Missouri Mutual Insurance Company).

Management

During the previous exam, the Company was managed by a board of nine directors. In 2013, the Company changed its bylaws to reflect seven directors. At the time of the exam, the Company was reviewing its Articles of Incorporation for changes to be implemented during 2016. One of those changes will be the number of directors, which will be changed to agree with the bylaws. The Articles of Incorporation requires nine directors at the time of the exam. The directors serve staggered, three-year terms. Directors are elected at annual membership meetings held on the third Monday of January. Special meetings of the members may be called at any time by the Board or

upon petition of one-fourth of the members. A person must have a policy with the Company in order to be a member. Ten members constitute a quorum at annual meetings and proxy voting is permitted. The Board of Directors meets approximately every month, and directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

| <u>Name and Address</u> | <u>Occupation</u> | <u>Term</u> |
|---|-----------------------------|-------------|
| Richard E. Dryden 12201 Highway 79 Hannibal, MO 63401 | Retired Fireman/RCMIC Agent | 2013-2016 |
| Daryl Caswell 64506 Patton Trail New London, MO 63459 | Retired Farmer | 2013-2016 |
| Linda Tatman 3435 Deerfield Rd. Hannibal, MO 63401 | Retired Secretary | 2014-2017 |
| Rich Stilley 508 Hummingbird Hannibal, MO 63401 | Business Manager | 2014-2017 |
| Laura Denise Power 31613 Highway B Perry, MO 63462 | RCMIC Agent | 2012-2015 |
| Lowell Jackson 46571 Highway CC Center, MO 63436 | Farmer | 2012-2015 |
| Ralph Mika 328 Teal Lake Rd. Mexico, MO 65265 | Retired | 2012-2015 |

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, 2014, were as follows:

| | |
|----------------|----------------|
| Linda Tatman | President |
| Daryl Caswell | Vice-President |
| Laura Power | Secretary |
| Richard Dryden | 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. Two of the directors are also agents for the Company.

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. The Bylaws were amended to reflect the change in number of directors serving on the board. 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. This coverage exceeds the \$50,000 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 \$3,000,000 per claim and aggregate.

Each of the Company's agents is required to carry errors and omissions liability coverage. The Company maintains copies of each agent's errors and omissions coverage.

The Company has a property insurance policy written by Cameron Mutual Insurance Company. The insurance limits in 2014 were \$422,700 for the office building and \$77,000 for the contents.

The Company has a commercial general liability policy with Cameron Mutual Insurance Company. The policy limit of liability is \$1,000,000 per occurrence and \$3,000,000 in aggregate.

The Company has a workers compensation and employers liability policy with Missouri Employers Mutual Insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. Employees receive life, health, and dental insurance benefits. The Office Manager receives two weeks vacation and one sick day per month. The Office Manager may accumulate up to 30 sick days. The Company provides the remaining full-time employees two weeks vacation and five paid sick days annually. No accumulation of sick days or vacation days is allowed. A deferred compensation plan is also offered whereby the Company matches up to 3% of employees salary.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri 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 Marion, Audrain, Ralls, Pike, Monroe and all other Missouri counties.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms provided by the Missouri Association of Mutual Insurance Companies. Policies are written on a continuous basis and renewed annually. The Company's Board of Directors establishes the rates. Insurance products are sold by 17 independent agents. On October 1, 2013, agent's commissions were reduced from 15% to 13%.

All new properties are inspected by agents prior to issuing the policies and properties are re-inspected every 3 years by agents. Prior to 2013, approximately 90% of claims were adjusted by agents. In 2013, the Company began sending all claims to independent adjusters.

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> |
|------|----------------------------|--------------------|------------------------------|-------------------------|------------------------------|--------------------------------|-----------------------|
| 2014 | \$1,396,509 | \$ 816,800 | \$ 1,703,186 | \$1,200,962 | \$ 42,760 | \$ (233,264) | \$(190,476) |
| 2013 | 1,587,603 | 811,345 | 1,920,553 | 1,799,003 | 36,592 | (375,996) | (339,404) |
| 2012 | 1,900,010 | 711,897 | 1,789,269 | 848,561 | 39,673 | (158,522) | (118,849) |
| 2011 | 2,043,707 | 772,143 | 1,636,726 | 1,819,598 | 51,810 | (121,940) | (70,322) |
| 2010 | 2,029,833 | 727,942 | 1,491,757 | 964,408 | 54,253 | (368,716) | (314,460) |

At year-end 2014, 1,911 policies were in force.

In December 2012, the Company issued a self-imposed moratorium on all new business. This moratorium was lifted during the June 11, 2015 Board of Directors meeting. The Company began writing new business on July 1, 2015.

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>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Direct | \$ 1,491,757 | \$ 1,636,726 | \$ 1,789,269 | \$ 1,920,553 | \$ 1,703,186 |
| Assumed | 21,747 | 21,113 | 22,380 | 21,449 | - |
| Ceded | <u>(378,730)</u> | <u>(489,537)</u> | <u>(656,869)</u> | <u>(781,735)</u> | <u>(692,771)</u> |
| Net | <u>\$ 1,134,774</u> | <u>\$ 1,168,302</u> | <u>\$ 1,154,780</u> | <u>\$ 1,160,267</u> | <u>\$ 1,010,415</u> |

Assumed

The Company participated 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 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% 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 4% share in the interests and liabilities of the pool. As of 2014, this income has been moved to Investment Income instead of Assumed Premium.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a per risk excess of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains \$60,000 for each loss and the reinsurer's limits are \$1,000,000 per exposure.

Under the casualty quota share section of the agreement, the Company cedes 100% of the risk and premium for liability policies, and receives a 25% ceding commission.

For property coverage the Company maintains retention of \$60,000 per risk and cedes reinsurance to a maximum of \$1,000,000 per risk.

Under the aggregate excess of loss reinsurance section which covers all property, the reinsurer is liable for 100% of the Company's total net losses exceeding 58% of net premiums.

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 a modified cash basis. All accounting records are maintained in the IMT software system. The CPA firm of Wade & Stables prepares financial statements and tax returns and compiles the Company's Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2014, 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 work papers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2014

| | |
|------------------------|---------------------|
| Bonds | \$ 382,722 |
| Mutual Funds | 290,975 |
| Real Estate | 215,143 |
| Cash on Deposit | 225,021 |
| Other Investments | 236,711 |
| Computer Equipment | 3,750 |
| Interest Due & Accrued | 4,672 |
| Other Assets | 37,515 |
| Total Assets | \$ 1,396,509 |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2014

| | |
|--------------------------------------|---------------------|
| Losses Unpaid | \$ 118,662 |
| Unearned Premium | 676,782 |
| Payroll Tax | 4,952 |
| Accounts Payable to Agents | 15,425 |
| Accounts Payable (Other) | 979 |
| Total Liabilities | \$ 816,800 |
| | |
| Guaranty Fund | \$ 150,000 |
| Other Surplus | 429,709 |
| Total Surplus | \$ 579,709 |
| | |
| Total Liabilities and Surplus | \$ 1,396,509 |

STATEMENT OF INCOME
For the Year Ending December 31, 2014

| | |
|--|----------------------------|
| Net Premiums Earned | \$ 1,062,202 |
| Other Insurance Income | 71,024 |
| Net Losses & Loss Adjustment Expenses Incurred | (858,963) |
| Other Underwriting Expenses Incurred | (507,527) |
| Net Underwriting Income (Loss) | <u>\$ (233,264)</u> |
| Investment Income | 42,760 |
| Other Income | 28 |
| Gross Profit (Loss) | <u>\$ (190,476)</u> |
| Federal Income Tax | - |
| Net Income (Loss) | <u><u>\$ (190,476)</u></u> |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2014

| | |
|--|--------------------------|
| Policyholders' Surplus, December 31, 2013 | \$ 776,258 |
| Net Income (Loss) | (190,476) |
| Change in Unrealized Gain/Loss on Securities | (26,510) |
| Policyholders' Surplus, December 31, 2014 | <u><u>\$ 559,272</u></u> |

NOTES TO 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

None.

