



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 Highland Mutual Insurance Company for the period ended December 31, 2017, 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 Insurance¹ 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 Highland 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.

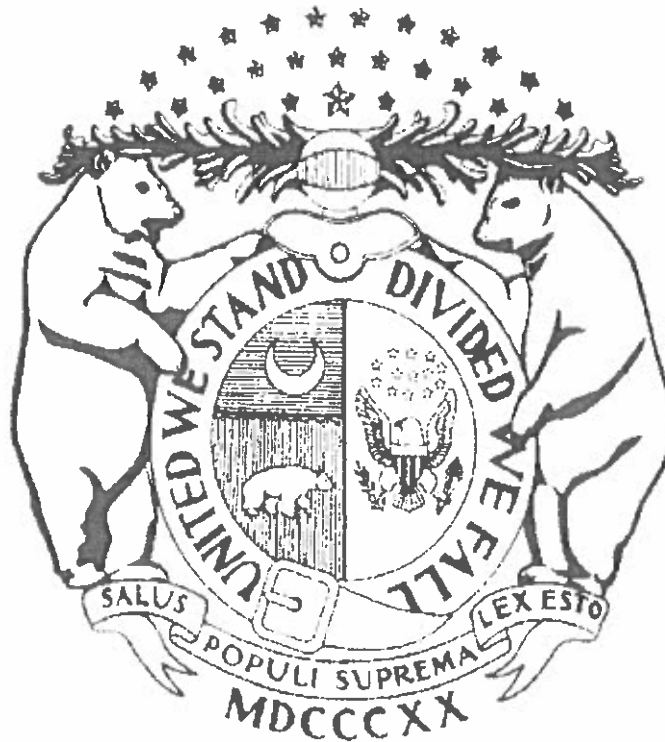
So ordered, signed and official seal affixed this 30th day of August, 2019.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance

¹ Pursuant to Executive Order #19-02, effective August 28, 2019, the department name was changed from the Department of Insurance, Financial Institutions and Professional Registration to the Department of Commerce and Insurance.

**REPORT OF THE
FINANCIAL EXAMINATION OF
HIGHLAND MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2017**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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March 19, 2019
California, MO

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

HIGHLAND MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 104 E. Third St., California, Missouri 65018, telephone number (573) 796-3614. This examination began on February 6, 2019 and 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, 2012, 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, 2013, through December 31, 2017, and was 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 Condition 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 organized and incorporated on May 29, 1895, as Highland Farmer's Fire and Lightning Insurance Association, and subsequently changed its name to Highland Mutual Insurance Company. The Company has been party to several mergers since this time, and in all instances Highland Mutual remained as the surviving entity. These include mergers with Jamestown Fire Insurance Company in 2002, and Hazel Dell Mutual Insurance Company and German Salem Aid Association of Missouri in 2006.

The Company has a Certificate of Authority dated June 17, 1993, 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 last Saturday in February at the home office of the Company. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members.

The management of the Company is vested in the Board of Directors, who are elected at the annual meeting. The Board of Directors consists of eight members that serve staggered three-year terms. The Board of Directors meets every other month and each director is compensated \$150 per meeting attended.

Members serving on the Board of Directors, as of December 31, 2017, were as follows:

| <u>Name and Address</u> | <u>Occupation</u> | <u>Term End Date</u> |
|--------------------------------------|------------------------|----------------------|
| Larry Rohrbach California, MO | Farmer/Lobbyist | 2018 |
| Wayne Dummermuth California, MO | Farmer | 2020 |
| Danny Haldiman Jamestown, MO | Farmer | 2020 |
| Kenneth Howard California, MO | Meat Cutter/Farmer | 2019 |
| Robert Denker, Sr. California, MO | Retired Teacher/Farmer | 2018 |

| | | |
|---------------------------------|------------------------------|------|
| Jerry Gerlt Versailles, MO | Mail Carrier/Farmer | 2020 |
| Donald Wyss Russellville, MO | Retired School Administrator | 2019 |
| Fred Snyder High Point, MO | Farmer | 2019 |

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2017, were as follows:

| <u>Name</u> | <u>Office</u> |
|------------------|----------------|
| Larry Rohrbach | President |
| Wayne Dummermuth | Vice-President |
| Janet Wolfrum | Secretary |
| Patricia English | 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 requires its directors and officers to sign conflict of interest statements on an annual basis. A review of the completed conflict of interest statements noted no material conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended on February 23, 2013 to decrease the Board of Directors from nine members to eight members.

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

EMPLOYEE BENEFITS

The Company has three part-time employees. Other than wages, the only benefit provided to the employees by the Company is 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 is authorized to write fire, wind, and liability insurance in all counties in the State of Missouri. The Company's agents receive a commission rate of 13% and \$12.50 for each new policy written.

Policy Forms and Underwriting Practices

The Company utilizes the policy forms of AAIS, MAMIC Mutual Insurance Company, customized versions, and forms provided by its reinsurer. The policies are continuously renewed on an annual basis. Property inspections are completed by the Company's agents. Property claims adjusting is performed by the agents, while liability claims adjusting is performed by the reinsurer. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

| Year | Admitted Assets | Liabilities | Gross Premiums | Gross Losses | Investment Income | Underwriting Income | Net Income |
|------|--------------------|-------------|-------------------|-----------------|----------------------|------------------------|---------------|
| 2017 | \$ 5,241,452 | \$ 756,926 | \$ 1,209,014 | \$ 668,334 | \$ 150,617 | \$ (17,000) | \$ 123,843 |
| 2016 | 5,053,143 | 692,460 | 1,173,134 | 253,390 | 143,852 | 354,765 | 347,778 |
| 2015 | 4,670,790 | 657,885 | 1,128,181 | 235,042 | 130,830 | 304,235 | 308,731 |
| 2014 | 4,220,465 | 516,290 | 964,277 | 587,579 | 114,824 | (110,261) | 4,689 |
| 2013 | 4,226,329 | 526,843 | 889,964 | 506,754 | 144,566 | (106,801) | 37,791 |

At year-end 2017, 1,551 policies were in force.

REINSURANCE

General

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

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Direct | \$ 889,964 | \$ 964,277 | \$1,128,181 | \$1,173,134 | \$1,209,014 |
| Assumed | 0 | 0 | 0 | 0 | 0 |
| Ceded | <u>(262,052)</u> | <u>(285,051)</u> | <u>(314,633)</u> | <u>(307,455)</u> | <u>(319,445)</u> |
| Net | <u>\$ 627,912</u> | <u>\$ 679,226</u> | <u>\$ 813,548</u> | <u>\$ 865,679</u> | <u>\$ 889,569</u> |

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The Company cedes business to Grinnell Mutual Reinsurance Company (the Reinsurer) through separate property and liability reinsurance agreements.

The property reinsurance agreement includes per risk excess of loss and aggregate excess of loss coverages. Under the per risk excess of loss section of the property reinsurance agreement, the Company retains \$150,000 of losses per risk, and the Reinsurer's limit is \$15,000,000 per risk. The contract requires timely underwriting notification of any risks exceeding \$10,000,000. Under the aggregate excess of loss section of the property reinsurance agreement, the Reinsurer pays 100% of the losses in excess of the attachment point, and the reinsurance coverage is unlimited. The attachment point for 2017 was \$600,000.

The liability reinsurance agreement provides that the Company cedes 100% of policy risks on a quota share basis. The Reinsurer's maximum liability for these policies is \$1,000,000. The Company receives a 20% ceding omission.

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 a modified cash basis. The Company utilizes the Automated Policy Processing System (APPS) by IMT Computer Servicing Company as its policy maintenance and accounting system. The CPA firm of Evers and Company, LLC, prepares the Company's tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2017, 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, 2017

| | |
|--------------------|-------------|
| Bonds | \$2,765,248 |
| Mutual Funds | 174,258 |
| Cash on Deposit | 2,160,298 |
| Prepaid Income Tax | 141,080 |
| Prepaid Premiums | 568 |
| | <hr/> |
| Total Assets | \$5,241,452 |
| | <hr/> |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2017

| | |
|--------------------------------------|-------------|
| Gross Losses Unpaid | \$ 113,000 |
| Gross Loss Adjustment Expense Unpaid | 985 |
| Ceded Reinsurance Premium Payable | 26,184 |
| Unearned Premiums | 615,568 |
| Payroll Tax Payable | 453 |
| Accounts Payable (Other) | 736 |
| | <hr/> |
| Total Liabilities | \$ 756,926 |
| | |
| Guaranty Fund | 150,000 |
| Other Surplus | 4,334,526 |
| | <hr/> |
| Total Surplus | \$4,484,526 |
| | <hr/> |
| Total Liabilities and Surplus | \$5,241,452 |
| | <hr/> |

STATEMENT OF INCOME
For the Year Ending December 31, 2017

| | |
|---|-------------|
| Net Premiums Earned | \$ 876,142 |
| Other Insurance Income | 18,057 |
| Net Losses & Loss Adjusting Expenses Incurred | (622,321) |
| Other Underwriting Expenses Incurred | (288,878) |
| | |
| Net Underwriting Income (Loss) | \$ (17,000) |
| Net Investment Income | 150,617 |
| Other Income | 26 |
| | |
| Gross Profit (Loss) | \$ 133,643 |
| Federal Income Tax | (9,800) |
| | |
| Net Income (Loss) | \$ 123,843 |
| | |

RECONCILIATION OF SURPLUS
Changes from January 1, 2013 to December 31, 2017
(\$000's omitted)

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Capital and Surplus, Beginning of Year | \$3,662 | \$3,699 | \$3,704 | \$4,013 | \$4,361 |
| Net Income | <u>37</u> | <u>5</u> | <u>309</u> | <u>348</u> | <u>124</u> |
| Capital and Surplus, End of Year | <u>\$3,699</u> | <u>\$3,704</u> | <u>\$4,013</u> | <u>\$4,361</u> | <u>\$4,485</u> |

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Highland Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Joshua R. Nash, 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.



Joshua R. Nash, CPA
Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 8th day of August, 2019.

My commission expires:

March 4, 2020

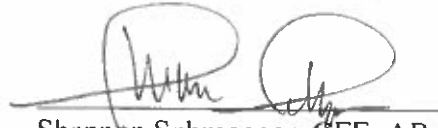
Kathryn Latimer
Notary Public



KATHRYN LATIMER
My Commission Expires
March 4, 2020
Cole County
Commission #12418395

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.

A handwritten signature in black ink, appearing to read 'Shannon Schmoeger', is written over a horizontal line.

Shannon Schmoeger, CFE, ARe
Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration