

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

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

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Callaway County for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance 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.

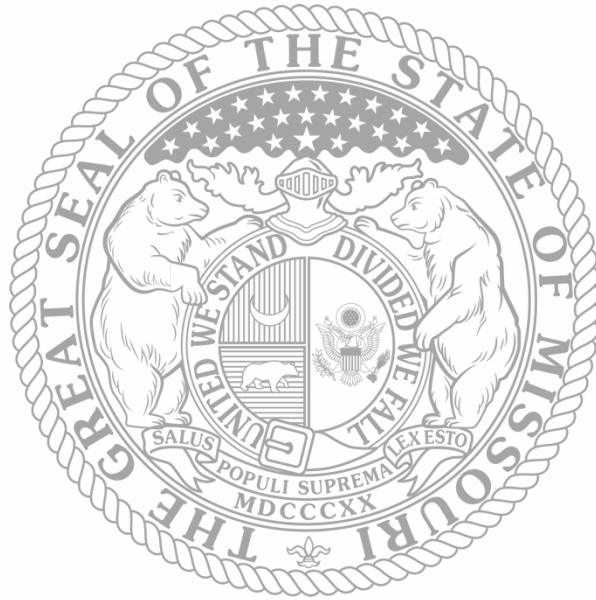
Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Callaway County to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial 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 05th day of May, 2022.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers". The signature is written over a horizontal line.

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF CALLAWAY COUNTY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Fulton, MO
February 24, 2022

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

Director Lindley-Myers:

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

FARMERS MUTUAL INSURANCE COMPANY OF CALLAWAY COUNTY

hereinafter referred to as such, or as the Company. Its administrative office is located at 201 St. Louis Avenue, Fulton, Missouri 65251, telephone number (573) 642-3006. The fieldwork for this examination began on July 22, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Farmers Mutual Insurance Company of Callaway County. The last examination of the Company by the Department covered the period of January 1, 2011 through December 31, 2015. The current examination covers the period of January 1, 2016 through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company was incorporated on October 22, 1895, as Farmers Mutual Fire and Lightning Insurance Company of Callaway County. On February 16, 1980, the Company changed its name to Farmers Mutual Insurance Company of Callaway County.

The Company has a Certificate of Authority dated January 16, 1997, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time and shall be called upon petition of one-fourth of the members. Eight 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 month.

Members serving on the Board of Directors as of December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Dale Brinker Mexico, Missouri	Farmer	2023
Gary Crawford Auxvasse, Missouri	Insurance Agent/Farmer	2021
David Guerrant Fulton, Missouri	Insurance Agent/Farmer	2021
Gary Linnenbringer Auxvasse, Missouri	Insurance Agent/Farmer	2023
James McMichael Holts Summit, Missouri	Insurance Agent/Farmer	2022
Roy Rohrbach Fulton, Missouri	Insurance Agent/Farmer	2023
Larry Smith Fulton, Missouri	Farmer	2022

Officers

The Board of Directors appoints the officers of the Company, who serve a term of one year. The officers serving, as of December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Gary Crawford	President
Larry Smith	Vice President
Meghan Smart	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's directors and officers sign conflict of interest statements on an annual basis. A review of the executed conflict of interest statements noted no material potential conflicts disclosed.

Corporate Records

The Company's Articles and Bylaws were reviewed. At the February 15, 2018, annual meeting of the members, the Articles were amended to change the Board of Directors from eight to seven. The amended Articles were approved by the Department on November 8, 2018, and were filed with the Secretary of State on November 13, 2018.

The meeting minutes of the membership and the Board were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has five full-time employees. The Company provides its full-time employees a benefits package, which includes life and health insurance, employer contributions to employee individual retirement accounts, and paid time off.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000 with no deductible. The fidelity bond does not meet the minimum coverage suggested in the guidelines promulgated by the NAIC, which is between \$125,000 and \$150,000 for a company of its size.

The Company carries liability coverage for its directors and officers and errors and omissions liability coverage for its agents.

Other coverages maintained by the Company include property insurance coverage on its home office and equipment, business liability insurance, and workers' compensation.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Commerce and Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611, RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind, and liability insurance in all counties in the state of Missouri. The Company writes all three lines of business for which it is authorized.

The Company's policies are sold by nine licensed producers, four of which are also Directors of the Company. Agents hired in 2013 and prior receive a 15% commission on all business written. Agents hired after 2013 receive a commission of 15% on new business and 13% on renewal business, and are also eligible for a 2% bonus commission after one year of service if certain loss ratio requirements are achieved.

Policy Forms and Underwriting Practices

The Company utilizes a combination of AAIS and Grinnell Mutual Insurance Company policy forms. The policies are written for one-year terms and are continuous. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured or mortgagee, as applicable.

Property inspections are performed by the writing agent prior to the issuance of a policy. Renewals are inspected every third year. Small claims are adjusted by the Company's agents, and other claims are handled by the Company adjuster or by contracted adjusters.

GROWTH OF COMPANY AND LOSS EXPERIENCE

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2020	\$ 8,039	\$ 1,575	\$ 3,281	\$ 3,103	\$ 214	\$ (469)	\$ (251)
2019	8,254	1,538	3,277	946	212	380	594
2018	7,610	1,489	3,270	722	151	782	946
2017	6,700	1,525	3,250	1,270	132	357	489
2016	6,291	1,604	3,235	1,599	119	(43)	99

At year-end 2020, there were 4,023 policies in force.

REINSURANCE

General

The Company's reported premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2016	2017	2018	2019	2020
Direct Premiums Written	\$ 3,235	\$ 3,250	\$ 3,270	\$ 3,277	\$ 3,281
Reinsurance Assumed	3	3	3	2	3
Reinsurance Ceded	(847)	(897)	(927)	(958)	(983)
Net Premiums Written	\$ 2,391	\$ 2,365	\$ 2,346	\$ 2,320	\$ 2,301

Assumed Reinsurance

MAMIC Mutual Insurance Company (MMIC) issues direct policies to insure agents' errors and omissions liability and directors' and officers' liability risks for various mutual insurance companies, including the Company. The policy risks insured by MMIC for these two products are pooled and ceded to participating mutual insurance companies. The Company has a 1% share in the interests and liabilities of the pool.

Ceded Reinsurance

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under separate reinsurance contracts for property and liability risks.

The property reinsurance contract has several sections. Under the per risk excess of loss section, the Company retains \$250,000 of property losses per risk, and the reinsurer is responsible for the excess, limited to \$20 million each risk. Under the property catastrophe excess of loss section, the Company retains \$725,000 per loss occurrence, and the reinsurer is liable for 100% of the excess. Under the property aggregate excess of loss section, the reinsurer is liable for 100% of the property losses in excess of the Company's aggregate net retention, or attachment point. The attachment point for 2020 was \$2,250,000. Under the equipment breakdown section of the agreement, the Company cedes 100% of the premiums and losses and receives a 20% ceding commission.

Under the liability contract, the Company cedes 100% of the premiums and losses to the reinsurer and receives a 16% ceding commission. Losses are limited to \$1 million per occurrence.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. David J. Shively, CPA performs financial statement compilation, Annual Statement preparation, and tax preparation services for the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

ASSETS

As of December 31, 2020

Bonds - Book Value	\$	3,161,053
Mutual Funds		723,437
Real Estate - Book Value		613,195
Cash on Deposit		3,304,366
Other Investments		67,633
Reinsurance Recoverable on Paid Losses		133,787
Computer Equipment		2,485
Interest Due and Accrued		32,999
TOTAL ASSETS	\$	8,038,955

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Gross Losses Unpaid Less Reinsurance Recoverable	\$	121,214
Ceded Reinsurance Premium Payable		98,972
Unearned Premium		1,354,083
Accounts Payable (Other)		350
TOTAL LIABILITIES	\$	1,574,619
Guaranty Fund		150,000
Other Surplus		6,314,336
TOTAL POLICYHOLDER SURPLUS		6,464,336
TOTAL LIABILITIES AND SURPLUS	\$	8,038,955

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ended December 31, 2020

Net Earned Assessment/Premium Income	\$ 2,302,738
Other Insurance Income	29,927
Net Losses & Loss Adjustment Expense	(1,858,721)
Underwriting Expenses	(943,068)
Underwriting Income (Loss)	\$ (469,124)
Investment Income	213,540
Investment Expenses	(290)
Net Investment Income	\$ 213,250
Other Income	4,603
Gross Profit or Loss	\$ (251,271)
Federal Income Tax	0
NET PROFIT OR (LOSS)	\$ (251,271)

GAIN OR LOSS IN SURPLUS

Changes from January 1, 2016 to December 31, 2020

(\$000s omitted)

	2016	2017	2018	2019	2020
Beginning Policyholder's Surplus	\$ 4,587	\$ 4,686	\$ 5,175	\$ 6,121	\$ 6,716
Net Profit or (Loss)	99	489	946	594	(251)
Ending Policyholder's Surplus	\$ 4,686	\$ 5,175	\$ 6,121	\$ 6,716	\$ 6,464

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Fidelity Bond

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The Company should increase the limit of liability of its fidelity bond coverage to at least \$125,000, to meet the minimum amount suggested in the NAIC guidelines.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employee of Farmers Mutual Insurance Company of Callaway County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Conner Nilges, AFE, 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 facts appearing upon the books, records, or other documents of Farmers Mutual Insurance Company of Callaway County, 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.

Conner Nilges
Conner Nilges, AFE
Financial Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 19 day of April, 2022.

My commission expires: March 30, 2023 Hailey Lussbort
Notary Public



HAILEY LUSSBORT
My Commission Expires
March 30, 2023
Osage County
Commission #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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.

Michael R. Shadowens

Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance