



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

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

RE: Examination Report of Farmers Home Insurance Company of Ray County for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Farmers Home Insurance Company of Ray County 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 Farmers Home Insurance Company of Ray County 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 Summary 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 26th day of June, 2015.




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

REPORT OF THE
FINANCIAL EXAMINATION OF
**FARMERS HOME INSURANCE COMPANY
OF RAY COUNTY**

AS OF
DECEMBER 31, 2013

FILED

JUN 26 2015

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>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
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

April 27, 2015
Richmond, 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 HOME INSURANCE COMPANY OF RAY COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 West North Main, Richmond, Missouri 64085, telephone number (816) 776-3457. This examination began on January 14, 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 examiners 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 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Accounts and Records

Comment: At December 31, 2008, the Company had deposits totaling approximately \$410,000 at one financial institution. These deposits exceeded the FDIC insurance coverage of \$250,000 by over \$150,000. The Company should take the necessary measures to ensure all cash deposits are fully insured.

Company Response: The Company stated that they had purchased a Bank Guaranty Bond thru Kansas Bankers Surety Co. guarantying deposits for an additional \$250,000. The bond was purchased thru Community Bank of Missouri, so the additional amounts were adequately insured.

Current Findings: The cash deposits of the Company did not materially exceed FDIC insurance coverage limits in any financial institution as of December 31, 2013.

HISTORY

General

The Company was originally organized on February 3, 1889, as the Patrons and Farmers Home Protection Company of Ray County and subsequently changed its name to Farmers Home Insurance Company of Ray County. The Company was incorporated on May 1, 1986. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company has a Certificate of Authority dated September 25, 1991. 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 Board of Directors may be called by the Board of Directors, or upon petition of one-fourth of the members. Eight members constitute a quorum at any membership meeting.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors at year-end 2013 consisted of eight members. The directors serve staggered, three-year terms. All directors must be policyholders of the Company.

The Board of Directors meets quarterly and the directors are compensated \$250 per each board meeting attended and \$100 for committee meetings.

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>
Dean Wall Hardin, Missouri	Retired/Teacher	2015
Wilbur Arnold Orrick, Missouri	Farmer	2015
Kenneth Burns Norborne, Missouri	Farmer	2015
Allen Atkins Lawson, Missouri	Farmer	2016
Ritchie Moberly Liberty, Missouri	Livestock Buyer	2016
Larry Mahoney Excelsior Springs, Missouri	Retired-Company Manager	2016
Jarell Foreman Richmond, Missouri	USDA County Executive Director	2014
Bruce Renfro Richmond, Missouri	Seed House Operator/Farmer	2014

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, 2013, were as follows:

Bruce Renfro	President
Dean Wall	Vice-President
Larry Mahoney	Secretary/Treasurer
James Carter	Assistant 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 statements noted only one conflict disclosure, which consisted of the Company office manager/director also being an agent for the Company.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. The Bylaws were amended twice during the period under examination. The first amendment was made on December 14, 2009 and added a mandatory retirement age for directors. The second amendment was made on February 12, 2013 and reduced the number of required directors from nine to seven. This amendment created a conflict between the Bylaws, which requires seven directors, and the Articles of Incorporation, which requires nine directors.

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 reflected the changes to the Bylaws and 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 does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$75,000.

The Company carries liability coverage for its directors and officers. The Company requires its independent agents to purchase errors and omissions insurance coverage at their own expense. The in-house agents do not receive a commission on Company business, so the Company pays a portion of the errors and omissions coverage for those agents.

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

EMPLOYEE BENEFITS

The Company has five full-time employees and one part-time employee. The benefits package offered by the Company to its employees includes matching funds for individuals contributing to an annuity.

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. The Company writes fire, wind and liability coverages. The Company's policies are sold by twenty-four licensed agents and agencies, who receive a commission of 15%.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Grinnell Mutual Reinsurance Company policy forms. The policies are continuous but renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Adjusting services are performed by Grinnell Mutual Reinsurance Company and reviewed by the Company claims manager. Inspections are performed by independent inspectors with every property inspected on a three-year basis. All new properties are inspected by the agent with follow-up by office staff.

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>
2013	\$3,205,390	\$357,892	\$1,676,277	\$858,471	\$58,076	\$249,638	\$303,951
2012	2,928,093	384,546	1,610,279	517,966	61,000	436,985	510,923
2011	2,392,621	359,997	1,434,193	907,782	72,265	107,124	176,446
2010	2,338,621	482,029	1,264,863	905,357	87,377	(51,998)	35,809
2009	2,263,222	444,056	1,158,820	556,099	73,532	(17,305)	47,866

At year-end 2013, 1,973 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	\$ 1,676,277	\$ 1,610,279	\$ 1,434,193	\$ 1,264,863	\$ 1,158,820
Assumed	0	0	0	0	0
Ceded	(679,262)	(660,465)	(501,121)	(350,627)	(317,606)
Net	\$ 997,015	\$ 949,814	\$ 933,072	\$ 914,236	\$ 841,214

Assumed

The Company does not reinsure other companies.

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 excess of loss provisions, the Company retains \$100,000 per occurrence, and the reinsurer's limits are \$1,000,000 per exposure. Risks in excess of this limit may be ceded to the reinsurer on a facultative basis per the agreement provisions. 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 \$100,000 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 \$449,061.

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. The Company utilizes Mutual Insurance Processing System (MIPS) packaged software systems for policy maintenance, payments and claims. The Company also uses CLUE and ExpressNet in its underwriting process. The accounting firm, Steven P. Thurmon, CPA, performs an annual audit 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	\$ 1,063,887
Real Estate	34,083
Cash on Deposit	2,077,601
Premium Receivable	4,916
Reinsurance Recoverable	4,692
Interest Due and Accrued	14,462
Prepaid Insurance	2,192
Other Assets	<u>3,557</u>
 Total Assets	 <u>\$ 3,205,390</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	\$ 3,094
Unearned Premium	352,806
Other Liability	<u>1,992</u>
 Total Liabilities	 <u>\$ 357,892</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>2,697,498</u>
 Total Surplus	 <u>2,847,498</u>
 Total Liabilities and Surplus	 <u>\$ 3,205,390</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 1,004,145
Other Insurance Income	199,176
Net Losses & Loss Adjusting Expenses Incurred	(416,127)
Other Underwriting Expenses Incurred	<u>(537,556)</u>
 Net Underwriting Income (Loss)	 \$ 249,638
Net Investment Income	58,076
Other Income	<u>5,496</u>
 Gross Profit (Loss)	 \$ 313,210
Federal Income Tax	<u>(9,259)</u>
 Net Income (Loss)	 <u>\$ 303,951</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 2,543,547
Net Income (Loss)	<u>303,951</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 2,847,498</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Corporate Records (Page 4)

It is recommended the Company amend its Articles of Incorporation to eliminate the conflict with its Bylaws regarding the number of directors required and file the amendment with the DIFP in accordance with Section 380.241 RSMo (Amendment to articles and bylaws, procedure—fee).

Fidelity Bond and Other Insurance (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 Farmers Home Insurance Company of Ray County 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 19th day of May, 2015.

My commission expires:

04-14-2016


Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070



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