

REPORT ON EXAMINATION
OF
MARYSVILLE MUTUAL INSURANCE COMPANY
1001 BROADWAY
MARYSVILLE, KANSAS 66508
AS OF
DECEMBER 31, 2019

FILED

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VICKI SCHMIDT
Commissioner of Insurance

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Marysville, Kansas
February 8, 2021

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

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:

MARYSVILLE MUTUAL INSURANCE COMPANY

with its statutory home and main administrative office at:

**1001 BROADWAY
MARYSVILLE, KANSAS 66508**

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

SCOPE OF EXAMINATION

The examiners performed a single-state financial examination of MMIC, a Kansas domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2011, through December 31, 2014. This examination covers the five-year period from January 1, 2015, through December 31, 2019.

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 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

The consolidated financial statements of the Company were audited by Strohm Ballweg, LLP for the years ending December 31, 2015, through December 31, 2019. In each of the years under examination, the auditors concluded that the consolidated financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations, and its cash flows 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. Significant reliance was placed on select work papers during this examination.

Actuarial Review

The Department retained the services of Madison Consulting Group, Inc. ("MCG"), in order to perform a review of the Company's actuarial practices and reserves held as of December 31, 2019. MCG's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

General

The Company was incorporated and commenced business as Marshall County Farmers Mutual Fire and Lightning Insurance Association on January 11, 1889, pursuant to K.S.A. 40-1027 *et seq.* On March 10, 1932, the Company merged with Farmers Mutual Tornado Insurance Company of Northeast Kansas and the surviving entity was named Farmers' Mutual Insurance Company. On November 30, 1955, the Company amended its charter and changed its name effective January 2, 1956, to The Marysville Mutual Insurance Company.

On September 14, 1977, the Company converted to a mutual status pursuant to K.S.A. 40-1201 *et seq.* On January 3, 1994, the Company converted back to a mutual status under K.S.A. 40-1027 *et seq.* On December 15, 1997, the Company returned to the status of K.S.A. 40-1201 *et seq.* and extended the corporate existence to a perpetual basis.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. No changes to the articles of incorporation or the bylaws were made during the period under examination.

MANAGEMENT AND CONTROL

Policyholders

Article II of the Company's bylaws provides that: "The annual meeting of the policyholders, to hear reports, discuss affairs of the Company and elect directors, shall be held at nine o'clock a.m., on the third Wednesday of January, of each year, at the Home Office at Marysville, Kansas."

Article II of the Company's bylaws also provides that: "At the annual meeting of the policyholders, each policyholder of the Company shall be entitled to as many votes for directors as there are directors to be elected and shall be entitled to one vote on each item of other business of the Company at issue at such meetings. Also, each policyholder shall be entitled to vote for each director and for each item of business of the Company at issue of said meetings, one additional vote for each \$500.00 of insurance premiums paid on insurance in force, or fraction thereof, in excess of \$500.00.

Article II of the Company's bylaws also provides that: "A policyholder in the Marysville Mutual Insurance Company is defined as any person who has made application for and been accepted as a member of the Company and has been issued a contract of insurance protecting them against loss as set forth in such contract. Or, any person who has been accepted by the Company as a member and has an assignment of a former policyholder's policy contract of insurance together with an interest in the former

policyholder's property insured by such policy contract, which the Company has approved.”

Board of Directors

Article III of the Company’s bylaws provides that: “Any person holding a policy in force in the Company and residing permanently in the State of Kansas is eligible for the office of director. When any director according to the bylaws becomes ineligible, they shall automatically vacate such office. Each director shall hold a policy providing a minimum of \$10,000 property coverage in force with the Company. Mandatory retirement age for all new directors shall be 75 years of age.”

Article III of the Company’s bylaws also provides that: “The election of directors shall coincide with the Annual Policyholders Meeting; not less than (1/5) one-fifth nor more than (1/3) one-third shall be elected for a three-year term. Any vacancy in the Board of Directors shall be filled by the remaining board members until the next annual meeting of the policyholders, at which time a successor shall be elected to fill the unexpired term.”

Article III of the Company’s bylaws also provides that: “The Board of Directors shall number no more than (9) nine members, no less than (7) seven members. A majority of the Board of Directors shall be a quorum for the transaction of business.”

The following is a listing of directors and their position(s) held as of December 31, 2019:

<u>Director</u>	<u>Position(s) Held</u>
David S. Stuckey	Cardinal Insurance Agency Owner
Darrell E. Franklin	Endurance Reinsurance Corp. of America Retired
Leonard R. Wolfe	United Bank & Trust Board Chairman

Cynthia J. Hower	Kellerman Insurance Agency Owner
Terry L. Jelinek	Insurance Agency Owner Retired
Trent G. Moser	President Marysville Mutual Insurance Company
Lori A. Scheibe	Secretary and Treasurer Marysville Mutual Insurance Company

Committees

Article V of the Company bylaws provides that: “The Executive Committee shall consist of the chairman, vice chairman, and treasurer, and shall be elected to an annual term by the Board of Directors. Each of the above-named officers shall have a vote in all matters concerning the Executive Committee. Two of the above-named officers shall constitute a quorum for a legal meeting.”

Article V of the Company’s bylaws also provides that: “The Executive Committee shall have general management of the affairs of the Company between sessions of the Board of Directors, subject to the direction of the Board of Directors.”

Additional committees of the Board of Directors in place as of December 31, 2019, are as follows: bylaws, nominating, officer’s nominating, planning, finance, and compensation.

Officers

Article VIII of the Company’s bylaws provides that: “The president as chief executive officer shall see that the Charter or Articles of Incorporation of the Company are followed; to enforce its laws; shall direct the Company and its officers and employees in the execution of its rules, regulations, policies of operating, and insurance policies, certificates, and endorsements written; to preserve in the office of the Company, all

applications of insurance and other important records; to keep the accounts between the Company and its officers and agents; to keep a record thereof, together with transfers, assignments, unearned premiums allowed on increases and decreases and divisions of insurance, consents to change insurance, reductions and cancellations and withdrawals of insurance; to answer all communications on the business of the Company; to receive all money paid to the Company; to pay all office expenses and losses, and make sure the balance of receipts is deposited into the Company's bank accounts. He shall sign all policies of insurance. The president shall make a written report monthly of the Company's progress and a summary report at each Quarterly Board of Directors meeting, or any special called meetings.”

Article VII of the Company’s bylaws provides that: “It shall be the duty of the secretary to keep a record of all the meetings of the Company, the directors, and the Executive Committee; to give the directors five days notice of meetings of the Board of Directors and amendments to the By-Laws; and to perform all other duties pertaining to this office, or that may be required by the Company, by the directors or by the Executive Committee.”

Article X of the Company’s bylaws provides that: “The treasurer shall monitor the monies and securities of the Company and handle the same as determined by the Executive Committee and/or the Board of Directors.”

The following is a listing of officers and their position(s) held as of December 31, 2019:

Officers

Trent G. Moser
Lori A. Scheibe

Position(s) Held

President
Secretary and Treasurer

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company is only authorized to transact business in Kansas.

As of December 31, 2019, the Company's largest lines of business are homeowners multiple peril at 46.8% of direct premiums written, farmowners multiple peril at 33.9%, and allied lines at 12.5%. The remaining 6.8% represented fire and other liability business.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<i>(in thousands)</i>					
Admitted Assets	42,229	47,513	51,124	58,698	64,853
Liabilities	17,475	18,547	19,433	21,018	22,316
Capital and Surplus	24,754	28,966	31,691	37,680	42,537
Net Underwriting Gain/(Loss)	4,034	5,162	2,594	7,391	2,249
Net Income	3,526	4,107	2,392	6,943	3,726
Net Premiums Written	21,386	23,085	25,231	27,948	28,049

REINSURANCE

As of December 31, 2019, the Company's reinsurance program includes the following types of coverage: multi-line excess of loss, property coded per risk excess of loss, property catastrophe excess of loss, and aggregate 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 \$200,000. The agreement consists of two layers which cover up to \$1,800,000 in excess of the

Company's retention. The agreement includes a basket cover of \$200,000 in excess of \$200,000.

The Company also maintains a property coded per risk excess of loss agreement which provides \$3,000,000 of coverage on property risks in excess of \$2,000,000.

The Company also maintains a property catastrophe excess of loss treaty agreement which consists of three layers and covers up to \$44,700,000 in excess of the Company's retention of \$1,200,000.

The Company also maintains a property aggregate excess of loss agreement which covers up to \$4,500,000 should the Company exceed a 72.5% loss ratio on subject business in the period defined in the agreement.

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, 2019. Any 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.

MARYSVILLE MUTUAL INSURANCE COMPANY
ASSETS
AS OF DECEMBER 31, 2019

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 44,153,235	\$ -	\$ 44,153,235
Common stocks	7,961,300	-	7,961,300
Real estate	272,278	-	272,278
Cash and short-term investments	6,572,182	-	6,572,182
Investment income due & accrued	223,727	-	223,727
Deferred premiums, agents' balances in the course of collection	4,917,267	-	4,917,267
Amounts recoverable from reinsurers	149,245	-	149,245
Other amounts receivable under reinsurance contracts	4,717	-	4,717
Net deferred tax asset	492,477	-	492,477
EDP equipment and software	21,639	-	21,639
Furniture and equipment	5,856	5,856	-
Aggregate write-ins for other than invested assets	105,584	20,396	85,188
Total assets	<u>\$ 64,879,507</u>	<u>\$ 26,252</u>	<u>\$ 64,853,255</u>

**MARYSVILLE MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2019**

Losses	\$ 3,084,213
Loss adjustment expense	135,406
Commissions payable	469,281
Other expenses	360,916
Taxes, licenses and fees	243,894
Current federal and foreign income taxes	105,599
Unearned premiums	16,969,447
Advance premiums	564,392
Ceded reinsurance premiums payable	382,571
Payable for securities lending	184
Total liabilities	<u>\$ 22,315,903</u>
Unassigned funds	<u>\$ 42,537,352</u>
Surplus as regards policyholders	<u>\$ 42,537,352</u>
Total liabilities, surplus and other funds	<u><u>\$ 64,853,255</u></u>

**MARYSVILLE MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019**

UNDERWRITING INCOME

Premiums earned	\$ 27,257,801
<u>DEDUCTIONS</u>	
Losses incurred	16,651,539
Loss expenses incurred	953,728
Other underwriting expenses incurred	7,403,746
Total underwriting deductions	<u>\$ 25,009,013</u>
Net underwriting gain	<u>\$ 2,248,788</u>

INVESTMENT INCOME

Net investment income earned	\$ 1,447,420
Net realized capital gains	880,535
Net investment gain	<u>\$ 2,327,955</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premiums	178,631
Aggregate write-ins for miscellaneous income	10,927
Total other income	<u>\$ 189,558</u>

Net income before dividends and federal income taxes	\$ 4,766,301
Dividends to policyholders	-
Net income after dividends and before federal income taxes	<u>\$ 4,766,301</u>
Federal income taxes incurred	1,040,745
Net income	<u><u>\$ 3,725,556</u></u>

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

Surplus as regards policyholders, December 31, 2014			<u>\$ 21,413,116</u>
Net income	2015	3,525,584	
	2016	4,107,224	
	2017	2,392,494	
	2018	6,943,493	
	2019	<u>3,725,556</u>	20,694,351
Change in net unrealized capital gains or (losses)	2015	(360,834)	
	2016	123,308	
	2017	638,920	
	2018	(1,000,565)	
	2019	<u>1,076,123</u>	476,952
Change in net deferred income tax	2015	164,733	
	2016	(4,261)	
	2017	(312,607)	
	2018	59,827	
	2019	<u>45,826</u>	(46,482)
Change in nonadmitted assets	2015	11,106	
	2016	(13,931)	
	2017	6,504	
	2018	(14,046)	
	2019	<u>9,782</u>	(585)
Surplus as regards policyholders, December 31, 2019			<u><u>\$ 42,537,352</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, 2019, was \$42,537,352, which was the same amount, reported by the Company in its 2019 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

No significant or material subsequent events were identified that warranted inclusion in this Report on Examination.

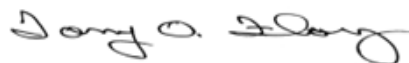
SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner, and Ms. Tamara House, CFE, a Senior Insurance Examiner, all representing the Department, participated in this examination.

Respectfully submitted,



Tony O. Florez, CFE
Examiner-in-Charge
Kansas Insurance Department

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

State of Kansas,

County of Shawnee,

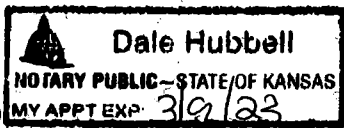
Tony O. Florez, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Marysville 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 Marysville 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 O. Florez on this 25 day of February 20 21.

(SEAL)  Dale Hubbell
NOTARY PUBLIC - STATE OF KANSAS
MY APPT EXP: 3/9/23

Dale Hubbell
Notary Public

My commission expires 3/9/23 [date].