

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 Sullivan and Adjoining Counties 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.

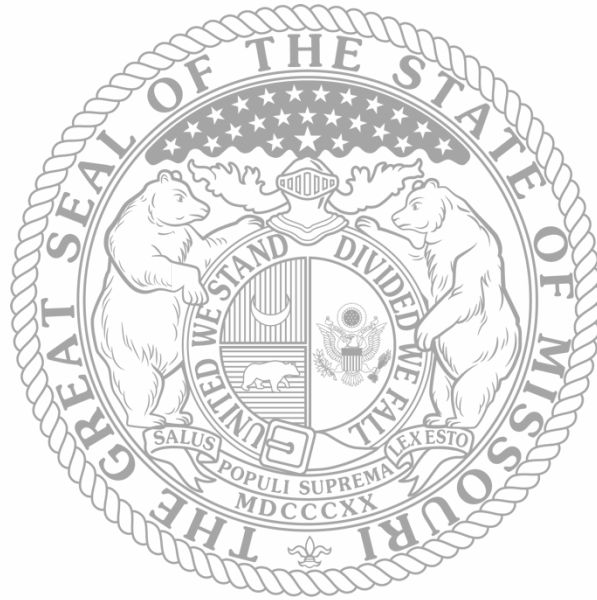
Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Sullivan and Adjoining Counties to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for 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 21st day of January, 2022.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF SULLIVAN AND ADJOINING COUNTIES

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED.....	1
PROCEDURES.....	1
SUMMARY OF SIGNIFICANT FINDINGS	1
COMPANY HISTORY	2
GENERAL.....	2
MANAGEMENT AND CONTROL	2
MANAGEMENT	2
OFFICERS.....	3
CONFLICT OF INTEREST.....	3
CORPORATE RECORDS.....	3
EMPLOYEE BENEFITS	3
FIDELITY BOND AND OTHER INSURANCE	3
INSURANCE PRODUCTS AND RELATED PRACTICES	3
TERRITORY AND PLAN OF OPERATIONS.....	3
POLICY FORMS AND UNDERWRITING PRACTICES.....	4
GROWTH OF COMPANY AND LOSS EXPERIENCE	4
REINSURANCE	4
GENERAL.....	4
ASSUMED REINSURANCE	4
CEDED REINSURANCE.....	4
ACCOUNTS AND RECORDS	5
FINANCIAL STATEMENTS	5
ASSETS.....	6
LIABILITIES, SURPLUS AND OTHER FUNDS.....	6

STATEMENT OF INCOME	6
RECONCILIATION OF CAPITAL AND SURPLUS	7
COMMENTS ON FINANCIAL STATEMENT ITEMS	7
FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION	7
SUMMARY OF RECOMMENDATIONS.....	7
SUBSEQUENT EVENTS	7
ACKNOWLEDGMENT	8
VERIFICATION.....	8
SUPERVISION	9

Milan, MO
December 28, 2020

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 SULLIVAN AND ADJOINING COUNTIES

hereinafter referred to as such or as the Company. Its administrative office is located at 115 S. Market St. Milan, Missouri, telephone number (660)265-3596. The fieldwork for this examination began on August 23, 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 Sullivan and Adjoining Counties. 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 are 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 organized in February 1896 as Farmers Mutual Insurance Company of Sullivan County, Missouri. On November 22, 1940, the Company reorganized, changed its name to Farmers Mutual Insurance Company of Sullivan and Adjoining Counties, and received a Certificate of Incorporation.

On October 27, 2003, the Company received a Certificate of Authority from the Missouri Department of Insurance and changed to an Extended Missouri Mutual Company (Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

MANAGEMENT AND CONTROL

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in March at the home office of the Company or at such other place and time as may be designated by the Board of Directors.

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 nine members, serving staggered, three-year terms. The Board of Directors meets every quarter. All Directors are compensated \$100 per each meeting attended.

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

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Melvin Hall Unionville, MO	Retired Business Owner & Retired Insurance Agent	2022
Carol E. Mino Harris, MO	Secretary & Treasurer of Company/Agent	2022
Randy Kincanon Green City, MO	Farmer & Insurance Agent	2021
Dan Lentz Browning, MO	Farmer	2022
David E. Lentz Browning, MO	Farmer	2023
Robert Williams Humphreys, MO	Retired Veterinarian	2021
John T. Mino Harris, MO	Farmer & Insurance Agent	2023
Darrin Embree Green City, MO	Missouri Department of Transportation Supervisor	2023

There was a vacancy on the Board as of December 31, 2020, due to the resignation of Director Clyde Carr on October 23, 2020. The vacancy was filled by Kenny Broyles on March 4, 2021.

Officers

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary/Treasurer. The officers of the Company serving at December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Melvin Hall	President
David Lentz	Vice-President
Carol E. Mino	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, officers, and employees. 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 that all directors and officers completed the conflict of interest forms, and three of the nine directors disclosed that they were also agents for the Company.

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 examination period. The minutes of the membership and the Board of Directors' meetings were also reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has one full-time employee and one part-time employee. The Company's full-time employee, the manager, is also an agent for the Company and is compensated through commissions. The full-time employee receives paid time off. The Company has no retirement plan.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$35,000. The fidelity bond coverage of the Company meets the minimum coverage of \$25,000 suggested in the guidelines promulgated by the NAIC in the Financial Condition Examiners Handbook.

The Company carries liability coverage for its directors and officers and errors and omissions liability coverage for its agents. The Company carries property coverage on its home office and contents, as well as general liability insurance.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Department as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm, and liability coverage in all Missouri counties. The policies are sold by three licensed producers, who are also directors of the Company. The producers receive a commission of 20% on new business and 15% on renewal business.

Policy Forms and Underwriting Practices

The Company utilizes American Association of Insurance Services (AAIS) policy forms, as well as Missouri Association Mutual Insurance Companies (MAMIC) forms and custom forms approved by the Department. The policies are written for one year 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, and underwriting is supervised by the Company’s office manager. Renewals are inspected every third year. Small claims are adjusted by the office manager, and other claims are handled by contracted adjusters.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company’s premium writings and writing ratios for the period under examination:

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2020	\$943,146	\$104,705	\$279,031	\$ 32,450	\$13,061	\$55,945	\$78,855
2019	868,256	108,670	270,958	81,878	15,819	(2,045)	13,838
2018	902,281	156,533	277,596	169,993	13,680	(82,392)	(68,686)
2017	926,624	112,190	289,005	61,690	12,068	32,213	44,281
2016	886,426	116,270	281,532	53,020	10,181	39,059	49,240

At year-end 2020, there were 290 policies in force.

REINSURANCE

General

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

Premium Type	2016	2017	2018	2019	2020
Direct Premiums Written	\$ 281,532	\$ 289,005	\$ 277,596	\$ 270,958	\$ 279,031
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	(51,705)	(51,549)	(50,242)	(49,761)	(50,365)
Net Premiums Written	\$ 229,827	\$ 237,456	\$ 227,354	\$ 221,197	\$ 228,666

Assumed Reinsurance

The Company does not reinsure other companies.

Ceded Reinsurance

The Company’s property and casualty reinsurance is placed with multiple participating reinsurers (reinsurer) through intermediary Guy Carpenter & Company, LLC. Coverage includes per risk excess of loss and aggregate excess of loss for property risks and quota share for casualty risks.

Under the property per risk excess of loss agreement, the Company retains \$50,000 per risk, and the reinsurer is responsible for the excess, limited to \$500,000 per risk and \$1,000,000 per occurrence. Under the aggregate excess of loss agreement, the Company’s annual aggregate net retention, or attachment point, is equal to 75% of Company’s gross net earned premium. The reinsurer is responsible for 100% of losses in excess of this attachment point. The attachment point for 2020 was \$174,196.

Under the casualty quota share agreement, the Company cedes 100% of all business to the reinsurer, subject to a maximum cession of \$1,000,000, which includes amounts due for extra contractual obligations and loss in excess of the policy limits.

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 Certified Public Accounting firm of Van de Ven, LLC of Cape Girardeau, Missouri, performs financial statement compilation, Annual Statement, 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 Farmers Mutual Insurance Company of Sullivan and Adjoining Counties 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 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 examination workpapers.

ASSETS

As of December 31, 2020

Real Estate	\$	14,450
Cash on Deposit		902,147
Reinsurance Recoverable		9,734
Interest Due and Accrued		439
Prepaid Insurance		1,554
Other Assets		14,822
TOTAL ASSETS	\$	943,146

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Unearned Revenue	\$	104,705
Total Liabilities	\$	104,705
Guaranty Fund		150,000
Other Surplus		688,441
Total Policyholders Surplus		838,441
Total Liabilities and Surplus	\$	943,146

STATEMENT OF INCOME

For the Year Ended December 31, 2020

Net Earned Assessment/Premium Income	\$	187,786
Other Insurance Income		13,239
Net Losses & Loss Adjustment Expense		(33,540)
Underwriting Expenses		(111,540)
Underwriting Income (Loss)	\$	55,945
Investment Income		13,061
Investment Expenses		0
Net Investment Gain (Loss)	\$	13,061
Other Income		9,849
Gross Profit or Loss	\$	78,855
Federal Income Tax		0
NET INCOME (LOSS)	\$	78,855

RECONCILIATION OF CAPITAL AND SURPLUS
 Changes from January 1, 2016 to December 31, 2020

	2016	2017	2018	2019	2020
Beginning Policyholder's Surplus	\$ 720,913	\$ 770,153	\$ 814,434	\$ 745,748	\$ 759,586
Net Income (Loss)	49,240	44,281	(68,686)	13,838	78,855
Ending Policyholder's Surplus	\$ 770,153	\$ 814,434	\$ 745,748	\$ 759,586	\$ 838,441

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. As of the date of this report, significant uncertainty remains regarding the effect that the pandemic will have on the economy and insurance industry at large, and on the Company, specifically. The examination team considered the potential impact of COVID-19 on the Company throughout examination testing and procedures. At this point, it does not appear that COVID-19 has had a significant impact on the Company. The Department is monitoring the impact of the pandemic on the Company and will take necessary actions if a solvency concern arises

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Farmers Mutual Insurance Company of Sullivan and Adjoining Counties during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole) ss

I, Justin Lamb, 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 Sullivan and Adjoining Counties, 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.



Justin Lamb
Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 5th day of January, 2022.

My commission expires: March 30, 2023 

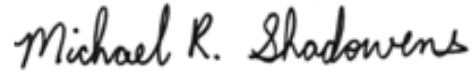
Notary Public



HALEY LUEBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15834386

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