

**BEFORE THE INSURANCE COMMISSIONER  
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF EXAMINATION OF  
FARMERS MUTUAL FIRE  
INSURANCE COMPANY OF CARROLL COUNTY**

**A.I.D. 2007-021**

**ADOPTION ORDER**

Now on this day the matter of the Report of Examination of FARMERS MUTUAL FIRE INSURANCE COMPANY OF CARROLL COUNTY, FMAA #A0010, (hereafter, the “company”) is taken under consideration by Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas (the “Commissioner”), with the Arkansas Insurance Department (the “Department”) appearing by and through Booth Rand, Chief Counsel. From the facts before her, the Commissioner finds as follows:

1. The company is licensed by the Department as a farmers’ mutual aid association in this State under Ark. Code Ann. §23-73-101 et seq. licensed to transact property and casualty insurance.
2. Pursuant to Ark. Code Ann. §23-73-104(1) and therefore Ark. Code Ann. §23-61-201, the Commissioner directed the Department to conduct a regular examination of the affairs, transactions, accounts, and assets of the company as of December 31, 2005.
3. The examination began on November 6, 2006 and was completed on or about February 16, 2007. A verified report of examination (the “Report”) was filed at the Department on March 5, 2007 and was forwarded by certified mail to the company on March 5, 2007, return receipt requested. The company received the Report on March 7, 2007 and did not submit a written reply or rebuttal in response to the Report.

4. An examiner noted that at year end, December 31, 2005, the company's recorded balance of unpaid losses of \$7,050 was less than the amount determined by an examiner to be \$44,970, the difference represented to be losses incurred in 2005 but which remained unpaid at December 31, 2005.

5. An examiner noted that during the examination period, the company maintained a custodial account for cash and short-term investments valued at \$54,544 and certificates of deposit valued at \$200,000 which were being held in the custody of Edward Jones, a securities brokerage firm, as of December 31, 2005. An examiner noted that the custodial arrangement did not meet the requirements of Ark. Code Ann. §23-69-134(b)(4)(B) and Rule and Regulation 26 of the Arkansas Insurance Department because the agreement had not been approved in advance by the Department. An examiner stated that subsequent to the examination period, the company opted to close the custodial account with the securities brokerage firm in December 2006, at which time the assets or funds were placed into a cash account which does not require a statutory custodial agreement.

THEREFORE, pursuant to the provisions of Ark. Code Ann. §23-61-205, et. seq., the Commissioner hereby orders:

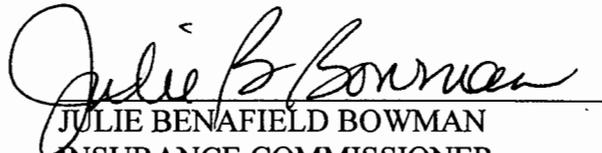
1. That the Report filed with the Department is hereby adopted;
2. That the Department shall forward a copy of this Order and the Adopted Examination Report to the company via Certified mail;
3. That within forty-five (45) days of receipt of this Order, the company shall provide a written response to the Department explaining the circumstances why the company placed or maintained assets of the company with a securities brokerage firm, as described in

Section Five (5) of this Order, without obtaining approval in advance from the Department under Ark. Code Ann. §23-69-134(b)(4)(B) and Rule and Regulation 26 of the Arkansas Insurance Department. The company should also describe measures the company is taking to ensure future compliance with Ark. Code Ann. §23-69-134(b)(4)(B) and Rule and Regulation 26 should the company decide to use a security brokerage firm to handle assets subject to those provisions.

4. That within twenty (20) days of receipt of this Order and the adopted Examination Report, the company shall file with the Department affidavits executed by each of its directors stating under oath that they have received a copy of this Order and the Adopted Examination Report;

5. That the Adopted Examination Report will be open for public inspection upon the expiration of thirty (30) days from the date of this Order.

IT IS SO ORDERED this 13<sup>th</sup> day of April, 2007.

  
JULIE BENAFIELD BOWMAN  
INSURANCE COMMISSIONER  
STATE OF ARKANSAS