



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

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

RE: Examination Report of Texas County Mutual Insurance Company for the period ended December 31, 2013

**ORDER**

After full consideration and review of the report of the financial examination of Texas County Mutual Insurance Company for the period ended December 31, 2013, 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 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Texas 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) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 this 29<sup>th</sup> day of June, 2015.



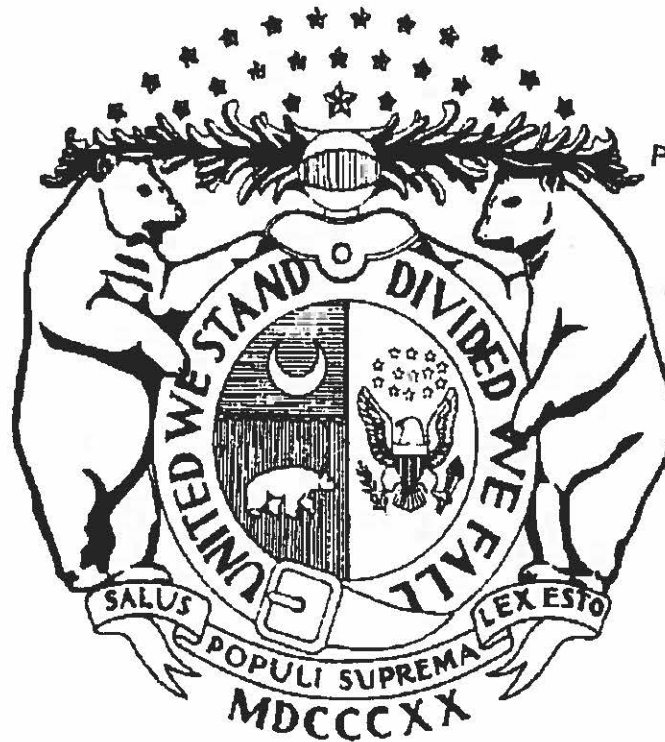
A blue ink handwritten signature of John M. Huff, written over a horizontal line.

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

REPORT OF THE  
FINANCIAL EXAMINATION OF

**Texas County Mutual Insurance Company**

AS OF  
DECEMBER 31, 2013



**FILED**

JUN 29 2015

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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April 27, 2015  
Licking, 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

**Texas County Mutual Insurance Company**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 117 South Main Street (P.O. Box 419), Licking, Missouri 65542, telephone number (573) 674-3125. This examination began on January 21, 2015, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, and was conducted by an examiner 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Notes to the Financial Statements**

*Comment:* It was recommended the Company ensure the reported unearned premium liability in future Annual Statement filings is adequate and calculated in accordance with the Missouri Mutual Annual Statement Instructions. Furthermore, the Company should retain such calculations to be made available upon request of the DIFP.

*Company Response:* The Company agreed to properly calculate and report unearned premium on future Annual Statements.

*Current Findings:* The Company reported a properly calculated unearned premium reserve during the examination period and retained adequate documentation of the calculation.

## **HISTORY**

### **General**

The Company was originally organized on May 30, 1904 as Texas County Farmers Mutual Fire and Lightning Insurance Company and was incorporated on June 4, 1904. On January 12, 1985, the Company changed its name to Texas County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in March, at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time, 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. All directors must be policyholders of the Company. The Board generally meets every other month, and directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Charles Van Zyverden Plato, Missouri	Retired Agent/Farmer	2015
Judith K. Goins Licking, Missouri	Secretary/Treasurer/Office Manager	2015
Gail Van Zyverden Plato, Missouri	Homemaker	2016
David L. Branson Houston, Missouri	President/Agent/Manager	2017
Julie Moore Cabool, Missouri	Vice-President/Agent	2016

The Board of Directors elects for a term of one year the officers of the Company. Officers serving at December 31, 2008 were:

David L. Branson	President
Julie Moore	Vice-President
Judith K. Goins	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 that each director disclosed at least one potential conflict. Potential conflicts disclosed included being insurance agents, former insurance agents, parents of insurance agents, and being employees of 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 or 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 named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage does not meet the minimum coverage amount of \$75,000 as suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and requires its agents to obtain errors and omissions insurance. Other insurance coverages carried by the Company include property insurance on the home office and contents, commercial liability and workers compensation coverage.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees and one part-time employee. Employee benefits provided by the Company include health insurance and paid time off.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the Missouri DIFP as an Extended Missouri Mutual 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 writes all three lines.

The Company's policies are sold by approximately nineteen licensed agencies. Commissions range from 15% to 18% on new business and 12% to 18% on renewal business, depending upon the terms contained in each individual contract.

### **Policy Forms and Underwriting Practices**

The Company utilizes Grinnell Mutual Reinsurance Company and AAIC policy forms. The policies are written on a continuous basis. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. The Company employs a full-time inspector and contracts adjusting services for most claims through its reinsurer.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	2013	2012	2011	2010	2009
Admitted	\$2,445,222	\$1,843,613	\$1,362,482	\$1,348,036	\$1,212,609
Liabilities	1,159,729	872,696	671,270	659,411	573,354
Gross Premiums	2,922,227	2,626,614	2,016,924	1,694,289	1,568,028
Gross Losses	572,554	896,071	1,271,132	953,535	2,141,008
Investment Income	(112,580)	54,356	39,417	34,977	13,431
Underwriting Income	596,897	215,110	(46,187)	8,994	(270,296)
Net	314,562	279,698	2,593	49,371	(254,165)

At year-end 2013, 2,817 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:

	2013	2012	2011	2010	2009
Direct	\$ 2,922,227	\$ 2,626,614	\$ 2,016,924	\$ 1,694,289	\$ 1,568,028
Assumed	0	0	0	0	0
Ceded	(898,605)	(815,857)	(682,356)	(555,589)	(476,375)
Net	\$ 2,023,622	\$ 1,753,233	\$ 1,298,824	\$ 1,101,421	\$ 1,059,303

### Assumed

The Company does not assume any reinsurance.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under excess of loss and quota share arrangements.

Under the individual occurrence property excess of loss provisions, the Company retains \$100,000 per occurrence, and the reinsurer's limits are \$1 million per exposure, with the exception of farm machinery and equipment storage buildings, which have a \$2 million per exposure limit. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis. Rates and acceptability of risks ceded under the facultative provisions are determined by the



reinsurer on an individual basis.

Under the quota share homeowners provisions, the Company cedes to the reinsurer an 80% quota share of premiums and losses on all homeowners policies with total insured values between \$150,000 and \$1,000,000. The Company receives a 30% ceding commission.

Under the aggregate excess provisions of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2013 was \$1,090,389.

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.

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. Accounting and policy information is maintained manually as well as with IMT policy maintenance software. The CPA firm of Marberry & Eagle, P.C. performs an annual compilation of the Company's financial statements and prepares the Company's Annual Statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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, 2013**

Bonds	\$ 1,707,705
Mutual Funds	145,792
Cash on Deposit	478,131
Real Estate	113,594
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Total Assets	\$ 2,445,222
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**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

Net Losses Unpaid	\$ 67,623
Net Loss Adjusting Expenses Unpaid	0
Ceded Reinsurance Premium Payable	73,220
Unearned Premium	833,683
Federal Income Tax Payable	175,364
Other Liabilities	9,839
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Total Liabilities	\$ 1,159,729
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Guaranty Fund	150,000
Other Surplus	1,135,493
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Total Surplus	\$ 1,285,493
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Total Liabilities and Surplus	\$ 2,445,222
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**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2013**

Net Premiums Earned	\$ 1,871,458
Other Insurance Income	20,543
Net Losses & Loss Adjusting Expenses Incurred	(601,558)
Other Underwriting Expenses Incurred	(693,546)
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Net Underwriting Income (Loss)	\$ 596,897
Net Investment Income	(112,580)
Other Income	5,609
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Gross Profit (Loss)	\$ 489,926
Federal Income Tax	(175,364)
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Net Income (Loss)	<u>\$ 314,562</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2013**

Policyholders' Surplus, December 31, 2012	\$ 970,917
Net Income (Loss)	314,562
Rounding Adjustment	14
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Policyholders' Surplus, December 31, 2013	<u>\$ 1,285,493</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

#### **Fidelity Coverage Increase (page 4)**

It is recommended the Company increase the limit of liability on its fidelity bond coverage to a minimum of \$75,000.

### **SUBSEQUENT EVENTS**

None.

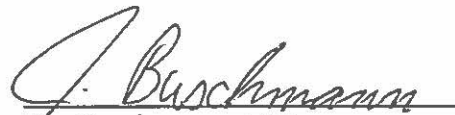
**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Texas County 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.

  
Jay Buschmann, AFE  
Financial Examiner/Analyst  
Missouri DIFP

Sworn to and subscribed before me this 1st day of June, 2015.

My commission expires:

01/07/2018


  
Notary Public



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

**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, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP