

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

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

RE: Examination Report of Farmers Mutual Insurance Company of Macon, Missouri for the period ended December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Macon, Missouri for the period ended December 31, 2016, 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 Farmers Mutual Insurance Company of Macon, Missouri 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 14th day of September, 2018.

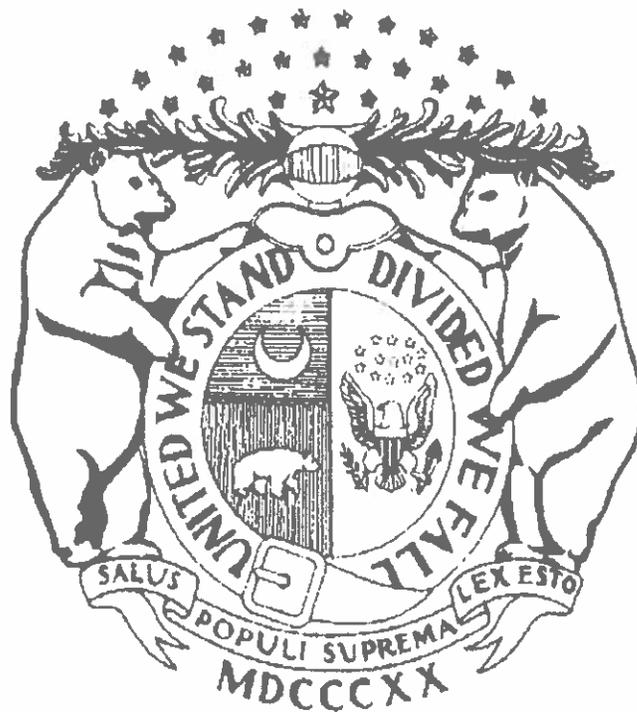


Chlora Lindley-Myers

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

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
MACON, MISSOURI

AS OF
DECEMBER 31, 2016



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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November 28, 2017
Macon, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FARMERS MUTUAL INSURANCE COMPANY OF MACON, MISSOURI

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 32362 U.S. Highway 63 (P.O. Box 36), Macon, Missouri 63552, telephone number (660) 385-3171. This examination began on November 15, 2017, and was concluded on the above date, and is respectfully submitted

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2011, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2012, through December 31, 2016, and was also conducted by examiners from the 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.

HISTORY

General

The Company was originally organized in 1894 as the Farmers Fire and Lightning Mutual Insurance Company of Macon County. In November 1954, the Company merged with Missouri Farmers Mutual Tornado Insurance Company under the name of Farmers Mutual Insurance Company of Macon, Missouri. In November 1962, the Company merged with Farmers Mutual Fire and Lightning Insurance Company of Chariton.

The Company has a Certificate of Authority dated July 1, 1991, 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 second Tuesday 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 by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and each director is compensated \$350 per meeting attended.

Members serving on the Board of Directors as of December 31, 2016, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
J. D. Wright Keytesville, Missouri	Plumber/Farmer	2016-2019
Chris Ahern Hallsville, Missouri	Retired School Administrator	2014-2017
Dean Hale Green City, Missouri	Real Estate Agent	2015-2018
Craig Miller Edina, Missouri	Banker	2016-2019
Ricky Shoemaker Bevier, Missouri	Service Station Owner	2014-2017
Kelvin Land Macon, Missouri	Farmer	2014-2017
Charles McKeown Moberly, Missouri	Real Estate Broker	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, 2016, were as follows:

J. D. Wright	Chairman
Chris Ahern	Vice-Chairman
Kevin Mosley	President
Brad Jaecques	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 statements noted disclosure that one director has a daughter who serves as an insurance agent for the Company. No other significant disclosures were noted.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company, neither of which 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 \$250,000. 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 requires its agents to obtain errors and omissions insurance and monitors for compliance. Other insurance coverages carried by the Company include home office and contents property coverage, general liability, fleet automobile, and workers compensation.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has seven full-time employees. The benefits package offered to the employees includes subsidized health, life and long-term disability insurance, defined benefit retirement plan, and paid time off.

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 writes fire, wind and liability coverages. The Company's policies are marketed by 34 agencies, who receive commissions of 18% on property coverages and 12% on liability and equipment breakdown coverages. The Company has a wholly-owned agency, Macon Mutual Agency, LLC, which markets insurance products, which are not currently written by the Company, for other insurers.

Policy Forms and Underwriting Practices

The Company utilizes Grinnell Mutual Reinsurance Company and custom policy forms. Policies are written on a continuous period. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by employees of the Company. Rates are determined by the Board of Directors.

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>
2016	\$10,277,503	\$ 1,293,541	\$ 3,074,384	\$ 1,124,906	\$ 396,927	\$ 444,942	\$ 605,880
2015	9,857,093	1,479,011	2,976,790	569,820	403,784	281,512	470,359
2014	8,993,655	1,085,932	2,818,298	1,021,936	352,720	298,258	443,766
2013	8,792,480	1,328,523	2,714,060	833,965	343,490	586,222	613,133
2012	8,364,159	1,512,221	2,602,492	578,291	363,391	(80,064)	191,479

At year end 2016, there were 3,442 policies 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:

	2016	2015	2014	2013	2012
Direct	\$ 3,074,384	\$ 2,976,790	\$ 2,818,298	\$ 2,714,060	\$ 2,602,492
Assumed	0	0	0	0	0
Ceded	632,909	661,298	593,471	557,123	479,291
Net	\$ 2,441,475	\$ 2,315,492	\$ 2,224,827	\$ 2,156,937	\$ 2,123,201

Assumed

The Company does not reinsure other companies.

Ceded

The Company has property reinsurance through Grinnell Mutual Reinsurance Company (Grinnell). Under the property per risk excess of loss agreement, the Company retains \$250,000 per risk and the reinsurer covers 100% of the excess. Under the property catastrophe excess of loss agreement, the Company retains \$575,000 per loss occurrence and the reinsurer covers 100% of the excess. Under the property aggregate excess of loss agreement, Grinnell is liable for all losses in excess of the Company's annual aggregate net retention, or attachment point. The attachment point for 2016 was \$1,875,000.

The Company reinsures liability risks with Grinnell and equipment breakdown coverage with the Hartford Steam Boiler Inspection and Insurance Company. The Company cedes 100% of the premiums and losses related to these risks 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. The Company utilizes IMT Computer Services for accounting and policy maintenance software. The firm of Harden, Cummins, Moss & Miller, LLC, CPAs performs an annual audit of the Company's financial statements and prepares the 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, 2016, 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, 2016

Bonds	\$ 9,492,376
Real Estate	19,915
Cash on Deposit	559,237
Computer Equipment	6,924
Interest Due and Accrued	50,918
Prepaid Insurance	9,470
Vehicles	48,953
Salvage/Subrogation Receivable	89,710
Total Assets	<u>\$10,277,503</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Net Losses Unpaid	\$ 181,443
Ceded Reinsurance Premium Payable	49,390
Unearned Premium	1,018,487
Federal Income Tax Payable	39,504
Payroll Tax Payable	1,417
Accounts Payable - Other	3,300
Total Liabilities	<u>\$ 1,293,541</u>
Guaranty Fund	\$ 150,000
Other Surplus	8,833,962
Total Surplus	<u>\$ 8,983,962</u>
Total Liabilities and Surplus	<u>\$10,277,503</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 2,415,102
Other Insurance Income	249,516
Net Losses & Loss Adjusting Expenses Incurred	(789,139)
Other Underwriting Expenses Incurred	<u>(1,430,537)</u>
Net Underwriting Income (Loss)	\$ 444,942
Net Investment Income	396,927
Other Income	<u>502</u>
Gross Profit (Loss)	\$ 842,371
Federal Income Tax	<u>(236,491)</u>
Net Income (Loss)	<u>\$ 605,880</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 8,378,082
Net Income (Loss)	<u>605,880</u>
Policyholders' Surplus, December 31, 2016	<u>\$ 8,983,962</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 Farmers Mutual Insurance Company of Macon, Missouri during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Brian Hammann, CPA, examiner for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

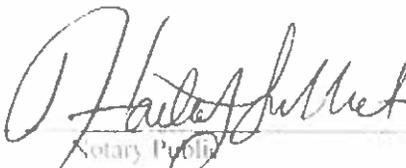
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the 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.


Shannon W. Schmoeger, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 15th day of August, 2018.

My commission expires:

March 30, 2018


Notary Public

HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number: 15634366

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
Senior Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration