



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 Midwest Preferred Mutual Insurance Company for the period ended December 31, 2021, 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.

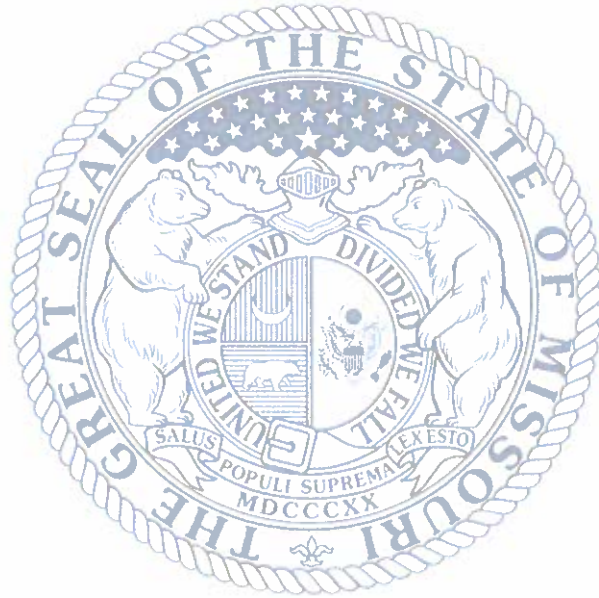
Based on such findings and conclusions, I hereby ORDER Midwest Preferred Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition 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 15th day of September, 2022.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers". The signature is written in a cursive style and is positioned above a horizontal line.

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

MIDWEST PREFERRED MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2021

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Tina, Missouri
August 10, 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

Midwest Preferred Mutual Insurance Company

hereinafter referred to as such, or as the Company. Its administrative office is located at 200 North Main Street, Tina, Missouri 64682, telephone number (660) 622-4224. The fieldwork for this examination began on August 8, 2022, 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 Midwest Preferred Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2012, through December 31, 2016. The current examination covers the period of January 1, 2017, through December 31, 2021, 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 established on April 8, 1893, as Farmers and Laborers Cooperative Company of Carroll County. On August 17, 1913, the Company changed its name to Farmers Cooperative Insurance Company and was granted a charter of incorporation. On April 18, 2006, the Company changed its name to Preferred Mutual Insurance Company. On October 8, 2008, the Company changed its name to Midwest Preferred Mutual Insurance Company subsequent to a merger with Midwest Heritage Mutual Insurance Company, with the Company being the surviving entity. On January 26, 2009, Clay Farmers Mutual Insurance Company merged with the Company, with Midwest Preferred Mutual Insurance Company being the surviving entity.

The Company has a Certificate of Authority dated May 21, 2008, 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 AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected by the policyholders. The Company's Articles of Incorporation specify the number of members of the Board of Directors. The Board of Directors elected and serving as of December 31, 2021, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Mitchell Parkhurst Weatherby, Missouri	Insurance Agent	2022
Arzy Bisbee, Jr. Norborne, Missouri	Heavy Equipment Operator	2023
Harold Boelsen Richmond, Missouri	Retired	2024
Howard Baker Hale, Missouri	Insurance Agent	2024
Greg Pottratz Maysville, Missouri	Insurance Agent	2022
Keith Meek Cameron, Missouri	Retired	2023
Greg Carrel Clarksdale, Missouri	Retired	2023
Betty Weddle Lexington, Missouri	Retired	2023

James Mason Maysville, Missouri	Insurance Agent	2024
John Murphy Maysville, Missouri	Retired	2022

Senior Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Mitchell Parkhurst	President
Arzy Bisbee Jr	Vice President
Jeanna Cooper	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.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period. The minutes of the annual membership meetings and Board of Directors meetings were reviewed for the period under examination.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The Company provides health, dental, life, vision, and disability insurance for all full-time employees as well as paid time off. In addition, the Company provides a Simplified Employee Pension retirement plan and matches employee elective contributions up to a defined percentage of each employee's salary.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage meets 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. Other insurance coverages carried by the Company include business owner's policies for each of its offices, employment practices liability, and workers compensation and employer's liability insurance.

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 Insurance 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 fire, wind, and liability coverages. The Company's policies are sold by 33 licensed agents, who receive a 20% commission on new business and 15% on renewals. The Company has a wholly owned agency, Midwest Preferred Agency, Inc., which markets insurance products not currently written by the Company for others.

Policy Forms and Underwriting Practices

The Company utilizes American Association of Insurance Services (AAIA) and its reinsurer's policy forms. Policies are written on a 5-year renewal and continuous basis. Property inspections and claim adjusting services are performed by third parties.

GROWTH OF COMPANY AND LOSS EXPERIENCE

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

(\$000s omitted)

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income (Loss)	Underwriting Income (Loss)	Net Income (Loss)
2021	\$7,244	\$2,057	\$3,320	\$1,203	\$146	\$ (300)	\$ (149)
2020	6,882	1,540	3,222	778	163	556	623
2019	6,215	1,501	3,148	1,133	126	110	220
2018	5,731	1,271	2,962	1,050	136	524	642
2017	5,198	1,357	2,984	1,682	115	(417)	(300)

At year-end 2021, there were 3,166 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:

(\$000s omitted)

Premium Type	2017	2018	2019	2020	2021
Direct	\$ 2,968	\$ 2,945	\$ 3,131	\$ 3,205	\$ 3,303
Assumed	16	17	17	17	17
Ceded	(809)	(738)	(719)	(789)	(827)
Net Written	\$ 2,176	\$ 2,223	\$ 2,428	\$ 2,433	\$ 2,493

Assumed Reinsurance

MAMIC Mutual Insurance Company (MAMIC) issues direct policies to insure agents' errors and omissions liability and directors' and officers' liability risks for various mutual insurance companies. The policy risks insured by MAMIC for these products are pooled and ceded to participating mutual insurance companies. The Company has a 3% share in the interests and liabilities of the pool.

Ceded Reinsurance

The Company has property reinsurance through Grinnell Mutual Reinsurance Company (Grinnell). Under the property per risk excess of loss agreement, the Company retains \$150,000 per risk and Grinnell covers up to \$14,850,000 of the remaining losses per risk. Under the property catastrophe excess of loss agreement, the Company retains \$600,000 of losses per occurrence, and Grinnell covers 100% of the excess. Under the property aggregate excess of loss agreement, Grinnell is liable for all losses in excess of the Company's annual aggregate net retention, or attachment point. The attachment point for 2021 was \$1,600,000.

The Company reinsures liability risks with Grinnell. The Company retains \$10,000 per risk. The Company cedes 100% of direct earned premiums and receives a 50% ceding commission. The Company also cedes 100% of the liability related to business equipment breakdown, employment practices liability, farm owners equipment breakdown, home systems protection, identity recovery, and service line coverage to Hartford Steam Boiler Inspection and Insurance Company.

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 an accrual basis. The Company utilizes IMT Computer Services for accounting and policy maintenance software. The CPA firm Van de Ven, LLC, compiles the Company's financial statements and prepares the tax filings.

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 Midwest Preferred Mutual Insurance Company for the period ending December 31, 2021. 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 workpapers for each individual key activity.

ASSETS

As of December 31, 2021

Bonds	\$ 4,417,996
Stocks	5
Mutual Funds	740,283
Real Estate	318,789
Cash	1,124,144
Other Investments	466,084
Federal Income Tax Recoverable	134,200
Interest Due and Accrued	36,168
Prepaid Insurance	6,151
TOTAL ASSETS	<u>\$ 7,243,820</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2021

Unpaid Losses	\$ 681,884
Ceded Reinsurance Premium Payable	19,109
Unearned Premium	1,317,423
Payroll Tax	5,757
Accounts Payable to Agents	15,699
Accounts Payable (Other)	11,044
TOTAL LIABILITIES	<u>\$ 2,050,916</u>
Guaranty Fund	150,000
Other Surplus	5,042,904
TOTAL POLICYHOLDER SURPLUS	<u>\$ 5,192,904</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$ 7,243,820</u>

STATEMENT OF INCOME

For the Year Ended December 31, 2021

Net Earned Assessment/Premium Income	\$	2,322,757
Other Insurance Income		161,233
Net Losses & Loss Adjustment Expense		(1,671,144)
Underwriting Expenses		(1,112,452)
Underwriting Income (Loss)	\$	(299,606)
Investment Income		147,444
Investment Expenses		(1,388)
Net Investment Gain (Loss)	\$	146,056
Other Income		4,241
Gross Profit or Loss	\$	(149,309)
Federal Income Tax		0
NET INCOME (LOSS)	\$	(149,309)

RECONCILIATION OF CAPITAL AND SURPLUS

Changes from January 1, 2017 to December 31, 2021

	2017	2018	2019	2020	2021
Beginning Policyholder's Surplus	\$ 4,142,620	\$ 3,840,838	\$ 4,460,411	\$ 4,713,552	\$ 5,342,213
Net Income (Loss)	(299,557)	641,589	220,011	623,437	(149,309)
Change in Non-Admitted Assets	(2,225)	(22,016)	33,130	5,224	0
Ending Policyholder's Surplus	\$ 3,840,838	\$ 4,460,411	\$ 4,713,552	\$ 5,342,213	\$ 5,192,904

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

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 officers and the employees of Midwest Preferred Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION


State of Missouri)
) ss
County of Cole)

I, Joshua Nash, CPA, CFE, 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 Midwest Preferred Mutual Insurance 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 Nash, CPA, CFE
Examiner
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 30th day of August, 2022.

My commission expires: March 30, 2023 

Notary Public



HAILEY LUEBERT
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