

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Knox County Mutual Insurance Company for the period ended December 31, 2016

### ORDER

After full consideration and review of the report of the financial examination of Knox County Mutual Insurance Company 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 Knox 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) 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 17<sup>th</sup> day of September, 2018.

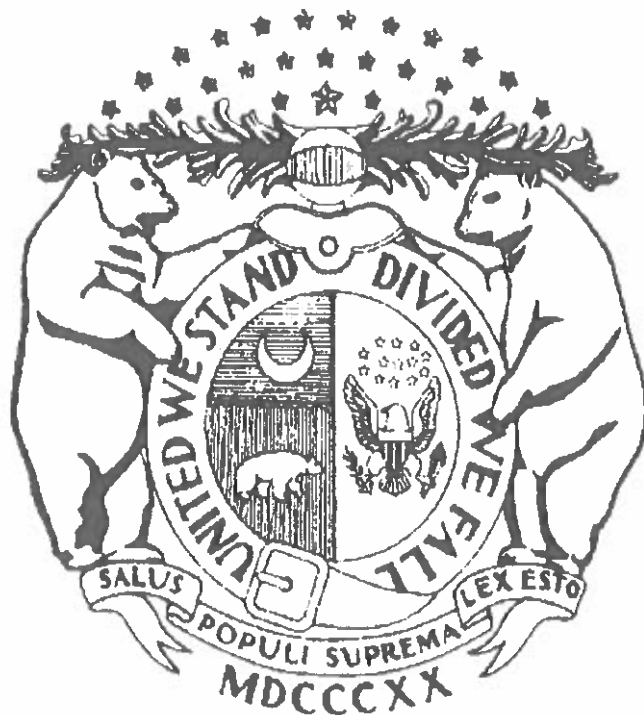


*Chlora Lindley-Myers*

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



**REPORT OF THE  
FINANCIAL EXAMINATION OF  
KNOX COUNTY MUTUAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2016**



**STATE OF MISSOURI**

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

**JEFFERSON CITY, MISSOURI**

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December 18, 2017  
Edina, 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

### **KNOX COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at Highway 6 East (P.O. Box 245), Edina, Missouri 63537, telephone number (660) 397-2383. This examination began on December 15, 2017, 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 established on January 31, 1891, and was incorporated on December 26, 1894, as Farmers Mutual Insurance Company of Knox County. In 1985, the Company changed its name to Knox County Mutual Insurance Company.

The Company has a Certificate of Authority dated December 18, 2003, 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

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at the annual membership meeting, which is held on the third Monday in March. All directors must be policyholders of the Company. The board meets approximately every other month, and each director is compensated \$90 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>
Joseph Delaney Baring, Missouri	Farmer	2015-2018
Larry Walker Knox City, Missouri	Farmer/Insurance Agent	2016-2019
Mark Townsend Baring, Missouri	Auto Mechanic	2016-2019
Jim Glasgow Edina, Missouri	Farmer	2016-2019
Barbara Allen Lewistown, Missouri	Retired Farmer	2015-2018
Rex Sykes Hurdland, Missouri	Farmer	2017-2020
Mark Greenley Knox City, Missouri	Farmer	2015-2018

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:

Joseph Delaney	President
Larry Walker	Vice-President
Rachel Browning	Secretary/Treasurer
Mark Townsend	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 statements noted no significant disclosures.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

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 transaction and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$500,000. The fidelity bond coverage of the Company exceeds 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 carried by the Company includes general liability coverage and property coverage for its office building and contents.

## **EMPLOYEE BENEFITS**

The Company has one full-time employee, the Secretary/Treasurer/Manager, and a part-time Office Assistant. The full-time employee receives paid time off. No other benefits are provided to employees.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company has a Certificate of Authority dated December 18, 2003 and operates under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Knox and surrounding counties. Insurance is provided on an assessable basis.

### Policy Forms and Underwriting Practices

The Company writes continuous policies. The Company uses policy forms supplied by the American Association of Insurance Services for property coverage and Cameron Mutual Insurance Company forms for liability coverage. Insurance products are sold by three agents and one independent insurance agency. Agents receive a 20% commission on all new business and a 12% commission on all renewal business.

On-site inspections are performed by the agents upon policy issuance and every three years thereafter. The Company's agents may adjust small claims, while an independent adjuster is utilized to adjust large or complex claims.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2016	\$1,275,588	\$ 6,168	\$ 321,104	\$ 59,692	\$ 7,792	\$ 60,279	\$ 71,446
2015	1,212,262	14,288	313,477	214,402	7,592	(4,151)	11,983
2014	1,203,680	17,689	309,701	468,240	9,212	(104,587)	(92,124)
2013	1,285,228	7,113	291,286	65,723	9,608	(9,011)	3,734
2012	1,280,634	6,253	254,220	80,527	17,007	(39,918)	(20,316)

At year-end 2016, there were 478 policies in force.



Handwritten notes in blue ink:  
① How's the market?  
From a not or do  
Agent over time?  
Farms are updated  
Curious -  
Join.

## 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	\$ 321,104	\$ 313,477	\$ 309,701	\$ 291,286	\$ 254,220
Assumed	0	0	0	0	0
Ceded	103,328	100,309	92,225	103,607	86,026
Net	\$ 217,776	\$ 213,168	\$ 217,476	\$ 187,679	\$ 168,194

### Assumed

None

### Ceded

The Company has three separate property reinsurance agreements through the intermediary, Guy Carpenter. There are six reinsurers participating in the agreements, with Swiss Reinsurance America Corporation being the largest participant at 20.0%.

Under the Property Per Risk Excess of Loss agreement, the Company retains \$30,000 each loss, each risk, subject to limits of liability of \$500,000 each loss, each risk, and \$1,000,000 each loss occurrence. Under the Catastrophe Excess of Loss agreement, the reinsurers are liable for 95% of each loss occurrence in excess of \$65,000 subject to a limit of \$950,000 (being 95% of \$1,000,000). Under the Aggregate Excess of Loss agreement, the reinsurers are liable for 100% of losses in excess of 75% of Company's gross net earned premium income.

The Company has a liability reinsurance agreement with Cameron Mutual Insurance Company. Under this agreement, the Company cedes all liability premiums and losses to the reinsurer. The Company receives a ceding commission equal to 22% of the subject net written premiums.

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's accounting records are maintained on a cash basis. Policyholder and financial records are maintained on the MIPS (Mutual Insurance Processing System) software package from IMT Computer Services. The CPA firm of Wade Stables P.C. prepares the Company's financial statements, annual statements and tax returns and performs an annual audit of the financial statements.

## **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**

Real Estate	\$ 16,785
Cash on Deposit	1,255,033
Reinsurance Recoverable on Paid Losses	3,375
Computer Equipment	<u>395</u>
Total Assets	<u>\$ 1,275,588</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2016**

Net Losses Unpaid	\$ 500
Ceded Reinsurance Premium Payable	5,047
Payroll Tax Payable	<u>621</u>
Total Liabilities	<u>\$ 6,168</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,119,420</u>
Total Surplus	<u>\$ 1,269,420</u>
Total Liabilities and Surplus	<u>\$ 1,275,588</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2016**

Net Premiums Earned	\$ 217,776
Net Losses & Loss Adjusting Expenses Incurred	(57,987)
Other Underwriting Expenses Incurred	<u>(99,510)</u>
Net Underwriting Income (Loss)	\$ 60,279
Net Investment Income	7,792
Other Income	<u>3,375</u>
Gross Profit (Loss)	\$ 71,446
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 71,446</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2016**

Policyholders' Surplus, December 31, 2015	\$ 1,197,974
Net Income (Loss)	<u>71,446</u>
Policyholders' Surplus, December 31, 2016	<u>\$ 1,269,420</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 Knox County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Brian Hammann, CPA, examiner for the DIFP, 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

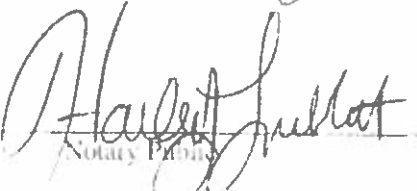


Shannon W. Schmoeger, CFE, ARE  
Examiner-In-Charge  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 15<sup>th</sup> day of August, 2018.

My commission expires:

March 30, 2019

  
Notary Public

HAILEY LUEBBERT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Osage County  
My Commission Expires: March 30, 2019  
Commission Number: 16634388



## 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.



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Mark Nance, CPA, CFE  
Senior Examiner-In-Charge  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration