

**REPORT ON EXAMINATION**  
**OF**  
**KANSAS MUTUAL INSURANCE COMPANY**  
**1435 SOUTHWEST TOPEKA BOULEVARD**  
**TOPEKA, KANSAS**  
**AS OF**  
**DECEMBER 31, 2021**

**FILED**

**DEC 20 2022**

**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
Actuarial Review .....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
General .....	3
CORPORATE RECORDS.....	4
MANAGEMENT AND CONTROL.....	4
Policyholders.....	4
Board of Directors .....	5
Committees .....	7
Officers.....	8
TERRITORY AND PLAN OF OPERATION.....	9
SELECT FINANCIAL INFORMATION.....	9
REINSURANCE .....	10
General .....	10
Ceded Reinsurance .....	10
FINANCIAL STATEMENTS .....	11
Statement of Assets .....	12
Statement of Liabilities and Surplus .....	13
Statement of Income .....	14
Capital and Surplus Account.....	15
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	15
COMMENTS ON FINANCIAL STATEMENTS .....	15
SUBSEQUENT EVENTS .....	16
SUMMARY OF RECOMMENDATIONS.....	16
CONCLUSION .....	17
SUPERVISION.....	18

Topeka, Kansas  
October 10, 2022

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead Rd  
Topeka, Kansas 66604-4019

Dear Commissioner:

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

**KANSAS MUTUAL INSURANCE COMPANY**

with its statutory home office and main administrative office at:

**1435 SOUTHWEST TOPEKA BOULEVARD  
TOPEKA, KANSAS**

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 Company, a Kansas domiciled property and casualty insurer. The last examination covered the five-year period from January 1, 2013, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

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 that 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.

Those activities considered in the examination as key or critical risks to KMIC included Capital and Surplus, Claims, Investments, Premiums/Underwriting, Reinsurance, and Reserves. The examination also included a review and evaluation of information technology general controls.

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 is documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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 SSC CPAs P.A. of Topeka, Kansas for the years ending December 31, 2018, through December 31, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

## **Actuarial Review**

Eric M. Mann, FCAS, MAAA, of Streff Insurance Services of Overland Park, Kansas was retained as the appointed actuary to perform a review of the Company's actuarial practices and reserves as of December 31, 2021. The appointed actuary's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the examination.

## **COMPANY HISTORY**

### **General**

The Company was organized and chartered on July 13, 1895, as the Alliance Cooperative Mutual Company, a 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.

### **CORPORATE RECORDS**

The Company's articles of incorporation were reviewed and were not amended during the examination period.

The Company's bylaws were amended during the examination period on August 8, 2018, to update the responsibilities of the President, Secretary and Treasurer to reflect more accurately how the Company currently operates. Additionally, past Board meeting dates were deleted from the bylaws.

### **MANAGEMENT AND CONTROL**

#### **Policyholders**

Article III, paragraph 1, of the Company's bylaws provides that: "The annual meeting of the Company shall be held on the second Wednesday in February at nine o'clock in the forenoon, at the principal office of the Company. Every Member of the Company shall be entitled to vote at the annual meeting; provided, such Member was a policyholder of the Company on December 31<sup>st</sup> of the preceding year. Every Member of the Company shall be entitled to one vote for each policy held in the Company, for each Director to be elected, and one vote for each policy held in the Company on all other questions to be voted upon.

Such Member may cast the same vote by proxy or in person, distributing them among the same or a less number of candidates to be elected, or concentrating them upon one candidate, as such Member may think fit. If more than one person is insured

under a single policy, then the persons so insured shall be entitled to only one vote collectively.

Those Members present, either in person or represented by proxies, shall constitute a quorum for the transaction of business, provided, however, that there must be at least 20 Members present, either in person or by proxy. No one except a Member, who is entitled to vote in such meeting shall be eligible to hold or vote the proxy of any other Member, and no Member shall hold or use the proxies of more than twenty-five policyholders.”

### **Board of Directors**

Article IV, paragraph 1, of the Company’s bylaws provides that: “The Board of Directors shall consist of not less than five nor more than twenty-five members, who are not required to be policyholders.”

Article IV, paragraph 2 of the Company’s bylaws provides that: “The Board of Directors shall have regular meetings on the second Wednesday in February, May, August and November. Alternative dates of regular meetings of the Board may be set by the President or Chairman when a quorum of the Board is unable to attend the established meeting dates. A majority of the Directors shall constitute a quorum. They shall perform such duties as may be authorized or required by law. There shall be an election of at least one of the members of the Board of Directors each year to serve a term of not more than four years. Directors’ terms shall be staggered so that not more than three Directors may be elected each year for terms of not more than four years each, except to fill an unexpired term of a Director in the event of a vacancy caused by death, removal or resignation from office. In the event of death, removal or resignation of a Director, the

Board shall fill the vacant position until the next Annual Meeting if the vacant position leaves the Board with less than five members. If the vacant position does not leave the Board with less than five members, the remaining members of the Board, by majority vote at the next regular or special meeting, shall decide if the vacant position is to be filled and, if so, they shall select someone to fill the vacancy until the next Annual Meeting of the members, when a successor shall be elected to serve the balance of the unexpired term, if any.”

Article IV, paragraph 3, of the Company’s bylaws provides that: “The Board by majority vote is also authorized to add and appoint Advisory Directors to the Board from time to time as the Board deems appropriate in order to receive the benefit of specialized knowledge, skill, experience or expertise in matters coming before the Board. Such appointment shall be for a term of not to exceed two years, but may be renewed for a maximum of four two-year terms. Advisory Directors may attend regular and special meetings of the Board and may participate in the Board discussions and deliberations but shall not be entitled to vote on any matter coming before the Board. The Board may also at their discretion determine the compensation if any to be paid to Advisory Directors.”

Article IV, paragraph 6, of the Company’s bylaws provides that: “To provide for the orderly succession of the Board of Directors and to provide for stability of the management of the affairs of the company by board members no person shall be eligible for election to the office of Director after he or she has attained the age of seventy (70) years. A director who becomes seventy (70) years of age during his or her term of office may finish out their term.”

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

<u>Name</u>	<u>Position(s) Held</u>	<u>Term</u>
Gregg R. Bermond*	Senior Vice President – Retired Guy Carpenter and Company LLC	2023
Marlee S. Carpenter	Shareholder Bright & Carpenter Consulting	2022
Thomas L. Crossett	Vice President – Retired Mutual Reinsurance Bureau	2022
Raney L. Gilliland	Kansas Legislative Affairs Director – Retired State of Kansas	2024
Charles F. Kirmse Jr.	Chief Financial Officer First State Bank & Trust	2025
Michael W. Perkins**	Executive Manager Kansas Mutual Insurance Company	
Robert C. Raymer	President – Retired Inland Business Systems	2024
R. Dan Scott	President Kansas Mutual Insurance Company	2023

\*Advisory Board Member

\*\*Ex-Officio Member

## Committees

As of December 31, 2021, the Board had established an Audit Committee, a Budget Committee, a COVID 19 Committee, an Investment Committee, a Nominating Committee, a Proxy Committee, and a Reinsurance Committee. The members of these committees electing and serving as of December 31, 2021, were as follows:

### Audit Committee

Robert C. Raymer, Chairman  
Marlee S. Carpenter  
Thomas L. Crossett  
Raney L. Gilliland

### Budget Committee

R. Dan Scott, Chairman  
Raney L. Gilliland  
Charles F. Kirmse, Jr.  
Michael W. Perkins\*\*

### COVID 19 Committee (Informal)

Michael W. Perkins, Chairman\*\*  
Raney L. Gilliland  
Robert C. Raymer  
R. Dan Scott

### Investment Committee

Charles F. Kirmse, Jr., Chairman  
Raney L. Gilliland  
Michael W. Perkins\*\*  
R. Dan Scott

**Nominating Committee**

R. Dan Scott, Chairman  
Raney L. Gilliland  
Michael W. Perkins\*\*

**Proxy Committee**

Michael W. Perkins, Chairman\*\*  
Kassandra D. Burris  
Lois A. Freeman

**Reinsurance Committee**

Thomas L. Crossett, Chairman  
Gregg R. Bermond\*  
Michael W. Perkins\*\*  
R. Dan Scott

*\*Advisory Board Member*

*\*\*Ex-Officio Member*

**Officers**

Article IV, paragraph 4, of the Company's bylaws provides that: "The Directors shall within five days after each Annual Meeting of the Members elect from among their number a Chairman of the Board, a President, and a Treasurer; and shall also elect a Secretary who may or may not be a Director. They may, in their sole discretion, also elect a Vice-President, an Executive Manager and such other officers as they deem appropriate. The Directors may combine the offices of President and Executive Manager, electing one person to serve in both capacities, and may likewise combine the offices of Secretary and Treasurer. The Board shall then determine the amount of compensation to be paid for each officer elected by the Board."

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

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Raney L. Gilliland	Chairman of the Board
R. Dan Scott	President
Michael W. Perkins	Executive Manager
Charles F. Kirmse, Jr.	Treasurer
Robert C. Raymer	Secretary
Susan E. Conrardy	Assistant Treasurer
Lois A. Freeman	Assistant Secretary

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2021, the Company is only authorized to transact business in Kansas. The Company's product lines are distributed by independent agents throughout Kansas.

As of December 31, 2021, the Company's largest lines of business were homeowners' multiple peril at 46% of direct premiums written, farmowners multiple peril at 28%, allied lines at 19%, fire at 6%, and other liability–occurrence at 1%.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Company's financial results for the period of December 31, 2017, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>
<i>(in thousands)</i>					
Admitted Assets	\$15,268	\$17,412	\$18,971	\$20,849	\$23,120
Liabilities	5,564	5,469	5,247	5,610	5,936
Capital and Surplus	9,704	11,943	13,724	15,239	17,184
Net Underwriting Gain	556	2,014	1,338	1,083	743
Net Income	499	2,162	1,675	1,445	1,845
Net Premiums Written	6,972	6,561	6,432	6,370	6,522

## REINSURANCE

### General

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

*(in thousands)*

<b>Premium Type</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Direct Written Premium	\$9,081	\$8,824	\$8,778	\$8,567
Reinsurance Assumed	-	-	-	-
Reinsurance Ceded	(2,520)	(2,392)	(2,408)	(2,044)
<b>Net Premiums Written</b>	<b><u>\$6,561</u></b>	<b><u>\$6,432</u></b>	<b><u>\$6,370</u></b>	<b><u>\$6,523</u></b>

### Ceded Reinsurance

As of December 31, 2021, the Company's reinsurance program includes the following types of coverage: casualty excess of loss, property aggregate stop loss, multi-line excess of loss, multiple year catastrophe excess of loss, and property per risk excess of loss. The Company maintains a multi-line excess of loss agreement which covers both property and casualty lines. The Company's retention under this agreement is \$55,000. The agreement covers up to \$120,000 for property lines and \$45,000 for casualty lines.

The Company is also reinsured by the following coverages:

- Second, third and fourth excess property per risk reinsurance agreement which covers property lines. The agreement provides coverage up to \$2,000,000.
- Multiple year property catastrophe excess of loss treaty agreement which consists of four layers and covers up to \$16,825,000
- Facultative Coverage for all risks with property coverages over \$2,000,000.
- Property aggregate excess of loss agreement which covers up to 95% of

the lesser of \$3,296,598 (\$3,131,769) or 95% of 42% of the subject gross net earned premium income should the Company's subject ultimate net loss be equal to the greater of \$4,186,157 or 80% of the subject gross net earned premium income in the period defined in the agreement.

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. 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, 2021. Any accompanying comments on the 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**  
**STATEMENT OF ASSETS**  
**AS OF DECEMBER 31, 2021**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 14,554,033	\$ -	\$ 14,554,033
Preferred stocks	-		-
Common stocks	88,334		88,334
Properties occupied by the company	137,234	12,529	124,705
Cash and short-term investments	6,287,003		6,287,003
Investment income due & accrued	117,963		117,963
Uncollected premiums and agents' balances in the course of collection	22,986		22,986
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,157,596		1,157,596
Amounts recoverable from reinsurers	56,718		56,718
Current federal and foreign income tax recoverable and interest thereon	538,337		538,337
Net deferred tax asset	166,333		166,333
EDP equipment and software	450,213	444,640	5,573
Furniture and equipment	14,708	14,708	-
Aggregate write-ins for other than invested assets	7,261	7,261	-
Total assets	<u>\$ 23,598,719</u>	<u>\$ 479,138</u>	<u>\$ 23,119,581</u>

**KANSAS MUTUAL INSURANCE COMPANY  
STATEMENT OF LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2021**

Losses	\$ 1,103,324
Loss adjustment expenses	50,246
Commissions payable	128,518
Other expenses	80,945
Taxes, licenses and fees	43,594
Current federal and foreign income taxes	421,250
Unearned premiums	3,833,204
Advance premium	100,253
Ceded reinsurance premiums payable	(7,345)
Funds held by company under reinsurance treaties	181,666
Total liabilities	<u>\$ 5,935,655</u>
Unassigned funds	<u>\$17,183,926</u>
Surplus as regards policyholders	<u>\$17,183,926</u>
Total liabilities, surplus and other funds	<u><u>\$23,119,581</u></u>

**KANSAS MUTUAL INSURANCE COMPANY  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**UNDERWRITING INCOME**

Premiums earned	\$ 6,454,053
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**DEDUCTIONS**

Losses incurred	2,887,607
Loss adjustment expenses incurred	453,130
Other underwriting expenses incurred	<u>2,370,339</u>
Total underwriting deductions	<u>\$ 5,711,076</u>
Net underwriting gain or (loss)	\$ 742,977

**INVESTMENT INCOME**

Net investment income earned	\$ 350,813
Net realized capital gains (losses)	<u>3,492</u>
Net investment gain or (loss)	\$ 354,305

**OTHER INCOME**

Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	246,530
Aggregate write-ins for miscellaneous income	<u>922,341</u>
Total other income	\$ 1,168,871

Net income before dividends and federal income taxes	\$ 2,266,153
Dividends to policyholders	<u>-</u>
Net income after dividends and before federal income taxes	\$ 2,266,153
Federal income taxes incurred	<u>(421,250)</u>
Net income	<u><u>\$ 1,844,903</u></u>

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

Surplus as regards policyholders, December 31, 2017			<u>\$ 9,704,477</u>
Net income	2018	\$ 2,161,572	
	2019	1,675,004	
	2020	1,444,767	
	2021	<u>1,844,903</u>	7,126,246
Change in net unrealized capital gains or (losses)	2018	\$ 4,551	
	2019	(117)	
	2020	610	
	2021	<u>8,395</u>	13,439
Change in net deferred income tax	2018	\$ (7,077)	
	2019	6,969	
	2020	(12,417)	
	2021	<u>5,215</u>	(7,310)
Change in nonadmitted assets	2018	\$ 79,179	
	2019	99,706	
	2020	81,525	
	2021	<u>86,664</u>	<u>347,074</u>
Surplus as regards policyholders, December 31, 2021			<u><u>\$ 17,183,926</u></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, 2021, was \$17,183,926 which was the same amount reported by the Company in its 2021 filed Annual Statement.

**COMMENTS ON FINANCIAL STATEMENTS**

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

### **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

### **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

## CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner, Kansas Insurance Department, participated in this examination.

Respectfully submitted,

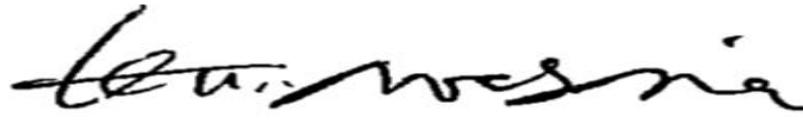


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Tamara House, CFE  
Examiner-in-Charge  
Senior Financial Examiner  
Kansas Insurance Department

## 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 Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, appearing to read "Levi Nwasoria".

Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Insurance Department

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

State of Kansas

County of Shawnee

Tamara House, 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 Standards and Accreditation.
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.

Tamara House  
Examiner's Signature

Subscribed and sworn before me by Tamara House on this 10<sup>th</sup> day of November, 2022.



[Signature]  
Notary Public

My commission expires 11/8/2025  
(date)