

# STATE OF MISSOURI



## 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, 2011

### 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, 2011, 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 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) 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.

So ordered, signed and official seal affixed this 23rd day of April, 2013.



John M. Huff, 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, 2011

**FILED**  
APR 23 2013  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

| <u>Subject</u>                               | <u>Page</u> |
|--|-------------|
| SALUTATION                                   | 1           |
| SCOPE OF EXAMINATION:                        |             |
| Period Covered                               | 1           |
| Procedures                                   | 1           |
| Comments - Previous Examination Report       | 2           |
| HISTORY:                                     |             |
| General                                      | 2           |
| Management                                   | 2           |
| Conflict of Interest                         | 3           |
| Corporate Records                            | 3           |
| FIDELITY BOND AND OTHER INSURANCE            | 4           |
| EMPLOYEE BENEFITS                            | 4           |
| INSURANCE PRODUCTS AND RELATED PRACTICES:    |             |
| Territory and Plan of Operation              | 4           |
| Policy Forms & Underwriting                  | 4           |
| GROWTH AND LOSS EXPERIENCE OF THE COMPANY    | 5           |
| REINSURANCE:                                 |             |
| General                                      | 5           |
| Assumed                                      | 5           |
| Ceded  | 5           |
| ACCOUNTS AND RECORDS                         | 6           |
| FINANCIAL STATEMENTS:                        |             |
| Analysis of Assets                           | 7           |
| Liabilities, Surplus and Other Funds         | 8           |
| Statement of Income                          | 9           |
| Capital and Surplus Account                  | 9           |
| NOTES TO THE FINANCIAL STATEMENTS            | 10          |
| EXAMINATION CHANGES                          | 10          |
| SUMMARY OF RECOMMENDATIONS                   | 10          |
| SUBSEQUENT EVENTS                            | 10          |
| ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION | 11          |

January 29, 2013  
Macon, 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

**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 January 28, 2013, and concluded on January 29, 2013, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2006, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2007, through December 31, 2011, 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

There were no prior examination report comments or recommendations.

## **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 management of the Company is 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 about every other month, and each director is compensated \$250 per meeting attended.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

| <u>Name and Address</u>               | <u>Occupation</u>            | <u>Term</u> |
|---------------------------------------|------------------------------|-------------|
| J. D. Wright<br>Keytesville, Missouri | Plumber/Farmer               | 2010-2013   |
| Chris Ahern<br>Atlanta, Missouri      | Retired School Administrator | 2011-2014   |

|                                       |                       |           |
|---------------------------------------|-----------------------|-----------|
| Dean Hale<br>Green City, Missouri     | Real Estate Agent     | 2009-2012 |
| Craig Miller<br>Edina, Missouri       | Banker                | 2010-2013 |
| Ricky Shoemaker<br>Bevier, Missouri   | Service Station Owner | 2011-2014 |
| Kelvin Land<br>Clifton Hill, Missouri | Farmer                | 2011-2014 |
| William Duncan<br>Salisbury, Missouri | Farmer                | 2010-2013 |

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, 2011, 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 no potential conflicts disclosed.

### **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 27 agencies, who receive commissions of 18% on property coverages and 12% on liability and equipment breakdown coverages.

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

The Company utilizes Grinnell Mutual Reinsurance Company and custom policy forms. Homeowners policies are written on a continuous period, while other policies are written on a three-year term. 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

| Year | Admitted<br>Assets | Liabilities | Gross<br>Premiums | Gross<br>Losses | Investment<br>Income | Underwriting<br>Income | Net<br>Income |
|------|--------------------|-------------|-------------------|-----------------|----------------------|------------------------|---------------|
| 2011 | \$7,548,617        | \$ 888,159  | \$2,281,194       | \$1,092,502     | \$334,229            | \$(49,856)             | 196,025       |
| 2010 | 7,525,185          | 1,060,752   | 1,989,987         | 1,157,440       | 341,158              | 166,899                | 347,330       |
| 2009 | 7,016,098          | 898,995     | 1,899,915         | 660,459         | 314,482              | (40,788)               | 178,198       |
| 2008 | 6,779,569          | 840,664     | 1,933,487         | 435,126         | 314,587              | 218,065                | 361,711       |
| 2007 | 6,575,804          | 998,610     | 1,992,814         | 410,179         | 312,514              | 300,543                | 409,372       |

At year-end 2011, 3,328 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>2007</u>         | <u>2008</u>         | <u>2009</u>         | <u>2010</u>         | <u>2011</u>        |
|---------|---------------------|---------------------|---------------------|---------------------|--------------------|
| Direct  | \$1,922,814         | \$1,933,487         | \$1,899,915         | \$1,989,987         | \$2,281,194        |
| Assumed | 0                   | 0                   | 0                   | 0                   | 0                  |
| Ceded   | <u>(422,415)</u>    | <u>(425,953)</u>    | <u>(426,913)</u>    | <u>(413,668)</u>    | <u>(456,825)</u>   |
| Net     | <u>\$ 1,500,399</u> | <u>\$ 1,507,534</u> | <u>\$ 1,473,002</u> | <u>\$ 1,576,319</u> | <u>\$1,824,369</u> |

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess reinsurance agreement.

The aggregate excess provisions of the agreement apply to property risks. Under the terms 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 2011 was \$1,045,028. Risks ceded under this coverage are limited to \$1 million per exposure.

Under the facultative reinsurance portion of the agreement the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The agreement also provides reinsurance for liability coverages. The Company cedes 100% of liability premiums and losses 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. The Company utilizes Rural Computer Consultants, Inc. 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, 2011, 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.

**ANALYSIS OF ASSETS**  
**December 31, 2011**

|                        |                            |
|------------------------|----------------------------|
| Bonds                  | \$ 6,514,717               |
| Real Estate            | 12,065                     |
| Cash on Deposit        | 943,171                    |
| Other Investments      | 1,113                      |
| Computer Equipment     | 11,000                     |
| Interest Due & Accrued | 18,634                     |
| Prepaid Insurance      | 7,138                      |
| Vehicles               | 40,779                     |
|                        | -----                      |
| Total Assets           | <u><u>\$ 7,548,617</u></u> |

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2011**

|                                   |              |
|-----------------------------------|--------------|
| Net Losses Unpaid                 | \$ 42,976    |
| Ceded Reinsurance Premium Payable | 36,998       |
| Unearned Premium                  | 784,724      |
| Federal Income Tax Payable        | 18,360       |
| Payroll Tax Payable               | 1,801        |
| Accounts Payable                  | 3,300        |
|                                   | -----        |
| Total Liabilities                 | \$ 888,159   |
|                                   | -----        |
| Guaranty Fund                     | \$ 150,000   |
| Other Surplus                     | 6,510,458    |
|                                   | -----        |
| Total Surplus                     | 6,660,458    |
|                                   | -----        |
| Total Liabilities and Surplus     | \$ 7,548,617 |
|                                   | =====        |

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2011**

|   |              |
|---|--------------|
| Net Premiums Earned                           | \$ 1,786,134 |
| Other Insurance Income                        | 74,144       |
| Net Losses & Loss Adjusting Expenses Incurred | (939,923)    |
| Other Underwriting Expenses Incurred          | (970,211)    |
|   | -----        |
| Net Underwriting Income (Loss)                | \$ (49,856)  |
| Net Investment Income                         | 334,229      |
| Other Income                                  | 763          |
|   | -----        |
| Gross Profit (Loss)                           | \$ 285,136   |
| Federal Income Tax                            | (89,111)     |
|   | -----        |
| Net Income (Loss)                             | \$ 196,025   |
|   | =====        |

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2011**

|   |              |
|---|--------------|
| Policyholders' Surplus, December 31, 2010 | \$ 6,464,433 |
| Net Income (Loss)                         | 196,025      |
|   | -----        |
| Policyholders' Surplus, December 31, 2011 | \$ 6,660,458 |
|   | =====        |

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **SUMMARY OF RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

None.

