

REPORT ON EXAMINATION
OF
KANSAS MUTUAL INSURANCE COMPANY
1435 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS, 66612
AS OF
DECEMBER 31, 2017

FILED

JAN 15 2020

VICKI SCHMIDT
Commissioner of Insurance

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION.....	1
Independent Audit Reports.....	3
SUMMARY OF SIGNIFICANT FINDINGS.....	3
COMPANY HISTORY.....	3
MANAGEMENT AND CONTROL.....	3
TERRITORY AND PLAN OF OPERATION.....	7
SELECT FINANCIAL INFORMATION.....	7
REINSURANCE.....	7
FINANCIAL STATEMENTS.....	8
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	12
COMMENTS ON FINANCIAL STATEMENTS.....	13
SUBSEQUENT EVENTS.....	13
CONCLUSION.....	13

Topeka, Kansas
August 13, 2019

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222 – *Examination of condition of company*, an examination has been conducted of the financial condition and business affairs of:

KANSAS MUTUAL INSURANCE COMPANY

with its statutory home office at:

**1435 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66612**

and main administrative office at:

**1435 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66612**

hereinafter referred to as “the Company” or “KMIC”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single state financial examination of the Kansas Mutual Insurance Company, a Kansas domiciled property and casualty mutual insurance company. The last examination covered the four-year period from January 1, 2009, through December 31, 2012. This examination covers the five-year period from January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (Department) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, *Examination of condition of company*, and general information about the insurer 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.

Independent Audit Reports

Financial statements of the Company were audited by Summers, Spencer & Company, P.A. for the years ending December 31, 2013, through December 31, 2017. In each of the years under examination, the auditors concluded that the financial statements present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2017 and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners; whereby significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

The Company was organized and chartered on July 13, 1895 as The Alliance Cooperative Insurance Company, mutual fire insurance company. Significant occurrences during its history were: multiple bylaw amendments recognizing changes in the Company's authorized lines of business; November 12, 1958, changing its name to Kansas Mutual Insurance Company; and on April 28, 1987, amending its articles of incorporation providing for the Company's perpetual existence.

MANAGEMENT AND CONTROL

The Company's amended bylaws consist of sixteen articles that provide the framework for the operation, management and control of this domestic property and casualty insurance company. Three bylaw amendments were approved by the Board of

Directors (Board) during this examination period. The amended bylaws were filed with the Department, pursuant to K.S.A. 40-216 and K.A.R. 40-1-5 *Insurance companies; changes in charter, bylaws, officers, management; reporting to commissioner.*

Board of Directors

The Company is controlled by its policyholders or members and managed by the Board. An annual meeting has been held the last Tuesday each January for the election of members to the Board. A bylaw amendment has changed the annual meeting to being held the second Wednesday in February, beginning in 2018.

Each Member holding a policy, as of December 31st of the preceding year, may vote for each director to be elected. Votes may be cast among the directors to be elected or concentrated upon one director candidate. The elected Board will conduct the business of the Company.

The Board will consist of not less than five nor more than twenty-five persons. Directors are not required to be policyholders. Members may vote by proxy. Directors are elected to serve a four year term. Director's terms will be staggered allowing for the election of not more than three directors each year. Any vacancy on the Board resulting in less than five directors will be filled by the Board until the next Annual Meeting. If the vacant Board position does not result in less than five Board members then the Board, by majority vote, will decide if the vacant position will be filled. If the Board elects to fill the vacancy then the Board will select someone to fill the vacancy until the next Annual Meeting. By majority vote the Board may appoint advisory directors to serve terms not to exceed two years, but may be renewed for a maximum of four two-year terms. No person will be eligible for election as a director to the Board after they have reached seventy

years of age. A director reaching seventy years of age during their term as director may complete their remaining term.

As of December 31, 2017, the exhibit below identifies the directors, their principal occupation, and the expiration of their current board term:

<u>Name</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Thomas L. Crossett Liberty, Missouri	Retired	February 2018
David A. Hanson Topeka, Kansas	Retired	February 2018
William T. Newkirk, II Independence, Kansas	Insurance Agency Partner	February 2019
Roger D. Scott Topeka, Kansas	Kansas Mutual Insurance Company President, Executive Manager	February 2019
Raney Gilliland Topeka, Kansas	Kansas Legislative Affairs, Director State of Kansas	February 2020
Robert C. Raymer Topeka, Kansas	Inland Business Systems President	February 2020
Charles F. Kirmse, Jr. Topeka, Kansas	First State Bank & Trust	February 2021

Officers

Five days after each Annual Meeting the Board will elect from their number a chairman of the board, a president and a treasurer and will also elect a secretary who may or may not be a director. The directors at their discretion may elect a vice-president, an executive manager and such other officers as they deem to be necessary. The same person may occupy the offices of president and executive manager. The offices of secretary and treasurer may also be occupied by the same person. No person will be eligible for election to the office of executive manager after they have reached sixty-seven years of age. An executive manager who becomes sixty-seven years of age during their term may complete their remaining term.

The officers listed below were duly elected and served as of December 31, 2017:

<u>Name</u>	<u>Position</u>
Raney L. Gilliland	Chairman of the Board
Roger D. Scott	President, Executive Manager
Charles F. Kirmse Jr.	Treasurer
Robert T. Raymer	Secretary
William T. Newkirk II	Vice President
Michael N. Perkins	Assistant Executive Manager
Susan E. Conrady	Assistant Treasurer
Lois A. Freeman	Assistant Secretary

Committees

Additional Board approved committees and members as of December 31, 2017

were:

Audit Committee

William T. Newkirk II, Chairman
Thomas L. Crossett
David A. Hanson
Robert C. Raymer

Nominating Committee

Roger D. Scott, Chairman
Raney L. Gilliland
David A. Hanson

Proxy Committee

Michael W. Perkins, Chairman
Kassie Burris
Lois A. Freeman

Budget Committee

William T. Newkirk II, Chairman
Raney L. Gilliland
Roger D. Scott

Investment Committee

Charles F. Kirmse, Jr., Chairman
Raney L. Gilliland
Roger D. Scott

Reinsurance Committee

Roger D. Scott, Chairman
Thomas L. Crossett
Michael W. Perkins

Roger D. Scott, President and Executive Manager submitted his resignation during the November 8, 2017 Board Meeting. The Board accepted this resignation effective February 17, 2018.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was admitted and authorized to transact business in the state of Kansas.

The Company offers a variety of property and casualty insurance coverage. As of December 31, 2017, the Company's lines of business contributing 98.0% of direct written premiums were homeowners multiple peril at 46.7%, farmowners multiple peril at 25.6%, allied lines at 19.5% and fire at 6.2%. The remaining 2.0% represented other liability, and inland marine.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial information (in thousands) for the period of December 31, 2013, through December 31, 2017. The amounts were obtained from annual statements filed by the Company.

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<i>(in thousands)</i>					
Admitted Assets	\$10,636	\$12,883	\$13,453	\$14,286	\$15,268
Liabilities	4,279	5,622	5,713	6,118	5,564
Capital and Surplus	6,357	7,261	7,740	8,768	9,704
Net Underwriting Gain/(Loss)	(372)	513	141	1,373	556
Net Income	92	685	493	1,374	499
Net Premiums Written	4,523	6,924	6,797	6,928	6,972

REINSURANCE

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a-*Reinsurance of risks of and by Kansas companies*. The Company utilizes reinsurance agreement addressing risks from:

- *Property: Aggregate Excess of Loss, Second, Third and Fourth Property Excess Per Risk, Multiple-Year Catastrophe Excess of Loss, Reinstatement of Premium Protection* applicable for the Multiple-Year Catastrophe Excess of Loss coverage.
- *Casualty: Obligatory Reinsurance (Combination Pro Rata – Excess).*

The Company's maximum retention for any one occurrence is \$500,000 under the Multiple-Year Property Catastrophe Excess of Loss. All reinsurance agreements reviewed provided for the transfer of risk.

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, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**KANSAS MUTUAL INSURANCE COMPANY
ANALYSIS OF ASSETS
AS OF DECEMBER 31, 2017**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 8,315,892		\$ 8,315,892
Common stocks	76,115		76,115
Properties occupied by the company	152,977	12,529	140,448
Cash and short-term investments	4,931,164		4,931,164
Investment income due & accrued	91,470		91,470
Uncollected premiums and agents' balances in the course of collection	16,364		16,364
Deferred premiums, agents' balances and installments book but deferred and not yet due	1,345,320		1,345,320
Amounts recoverable from reinsurers	(75,287)		(75,287)
Current federal and foreign income tax recoverable	250,000		250,000
Net deferred tax asset	173,646		173,646
EDP equipment and software	750,981	747,686	3,295
Furniture and equipment	47,034	47,034	-
Aggregate write-ins for other than invested assets	18,963	18,963	-
Totals	\$ 16,094,639	\$ 826,212	\$ 15,268,427

**KANSAS MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2017**

Losses	\$ 890,762
Loss adjustment expense	71,430
Commissions payable, contingent commissions and other similar charges	122,303
Other expenses	91,979
Taxes, licenses and fees	43,684
Current federal and foreign income taxes	97,656
Unearned premiums	4,048,607
Advance premiums	122,207
Ceded reinsurance premiums payable	27,958
Funds held by company under reinsurance treaties	47,364
Total liabilities	<u>5,563,950</u>
Unassigned funds	<u>9,704,477</u>
Surplus as regards policyholders	<u>9,704,477</u>
Totals	<u><u>\$ 15,268,427</u></u>

**KANSAS MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Underwriting Income:</u>	
Premiums earned	\$ 7,070,699
<u>Deduct:</u>	
Losses incurred	3,815,885
Loss expenses incurred	604,645
Other underwriting expenses incurred	2,093,915
Total underwriting deductions	<u>6,514,445</u>
Net underwriting gain or (loss)	556,254
<u>Investment Income:</u>	
Net investment income earned	312,455
Net realized capital gains or (losses)	<u>(569,098)</u>
Net investment gain or (loss)	(256,643)
<u>Other Income:</u>	
Net gain (loss) from agents' or premium balances charged off	295,565
Finance and service charges not included in premiums	1,788
Aggregate write-ins for miscellaneous income	<u>297,353</u>
Total other income	297,353
Net income after dividends to policyholders and before federal income taxes	596,964
Federal income taxes incurred	97,656
Net income	<u>\$ 499,308</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	\$ 8,768,070
Net income	499,308
Change in net unrealized capital gains (losses)	3,220
Change in net deferred income tax	(114,243)
Change in nonadmitted assets	548,123
Change in provision for reinsurance	
Aggregate write-ins for gains and losses in surplus	
Change in surplus as regards policyholders for the year	<u>936,408</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 9,704,478</u>

**KANSAS MUTUAL INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2012			<u>\$ 6,381,460</u>
Net income	2013	92,127	
	2014	684,790	
	2015	493,048	
	2016	1,373,504	
	2017	<u>499,308</u>	3,142,777
Change in net unrealized capital gains or (losses)	2013	2,945	
	2014	15,987	
	2015	2,988	
	2016	(237)	
	2017	<u>3,220</u>	24,903
Change in net deferred income tax	2013		
	2014		
	2015		
	2016		
	2017	<u>(114,243)</u>	(114,243)
Change in nonadmitted assets	2013	(8,265)	
	2014	16,260	
	2015	(17,373)	
	2016	(344,991)	
	2017	<u>548,123</u>	193,754
Aggregate write-ins for gains and losses in surplus	2013	(110,944)	
	2014	186,771	
	2015		
	2016		
	2017		<u>75,827</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 9,704,478</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2017, was \$9,707,478, which was the same amount, reported by the Company in its 2017 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in the Report on Examination.

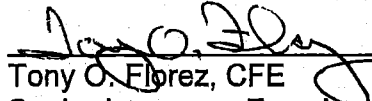
SUBSEQUENT EVENTS

February 14, 2018, Board minutes reported Roger D. Scott was nominated and approved as President and Michael W. Perkins was nominated and approved as Executive Manager. Effective February 17, 2018, Roger D. Scott resigned as Executive Manager of the Company.

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Thomas Burlingham, Insurance Examiner, Richard Todd, Insurance Examiner, CPA, and Shane Mead, CISA, CISM, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Tony O. Florez, CFE
Senior Insurance Examiner
Examiner-in-Charge

EXHIBIT'S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Kansas Mutual Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Kansas Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony O. Florez
Examiner's Signature

Subscribed and sworn before me by Tony Florez on this
14 day of January, 2020.



Dale Hubbell
Notary Public

My commission expires 3/9/23
(date)