

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 The Farmers Mutual Fire Insurance Company of Shelby County, Missouri 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.

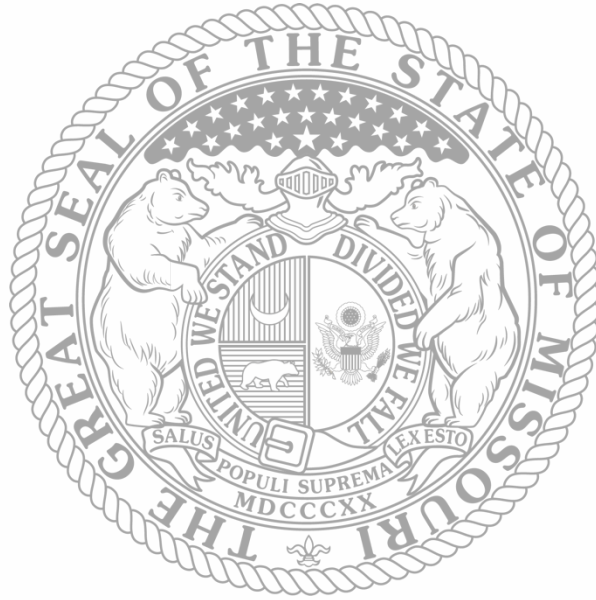
Based on such findings and conclusions, I hereby ORDER The Farmers Mutual Fire Insurance Company of Shelby County, Missouri to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account 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 10th day of June, 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

THE FARMERS MUTUAL FIRE INSURANCE COMPANY OF SHELBY COUNTY, MISSOURI

AS OF
DECEMBER 31, 2020

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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Shelbina, MO
May 18, 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

THE FARMERS MUTUAL FIRE INSURANCE COMPANY OF SHELBY COUNTY, MISSOURI

hereinafter referred to as such or as the Company. The Company's administrative office is located at 105 East Chestnut Street, Shelbina, MO 63468, telephone number (573) 588-7648. The fieldwork for this examination began on November 16, 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 The Farmers Mutual Fire Insurance Company of Shelby County, Missouri. 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.

This examination also included 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

The Company allows its subsidiary insurance agency, FMFI, LLC, to share the Company's office space, equipment, and pays some of FMFI, LLC's expenses; however, FMFI, LLC does not reimburse the Company for these expenses.

The Operating Agreement between the Company and FMFI, LLC states that FMFI, LLC shall prepare financial statements in accordance with generally accepted accounting practices. The Company could not provide financial statements for FMFI, LLC.

COMPANY HISTORY

General

The Company was organized in October 1896, as the Farmers Mutual Fire Association of Shelby County, Missouri. On December 7, 1896, the Company received a Certificate of Incorporation from the Missouri Secretary of State. On October 21, 1972, the Company reorganized and changed its name to The Farmers Mutual Fire Insurance Company of Shelby County, Missouri.

A Special Board meeting was held on November 28, 2016, to form a subsidiary insurance agency named FMFI, LLC. The agency offers automobile and umbrella coverages exclusively through Grinnell Mutual Reinsurance Company. On November 29, 2016, the Company filed the Articles of Incorporation for FMFI, LLC with the Missouri Secretary of State and received a Certification of Organization.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with the Company's Articles of Incorporation, the annual meeting of the Company's members is held on the second Saturday in February each year, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called at any time by the Board of Directors and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting.

The corporate powers of the Company are vested in a Board of Directors, who are elected by the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter.

The Board of Directors elected and serving as of December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Paul Jarboe Clarence, Missouri	Farmer	2021
Keith Douglas Emden, Missouri	Farmer	2021
Kenny Latimer Hunnewell, Missouri	Farmer	2021
Bert Greenwell Shelbina, Missouri	Farmer	2022
Ronald Parsons Shelbyville, Missouri	Farmer	2022
Gary Prange Shelbyville, Missouri	Farmer	2022
Raymond Clem Clarence, Missouri	Retired	2023
Charles Kirby Shelbina, Missouri	Farmer	2023
Dwain Marquette Bethel, Missouri	Farmer	2023

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>
Raymond Clem	President
Paul Jarboe	Vice-President
Charles Kirby	Secretary/Treasurer

Conflicts of Interest

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

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

EMPLOYEE BENEFITS

The Company has two full-time employees and two part-time employees. The Company offers full-time employees health, life, and dental insurance benefits. The Company also provides paid time off to its employees.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$100,000. This coverage meets the recommended amount of \$75,000 in the NAIC Financial Condition Examiners Handbook for the Company’s level of exposure.

The Company carries liability coverage for its directors & officers and purchases errors & omissions liability coverage for its agent. The Company maintains insurance coverage for commercial general liability, its home office building, and office contents.

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 Insurance Companies). The Company is authorized to write fire, windstorm, and liability coverages throughout the state but writes primarily in Shelby and surrounding countries. A single agent produces business for the Company and receives a 20% commission on all new and renewal premiums.

Policy Forms and Underwriting Practices

The Company primarily uses American Association of Insurance Services (AAIS) policy forms. The Company writes three-year renewable policies. Policy rates are approved by the Board of Directors based on internal recommendations. Underwriting is performed internally by the Company. All policies are issued with semi-annual premium payments, although the policyholder may elect to make annual payments. Property inspections are performed by the in-house inspector prior to issuance of a policy and every three years thereafter. Claims are handled by the in-house adjuster or 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	\$4,993,783	\$354,375	\$998,307	\$230,674	\$88,507	\$ 167,571	\$247,540
2019	4,700,287	308,419	979,705	618,489	96,998	(143,460)	(51,151)
2018	4,712,655	262,953	972,687	321,806	88,176	(87,163)	(8,158)
2017	4,700,491	242,631	977,107	618,838	80,520	7,687	82,368
2016	4,713,516	338,024	960,372	191,413	79,900	163,714	238,809

At year-end 2020, there were 915 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	\$ 960,372	\$ 977,107	\$ 972,687	\$ 979,705	\$ 998,307
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	(353,555)	(342,862)	(346,524)	(350,964)	(348,249)
Net Premiums Written	\$ 606,817	\$ 634,245	\$ 626,163	\$ 628,741	\$ 650,058

Assumed Reinsurance

The Company does not assume any business.

Ceded Reinsurance

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) through a reinsurance agreement that provides per risk excess of loss and aggregate excess of loss coverage for property risks, as well as quota share coverage for liability risks.

Under the per risk excess of loss section of the agreement, the Company retains \$100,000 of property losses per risk, and the reinsurer’s maximum limit is \$1 million per property risk. Under the aggregate excess of loss section of the agreement, the reinsurer is liable for 100% of the property losses in excess of the Company’s annual aggregate net retention, or attachment point. The attachment point for 2020 was \$500,000.

For liability coverage, the Company cedes 100% of liability premiums and losses and receives a 25% ceding commission. The coverage is limited to \$1 million per loss 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 assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

The accounting records are maintained on an accrual basis by the Company. The Certified Public Accounting firm of Van de Ven, LLC, of Cape Girardeau, Missouri, prepares the Company’s Annual Statement and 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 The Farmers Mutual Fire Insurance Company of Shelby County, Missouri 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	\$ 1,317,526
Stocks	600
Real Estate	46,663
Cash on Deposit	3,603,337
Premium/Assessments/Agent's Balances Uncollected	5,524
Interest Due & Accrued	16,062
Prepaid Insurance	4,071
TOTAL ASSETS	\$ 4,993,783

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Gross Losses Unpaid Less Reinsurance Recoverable	\$ 91,680
Gross Loss Adjusting Expense Unpaid Less Reinsurance Recoverable	370
Ceded Reinsurance Premium Payable	27,354
Unearned Premium	204,412
Federal Income Tax Payable	945
Accounts Payable (Other)	1,118
Prepaid Policy Premiums	28,496
TOTAL LIABILITIES	\$ 354,375
Guaranty Fund	150,000
Other Surplus	4,489,408
TOTAL POLICYHOLDER SURPLUS	\$ 4,639,408
TOTAL LIABILITIES AND SURPLUS	\$ 4,993,783

STATEMENT OF INCOME

For the Year Ended December 31, 2020

Net Earned Assessment/Premium Income	\$ 649,148
Other Insurance Income	28,133
Net Losses & Loss Adjustment Expense	(265,088)
Underwriting Expenses	(244,622)
Underwriting Income (Loss)	\$ 167,571
Investment Income	88,532
Investment Expenses & Interest Expense	(25)
Net Investment Gain (Loss)	\$ 88,507
Other Income	884
Gross Profit or Loss	\$ 256,962
Federal Income Tax	(9,422)
NET INCOME (LOSS)	\$ 247,540

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

(\$000s omitted)

	2016	2017	2018	2019	2020
Beginning Policyholder's Surplus	\$ 4,136	\$ 4,375	\$ 4,457	\$ 4,443	\$ 4,392
Net Income (Loss)	239	82	(14)	(51)	247
Ending Policyholder's Surplus	\$ 4,375	\$ 4,457	\$ 4,443	\$ 4,392	\$ 4,639

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Expense Reimbursement

Page 2

The Company's Board of Directors should review expenses incurred on behalf of FMFI, LLC to determine a fair and reasonable reimbursement to be paid by FMFI, LLC for these expenses. The review and amount of the reimbursement should be documented in the Board of Directors minutes.

Accounting Records

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FMFI, LLC should provide the Company with financial statements on a regular basis so management can review and monitor agency activities.

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 The Farmers Mutual Fire Insurance Company of Shelby County, Missouri during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Perry)

I, Michael Borawski, CFE (Fraud), 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 The Farmers Mutual Fire Insurance Company of Shelby County, Missouri 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.

Michael Borawski

Michael Borawski, CFE (Fraud)
Examiner
Missouri Department of Commerce and
Insurance

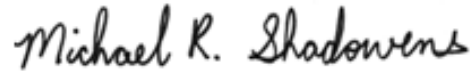
Sworn to and subscribed before me this 25th day of May, 2022.

My commission expires: 12-19-2025 Cheryl A. Eck
Notary Public

CHERYL A ECK
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: December 19, 2025
Commission Number: 13837618

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