

Examination Report
on
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF WASHINGTON COUNTY, VIRGINIA
Abingdon, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Farmers Mutual Fire Insurance Company of Washington County, Virginia as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 24th day of July, 2014

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 24, 2014

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a financial examination of the records and affairs of the

**FARMERS MUTUAL FIRE INSURANCE COMPANY
OF WASHINGTON COUNTY, VIRGINIA
Abingdon, Virginia**

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual assessment property and casualty insurer licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

HISTORY

The Company was granted a charter on December 13, 1910, which has been amended several times. According to the charter, the purpose for which the Company was formed is as follows:

...to carry on a mutual assessment fire insurance company transacting mutual assessment fire insurance as defined by Section 38.1-659 of the Code of Virginia as amended from time to time.

The most recent amendment, which was made on September 8, 1981, restricted the Company's operations to the four adjacent counties of Russell, Scott, Smyth and Washington and the city of Bristol, Virginia.

MANAGEMENT AND CONTROL

The management of the Company is vested in a board of directors consisting of nine members. As provided in the Company's bylaws, directors are elected by members at their annual meeting to serve for a period of three years. A majority of the directors constitutes a quorum for any meeting of the board. The board of directors elects the officers.

At December 31, 2013, the directors and officers of the Company were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
James C. Atwell	Farmer, Retired Abingdon, Virginia
Robert C. Berry	Farmer Abingdon, Virginia
David R. Fore	Retired Abingdon, Virginia
Michael Countiss	Farmer Abingdon, Virginia
N.W. Cunningham	Retired Abingdon, Virginia
James W. Hay	Retired Deputy Sheriff Abingdon, Virginia
W. Blair Keller, Jr.	Retired Abingdon, Virginia
Lawrence T. Lester	Farmer Meadowview, Virginia
Russell T. Smith, Jr.	Farmer Meadowview, Virginia

Officers

James C. Atwell	President
Lawrence T. Lester	Vice President
Nannie T. Groseclose	Secretary-Treasurer

FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force at December 31, 2013, providing coverage in the amount of \$100,000, subject to a deductible of \$1,000 per occurrence. The Company also had insurance coverages in force that included workers' compensation, professional liability and directors' and officers' liability, commercial property, commercial general liability, inland marine, and commercial excess liability (umbrella) coverage.

TERRITORY AND PLAN OF OPERATION

The Company limits its operations to the four counties of Russell, Scott, Smyth and Washington and the city of Bristol, Virginia. Business is produced through four licensed agents who are either employees or commissioned agents.

The lines of business written include the following:

- Fire, lightning and windstorm on buildings, mobile homes, personal property, livestock and machinery.
- Extended coverage, plate glass, vandalism, malicious mischief and liability as supplements to the basic policy.
- Homeowners and mobile homeowners with a comprehensive personal liability endorsement or a farmer's comprehensive personal liability endorsement.
- Church package policy.

Property is classified primarily according to location, use, type of construction and availability of fire departments. The board of directors sets classifications and assessment rates. Assessments are levied annually during the month of original issue. The Company adjusts claims utilizing the services of independent claims adjusters.

It is the practice of the Company to retain \$20,000 on property insured, and \$25,000 on bodily injury and property damage liability coverage.

GROWTH OF THE COMPANY

The following data, obtained from the Company's annual statements and examination reports, indicates its growth during the ten-year period ending December 31, 2013:

<u>Year</u>	Net <u>Assessments Received</u>	<u>Investment Income</u>	Net Losses <u>Paid</u>	<u>Number of Policies</u>	Amount of <u>Insurance In Force</u>
2004	\$838,130	\$159,968	\$336,479	7,884	\$533,997,094
2005	999,368	153,493	393,922	7,939	565,884,334
2006	963,642	253,542	380,563	7,909	589,634,509
2007	1,014,428	244,444	282,890	7,759	587,884,341
2008	1,005,820	222,681	178,686	7,528	566,465,901
2009	950,018	198,632	252,204	7,334	555,593,409
2010	945,184	189,599	536,561	7,016	527,772,009
2011	867,231	155,570	2,335,204	6,569	487,958,595
2012	587,837	123,253	(892,844)	6,285	467,811,336
2013	556,420	127,868	249,558	6,185	474,310,161

<u>Year</u>	<u>Ledger Assets</u>	Net <u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2004	\$4,060,222	\$4,143,859	\$630,165	\$3,513,694
2005	4,321,357	4,426,423	827,906	3,598,517
2006	4,868,221	4,938,420	875,351	4,063,069
2007	5,169,084	5,249,139	747,814	4,501,325
2008	5,458,681	5,488,009	640,011	4,847,998
2009	5,820,680	5,889,387	744,905	5,144,482
2010	5,892,109	5,948,485	651,726	5,296,759
2011	4,797,753	4,852,751	786,129	4,066,622
2012	5,408,792	5,465,585	530,579	4,935,006
2013	5,532,760	5,616,257	482,908	5,133,349

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2013:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Net Retention</u>	<u>Reinsurer's Limits</u>
Property and Casualty Excess of Loss	Fire, inland marine and multiple lines (to include the casualty business of these lines)	<u>Property</u> \$30,000 ultimate net loss, each and every risk	\$970,000 ultimate net loss, each and every risk, each and every loss, subject to an occurrence limitation of \$1,940,000
		<u>Casualty</u> \$30,000 ultimate net loss, each and every risk	\$970,000 ultimate net loss, each and every insured, each and every loss
		<u>Combination</u> \$30,000 each and every loss occurrence	\$30,000 each and every loss occurrence
Property and Casualty Aggregate Excess of Loss	Fire, inland marine and multiple lines (to include the casualty business of these lines)		150% of the amount, if any, by which the Company's aggregate net losses exceed 100% of net earned premium income; not to exceed 95% of 150% of net earned premium income

All reinsurance is placed through Axiom Re, Inc., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the years 2011, 2012 and 2013, and a statement of financial condition at December 31, 2013.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net assessments received	\$867,231	\$587,837	\$556,420
Interest on bonds	17,289	15,219	11,096
Interest on cash deposits	97,567	63,476	79,431
Dividends on stocks	1,184	2,108	1,918
Real estate	39,450	42,450	35,303
Gain or (loss) on sale of investments	80		120
Other income	<u>685,709</u>	<u>7,239</u>	<u>91,320</u>
 Total Income	 \$1,708,510	 \$718,329	 \$775,608
 Deduct total disbursements for the year	 <u>2,802,866</u>	 <u>107,290</u>	 <u>651,640</u>
 Net Income	 (\$1,094,356)	 \$611,039	 \$123,968
 Add Ledger Assets December 31, previous year	 <u>5,892,109</u>	 <u>4,797,753</u>	 <u>5,408,792</u>
 Ledger Assets December 31, current year	 <u><u>\$4,797,753</u></u>	 <u><u>\$5,408,792</u></u>	 <u><u>\$5,532,760</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net losses paid	\$2,335,204	(\$892,844)	\$249,558
Loss adjustment expense	71,907	35,186	28,788
Commission and brokerage	72,496	67,176	82,719
Gross salaries	119,509	131,307	133,533
Directors' fees	30,226	29,250	31,500
Travel and travel items	909	2,703	
Boards, bureaus and associations	5,534	5,462	5,770
Legal and auditing	28,447	30,534	20,629
Furniture, fixtures and equipment	3,638	2,184	1,893
Rent, office and equipment maintenance	5,160	5,213	5,473
Advertising	1,953	1,216	544
Printing and stationery	12,156	11,005	10,930
Postage, telephone and express	3,448	3,772	2,482
Insurance and fidelity bonds	17,461	17,808	19,409
Charitable contributions	200	510	510
Utilities	8,066	7,890	9,008
Other general expenses	13,040	7,334	8,400
Taxes, licenses and fees	12,734	12,091	10,320
Payroll items	49,970	37,826	7,790
Federal corporate income tax		578,735	9,388
Real estate	10,808	12,932	12,996
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u><u>\$2,802,866</u></u>	<u><u>\$107,290</u></u>	<u><u>\$651,640</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$288,556			\$288,556
Common stock	47,309	78,389		125,698
Cash in company's office	928			928
Cash on deposit	5,062,301			5,062,301
Real estate	44,534			44,534
Interest due and accrued				
On bonds		2,793		2,793
On cash deposits		9,998		9,998
Assessments due	3,667			3,667
Equipment, furniture, and supplies	7,683		7,683	
Federal income tax refund	77,782			77,782
Totals	<u>\$5,532,760</u>	<u>\$91,180</u>	<u>\$7,683</u>	<u>\$5,616,257</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Net unpaid losses	\$68,013
Loss adjustment expenses unpaid	5,040
Salaries due or accrued	376
Payroll items due or accrued	4,580
Other expenses due or accrued	1,400
Taxes, licenses and fees	10,827
Ceded reinsurance balances payable	46,500
Assessments unearned	317,389
Deferred income tax payable	<u>28,783</u>
Total liabilities	\$482,908
Excess of admitted assets over liabilities (surplus)	<u>5,133,349</u>
Totals	<u>\$5,616,257</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

1. During the review of the Company's bond investments, the Examiners noted that the Company receives investment management services from its custodian bank. The custodian determines which bonds to buy for the Company's investment account based on the investment guidelines provided by the Company. However, the current custodial agreement between the Company and the custodian does not include investment management services. The Examiners recommend the Company either revise their current custodial agreement to include investment management services or execute a separate agreement for these services. This is the third consecutive examination in which this recommendation appears.
2. During the review of the Company's financial records and information system, it was noted that the Company maintains a manual accounting system and claims process and does not have an effective disaster recovery plan. The Examiners recommend the Company develop, implement and maintain a financial accounting and information system. The Company should currently develop a disaster recovery plan that will allow the Company the ability to more efficiently recover data in the event of a catastrophe.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the examination is gratefully acknowledged.

In addition to the undersigned, Allison L. Bohrer, Mario A. Cuellar, CFE, and Milton Parker, Jr., AFE of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE
Senior Insurance Examiner

FARMERS MUTUAL FIRE INSURANCE COMPANY
of
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STATE CORP. COMMISSION
BUREAU OF INSURANCE
14 JUL 17 AM 9:17

July 15, 2014

David H. Smith, CFE, CPA, CPCU
Chief Examiner
STATE CORPORATION COMMISSION
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Corrective Recommendations
recent examination

Dear Mr. Smith,

We have reviewed the examination report mailed to us on June 23, 2014, and in regard to the recommendations for corrective action you mentioned, please note:

Accounts and records

- Item #1 We have met with the person handling the investments in question, He has given us an agreement detailing the investment procedures and hopefully this will be to your satisfaction, if not please let us know, and we will go back and try to rectify the situation. We want to get this matter corrected this time around. We are enclosing a signed agreement with First Bank and Trust for your approval.
- Item #2 Concerning the disaster recovery plan, we have discussed this with our computer person and he has given us a letter detailing what we can expect if a disaster should occur, (we are enclosing a copy of this letter also. We will make arrangements with the phone company to implement a phone service that we can use in case we should experience a disaster of any kind, we will have ample supplies stored at another location until we can get up and running again.

Your examiners, Jennifer Blizzard, Allison Bohrer, Marion Cuellar and Milton Parker were very helpful to us and was very pleasant to work with.

We will need 10 copies of the report, one for our files and we have nine directors.

Sincerely,


Nannie Groseclose
Sec.-Treas.

FARMERS MUTUAL FIRE INS CO..

Encl: 2

ATTACHMENTS

The Company's response to the Examiner's recommendations in the December 31, 2013 Examination Report included supplemental attachments. The attachments were not incorporated as a part of this Examination Report; however, the attachments were considered during the Examiners' review of the Company's response and have been incorporated into the examination workpapers.