



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

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

RE: Examination Report of Central Farmers Mutual Fire Insurance Company for the period ended December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Central Farmers Mutual Fire 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 Central Farmers Mutual Fire 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 17th day of April, 2017.

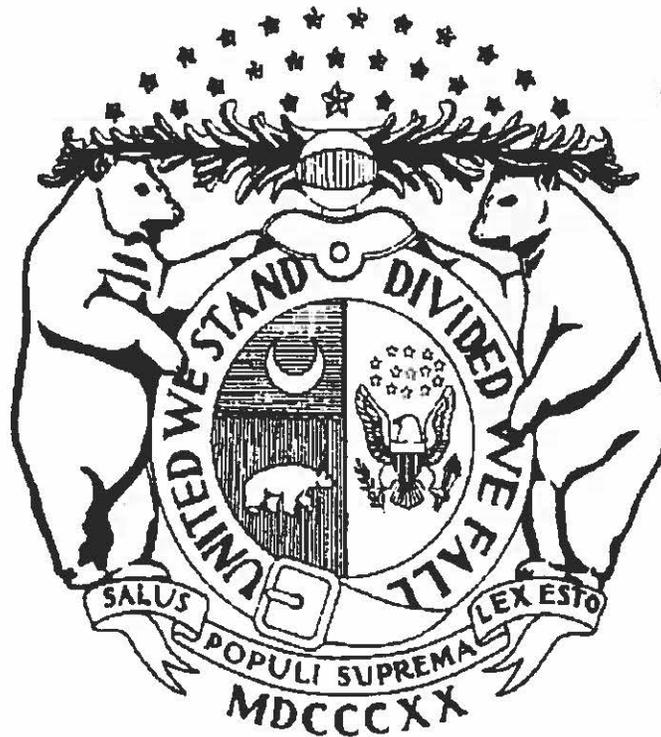



Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF**

Central Farmers Mutual Fire Insurance Company

**AS OF
DECEMBER 31, 2015**



FILED
APR 17 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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December 6, 2016
St. Charles, 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

Central Farmers Mutual Fire Insurance Company

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 5065 N. Highway 94, St. Charles, Missouri 63301, telephone number (636) 250-4155. This examination began on October 15, 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

The previous examination report dated September 16, 2011 contained the following recommendation.

Fidelity Bond and Other Insurance

Comment: The Company should provide fidelity bond coverage for all those who have the ability to authorize wire transfers, write checks and those who can buy, sell, or transfer investments as recommended by the NAIC Financial Condition Examiners Handbook.

Company Response: The Company updated their fidelity bond coverage to include all pertinent individuals.

Current Findings: The Company currently is in compliance with this recommendation.

HISTORY

General

The Company was originally organized in 1896 and was granted a Certificate of Incorporation on February 4, 1896. On November 26, 1984, the Company amended its Articles of Incorporation and was issued a Certificate of Authority by the Missouri Division of Insurance. The Articles of Incorporation and Bylaws were amended again in 1987 to comply with Sections 380.201 to 380.591 RSMo (Extended Missouri Mutual Insurance Companies). In 1988, a new Certificate of Authority was issued by the Missouri Division of Insurance. On April 26, 2004 the Articles of Incorporation and Bylaws were amended to make the Company an Extended Missouri Mutual Company under Sections 380.201 to 380.651 and to make the Company non-assessable.

Management

The Company is managed by a board of seven directors, serving staggered, three-year terms. Each Director, which must be a policyholder, receives \$100 per meeting. Directors are elected at annual member meetings held on the first Saturday of every March. Eight members constitute a quorum at annual member meetings and proxy voting is not allowed. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members.

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>
James Leonhard 6250 North Highway 94 Portage Des Sioux, MO 63373	Farmer and Insurance Agent	2014-2017
Martin Orf 4706 Highway P Wentzville, MO 63385	Farmer and Retired Insurance Agent	2016-2019

Rose Marie Leonhard 6200 North Highway 94 Portage Des Sioux, MO 63373	Retired Insurance Agent	2015-2018
James Hanley 1709 Renoir Drive O'Fallon, MO 63368	Retired Security Supervisor and Insurance Agent	2015-2018
Claude Boschert 5288 Blasé Station Road St. Charles, MO 63304	Farmer	2014-2017
Gary Dyer 1793 Highway Y St. Paul, MO 63366	Farmer	2015-2018
Gerard Orf 4389 Flint Stone Drive Wentzville, MO 63385	Paramedic and Farmer	2016-2019

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:

James B. Leonhard	President
Martin J. Orf	Vice-President
Carol R. Leonhard	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 \$25,000. This coverage meets the \$25,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by RLI Insurance Company.

The Company carries directors' and officers' liability coverage through MAMIC Mutual 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. Independent agents are required to purchase their own coverage that meets the Company's requirement of \$1,000,000.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one employee, Carol Leonhard, who serves as the Company's secretary-treasurer. The Company's office is maintained at Leonhard Insurance Agency and she receives compensation equaling 10% of the premiums written. No other benefits or pension plan is provided.

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 St. Charles and the immediate surrounding counties. Insurance is provided on a non-assessable basis. The Company advertises its insurance products at local events.

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 forms from the American Association of Insurance Services, along with internally developed forms that have been filed with the DIFP, and forms from its liability reinsurer, Cameron Mutual Insurance Company.

Insurance products are sold by five independent agents. The agents receive a 15% commission on new business and a 10% commission on renewal business.

All new properties are inspected prior to issuing the policies and properties are re-inspected prior to renewal every five years. Inspection and claims adjusting services are performed by independent inspectors and 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>
2015	\$ 1,543,510	\$ 285,196	\$ 453,272	\$ 389,550	\$ 45,836	\$ (202,660)	\$ (156,824)
2014	1,631,795	216,657	401,720	140,286	40,850	(13,042)	27,808
2013	1,555,118	167,788	353,537	349,689	44,875	(14,455)	30,420
2012	1,553,644	196,734	311,943	384,503	54,082	(151,298)	(97,216)
2011	1,580,924	126,798	275,707	178,089	61,292	(73,569)	(12,277)

At year-end 2015, 469 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	\$ 275,707	\$ 311,943	\$ 353,537	\$ 401,720	\$ 453,272
Assumed	-	-	-	-	-
Ceded	(85,749)	(98,747)	(103,711)	(147,524)	(174,574)
Net	<u>\$ 189,958</u>	<u>\$ 213,196</u>	<u>\$ 249,826</u>	<u>\$ 254,196</u>	<u>\$ 278,698</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has a property reinsurance agreement with Wisconsin Reinsurance Corporation (WRC). The following coverage is provided under this agreement.

Per Risk Excess of Loss

The Company retains the first \$50,000 of business written for fire or wind losses. WRC's limit of liability under the first layer is \$150,000. Under the second layer, WRC's limit of liability is \$400,000. Therefore, the capacity level is \$600,000. The premium for this coverage is 7.83% and 3.50% for the first and second layers, respectively.

Aggregate Excess of Loss

This section provides coverage in two layers above an attachment point of 90% of net written premium. The annual aggregate attachment point is estimated to be \$301,107. WRC's limit of liability under the first layer is 100% of 55% of net premium written in excess of the attachment point. Under the second layer, WRC is liable for 100% of losses in excess of 145% of net written premium. The premium for this coverage is 9.00% and 4.00% for the first and second layers, respectively.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage. The majority of the Company's larger risks (in excess of \$600,000) are covered through facultative agreements.

The Company has a liability reinsurance agreement with Cameron Mutual Insurance Company. The following coverage is provided under this agreement.

Liability Reinsurance

The Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 22% 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 uses the accrual basis method of accounting. Premium information and claims are maintained on a personal computer using the IMT Computer Services Co. software package. The Company uses QuickBooks to record other financial data. The CPA firm of T.A. Ohlms & Company, P.C. prepares the Company's Annual Statement and issues a compilation report.

FINANCIAL STATEMENTS

The following financial statements as filed by the Company with DIFP, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2015, and for 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 "Comments on 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, 2015

Bonds	\$ 161,710
Cash on Deposit	1,368,870
Interest Due & Accrued	6,659
Commission Receivable	3,539
Fixed Assets, Net	2,732
Total Assets	<u>\$ 1,543,510</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Losses Unpaid	\$ 68,086
Unearned Premium	186,741
Payroll Tax	1,472
Advance Premiums (2016)	23,895
Due to Reinsurer	5,002
Total Liabilities	<u>\$ 285,196</u>
Guaranty Fund	\$ 150,000
Other Surplus	1,108,314
Total Surplus	<u>\$ 1,258,314</u>
Total Liabilities and Surplus	<u>\$ 1,543,510</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$ 256,390
Other Insurance Income	14,273
Net Losses & Loss Adjustment Expenses Incurred	(344,024)
Other Underwriting Expenses Incurred	(129,299)
Net Underwriting Income (Loss)	<u>\$ (202,660)</u>
Investment Income	45,386
Other Income	-
Gross Profit (Loss)	<u>\$ (156,824)</u>
Federal Income Tax	-
Net Income (Loss)	<u><u>\$ (156,824)</u></u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2013	\$ 1,415,138
Net Income (Loss)	(156,824)
Change in Unrealized Gain/Loss on Securities	-
Policyholders' Surplus, December 31, 2014	<u>\$ 1,258,314</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

The ownership of Company's sole agent, who also provides office space and management for the Company, is changing effective January 1, 2017. The ownership of The Leonhard Agency is in the processes of being transferred from James and Carol Leonhard to Aaron and Lisa Day. Carol Leonhard will stay on as the Company's sole employee.

