



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

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

RE: Examination Report of St. Thomas-Babbtown Mutual Insurance Company for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of St. Thomas-Babbtown 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 St. Thomas-Babbtown 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.

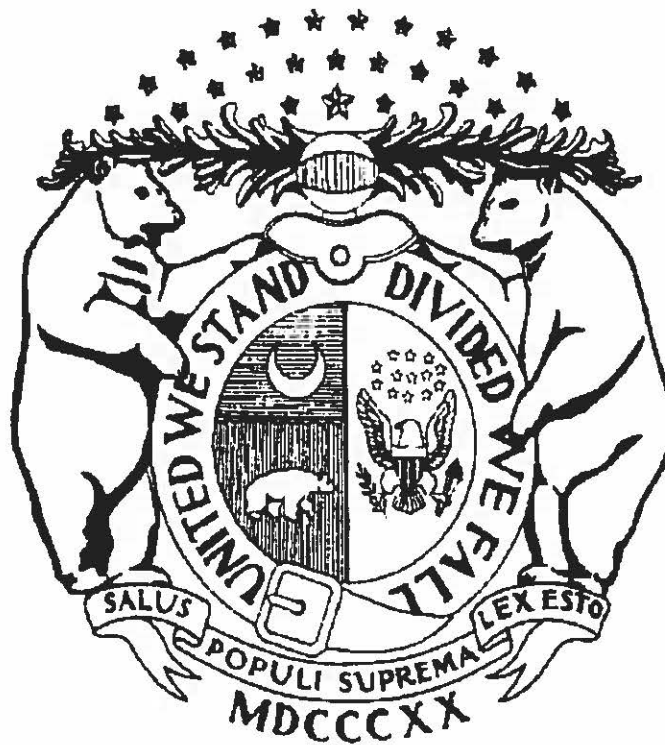
So ordered, signed and official seal affixed this 16th day of May, 2016.




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

**REPORT OF THE
FINANCIAL EXAMINATION OF
ST. THOMAS-BABBETOWN MUTUAL
INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2014**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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December 23, 2015
Meta, 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

ST. THOMAS-BABB TOWN MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 106 East Third Street (P.O. Box 116), Meta, Missouri 65058, telephone number (573) 229-4211. This examination began on December 22, 2015, and was concluded on the above date.

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 in the Financial Examiners Handbook of 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.

Surplus Reconciliation

Comment: It was recommended the Company properly complete the "Gain or Loss in Surplus" reconciliation in future Annual Statements and to ensure the result of the reconciliation equals the "Total Policyholder Surplus" as reported on Page 1 of the Statement.

Company Response: The Company responded that it had forwarded the information to their CPA, Williams-Keepers LLC, for consideration in subsequent filings.

Current Findings: The Company properly completed the "Gain or Loss in Surplus" section on all Annual Statements filed subsequent to the issuance of the prior examination report.

Fidelity Bond

Comment: It was recommended the Company increase its fidelity bond coverage to a minimum of \$50,000.

Company Response: The Company responded that it would increase their fidelity bond to \$50,000 at renewal in April of 2011.

Current Findings: As of December 31, 2014, the Company maintained a fidelity bond with coverage of \$50,000.

HISTORY

General

The Company was originally organized and incorporated on May 25, 1892, as Fire Assistance Association of Babtown. The Company changed its name to St. Thomas-Babbtown Mutual Insurance Company in 1926. The Company was incorporated in the State of Missouri on December 28, 1984.

The Company has a Certificate of Authority dated December 1, 1988, 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 first Monday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called at any time by the Board of Directors and shall be called 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 the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members serving staggered three year terms and meets approximately each month. Compensation per each meeting attended is \$64. Additionally the President receives \$300 and all other directors receive \$200 per month.

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 Expires</u>
Lawrence Wansing Meta, Missouri	President/Retired Farmer	2017
Frank Veltrop St. Thomas, Missouri	Vice President/Director/Agent	2017
Charles Schroeder Westphalia, Missouri	Retired Farmer/Agent	2015
Jeff Tellman Meta, Missouri	Secretary-Treasurer/Agent/Salesman- Electric Company	2016
Ruby Ross ¹ Iberia, Missouri	Retired Businesswoman	2015

¹ Subsequent to the 2014 Annual Statement filing, Ruby Ross passed away in September of 2015. The Company is currently interviewing candidates for her replacement prior to 2016 annual membership meeting.

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:

Lawrence Wansing	President
Frank Veltrop	Vice-President
Jeff Tellman	Secretary/Treasurer

Conflict of Interest

The Company requires its directors to complete conflict of interest disclosures on an annual basis. The completed conflict of interest statements are reviewed by the Board of Directors for any possible conflicts requiring resolutions.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were 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 \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company also carries errors and omissions coverage for its employees and agents.

Other insurance coverages carried by the Company include property insurance on the home office and contents, workers compensation, and commercial liability insurance.

EMPLOYEE BENEFITS

The Company has three part-time employees. The Company provided no benefits to the employees as of December 31, 2014.

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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri and currently writes all three lines.

The Company's policies are sold by three licensed agents. The office manager, who is also a licensed agent, performs insurance quotes, but does not actively write policies. The Company does not pay any commission to their agents. The agents are compensated \$16 per hour for selling policies and receive \$0.55 per mile reimbursement during inspections and while accepting applications.

Policy Forms and Underwriting Practices

The Company mainly utilizes a combination of AAIS, MAMIC, and Grinnell Mutual Insurance Company policy forms. The policies are written for one year and are continuous. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured or mortgagee, as applicable. Property inspection and claims adjusting functions are completed by the agents. Properties are fully inspected when the policy is written and are re-inspected on a five year cycle or when claims are made.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2014	\$2,555,697	\$1,433	\$517,310	\$255,597	\$ 27,110	\$ 28,494	\$ 55,604
2013	2,500,339	1,679	501,834	100,150	23,297	184,628	207,925
2012	2,292,102	1,367	472,338	244,266	28,629	78,588	107,217
2011	2,184,724	1,206	460,625	328,989	34,408	(31,940)	2,468
2010	2,183,105	2,055	453,220	212,698	43,567	28,364	73,583

At year-end 2014, 832 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>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct	\$510,907	\$493,613	\$469,107	\$449,983	\$442,634
Assumed	6,403	8,221	3,231	10,642	10,586
Ceded	136,192	122,854	111,551	115,712	121,918
Net	<u>\$381,118</u>	<u>\$378,980</u>	<u>\$360,787</u>	<u>\$344,913</u>	<u>\$331,302</u>

Assumed

The Company participates 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 to the pool 84% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 84% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has all of its ceded reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement.

The individual occurrence section of the agreement covers property risks. The Company retains \$125,000 for each individual loss occurrence, and the reinsurer is liable for losses in excess of the retention.

The aggregate excess section of the agreement also covers property risks. Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's five-year average loss ratio, plus a negotiated load, less a credit for the individual occurrence of loss premium rate. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2014 was \$330,147.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 20% ceding commission.

Under the facultative reinsurance portion of the agreement, the Company may cede risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis. The facultative portion of the Contract was discontinued for the 2015 contract.

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 a modified cash basis. The Company utilizes IMT Computer Services Company software for general ledger, claims reports and policy maintenance. The Company also maintains paper copies of signed applications, policyholder declaration pages and endorsements. In addition to backing up their data with DVDs and flash drives, the Company also uses AT&T Back-up & Go Service for online backup along with the backup provided by IMT for its programming. The CPA firm of Williams Keepers LLC prepares the Company's Annual Statement and tax filings, but does not complete an audit or compilation.

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 workpapers for each individual annual statement item.

ASSETS
December 31, 2014

Real Estate	\$ 41,498
Cash on Deposit	2,340,942
Other Investments	171,787
Interest Due and Accrued	<u>1,470</u>
 Total Assets	 <u>\$ 2,555,697</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2014

Net Losses Unpaid	\$ 0
Payroll Tax	<u>1,433</u>
 Total Liabilities	 <u>\$ 1,433</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>2,404,264</u>
 Total Surplus	 <u>2,554,264</u>
 Total Liabilities and Surplus	 <u>\$ 2,555,697</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2014

Net Premiums Earned	\$ 381,118
Other Insurance Income	2,455
Net Losses & Loss Adjusting Expenses Incurred	(255,597)
Other Underwriting Expenses Incurred	<u>(99,482)</u>
Net Underwriting Income (Loss)	28,494
Net Investment Income	27,110
Other Income	<u>0</u>
Gross Profit (Loss)	\$ 55,604
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 55,604</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2014

Policyholders' Surplus, December 31, 2013	\$ 2,498,660
Net Income (Loss)	<u>55,604</u>
Policyholders' Surplus, December 31, 2014	<u>\$ 2,554,264</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of St. Thomas-Babbtown Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jay Buschmann 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.

J. Buschmann
Jay Buschmann, AFE
Financial Examiner/Analyst
Missouri DIFP

Sworn to and subscribed before me this 24th day of March, 2016.

My commission expires:

01/07/2018



TAMMY MORALES
My Commission Expires:
January 7, 2018
Clay County
Commission #14451086

Tammy Morales
Notary Public

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.

Mark Nance
Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP