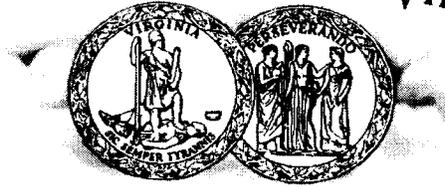


EXAMINATION REPORT
on
ROCKBRIDGE MUTUAL FIRE INSURANCE COMPANY
LEXINGTON, VIRGINIA
as of
DECEMBER 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF VIRGINIA

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Rockbridge Mutual Fire Insurance Company 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 22nd day of May, 2014

A handwritten signature in cursive script that reads 'Jacqueline K. Cunningham'.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 6, 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, an examination of the financial condition, records and affairs of the

ROCKBRIDGE MUTUAL FIRE INSURANCE COMPANY
Lexington, 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 pursuant 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. The current examination covers the three year period from January 1, 2011 through December 31, 2013.

HISTORY

The Company was chartered by the State Corporation Commission on October 26 1911, and has been in continuous operation since that time. The articles of incorporation were restated in 1954 and 1972. The purpose for which the Company was organized according to its articles of incorporation is as follows:

“The conduct of a mutual assessment fire insurance business, within the widest definition of section 38.1-659, Code of Virginia of 1950, as amended from time to time.”

MANAGEMENT AND CONTROL

According to the Company's bylaws, which were last restated in 2013, management is vested in a board of directors of four persons including the president and the vice president. Directors are elected at the annual meeting of the Company held in February of each year. The president is a director and is elected annually for a term of one year. Each director represents a particular district, two of whom are elected each year for a three year term. The board elects the president and vice president and appoints the secretary-treasurer.

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

<u>Directors</u>	<u>Principal Occupation</u>
John R. Lewis	Retired Natural Bridge, Virginia
Malcolm B. Lotts	Retired Natural Bridge, Virginia
C. Michael Sandridge	Retired Raphine, Virginia
Sandra W. Claytor	Retired Lexington, Virginia
<u>Officers</u>	
C. Michael Sandridge	President
Sandra W. Claytor	Vice President
Myrna C. Johnston	Secretary-Treasurer

FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force at December 31, 2013. The policy provides for \$250,000 of coverage with a \$2,500 deductible. The policy covered the period from March 7, 2013 through March 7, 2014.

TERRITORY AND PLAN OF OPERATION

The Company is licensed by the State Corporation Commission to operate as a mutual assessment property and casualty insurer throughout the Commonwealth of Virginia. However, it confines its business to the counties of Rockbridge, Augusta, Bath and Botetourt as well as the City of Lexington.

The Company writes a basic policy which includes fire, lightning and extended coverage excluding the perils of windstorm and hail. If windstorm and hail coverage is desired, it is available for an additional assessment on dwellings and outbuildings with a \$1,000 deductible clause.

Insurance written is limited to a minimum of \$500 and a minimum period of six months. Coverage is limited only by the amount facultative reinsurers will accept.

Inquiries regarding insurance are generally referred to the district director who takes the application, inspects the property and makes his recommendation to the board. Policies to be issued require review by the entire board.

Assessments are made semi-annually, in advance, by the board of directors on the first of January and July. Policies are canceled for non-payment 15 days after the expiration date. Rates charged for insurance coverage are set by the board of directors and are based on 11 classifications of property. Generally, semi-annual rates charged for fire coverage range from \$0.14 per \$100 for masonry dwellings and their contents to \$0.64 per \$100 for frame commercial buildings. Rates for windstorm and hail coverage range from \$0.12 per \$100 on dwellings to \$0.52 per \$100 on trailers.

All claims are settled by review and approval of the board of directors. Normally, each director handles claims within his district. However, for larger losses, an independent adjuster may be hired.

REINSURANCE

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

Ceded:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Property First Surplus Reinsurance	Property	\$10,000	Five times the Company's net retention, up to \$50,000 on any one risk
Property Facultative Pro-Rata Reinsurance	Property	\$10,000	Four times the Company's net retention plus the amount ceded under the Property First Surplus Reinsurance agreement, up to \$300,000 on any one risk. In addition, the Company can submit a request for special acceptance for additional coverage outside the scope of this agreement
Aggregate Excess of Loss Reinsurance	Property	10% of Losses over and above the greater of \$49,200 or \$5.50 per \$1,000 of average net fire insurance in force	90% of Ultimate Net Loss over and above initial Ultimate Net Loss equal to greater of \$49,200 or \$5.50 per \$1,000 of Average Net Fire Insurance in Force, subject to limit of liability to Reinsurer of lesser of \$314,100 (being 90% of \$349,000) or \$26.00 per \$1,000 of Average Net Fire Insurance in Force.
Supplemental Aggregate Excess of Loss Reinsurance	Property		100% of Ultimate Net Loss over and above sum of retention under Aggregate Excess of Loss agreement plus reinsurer's limit of liability under agreement subject to limit of liability of lesser of 100% of \$941,700 or \$0.60 per \$1,000 of average net fire insurance in force

All reinsurance agreements contain an insolvency clause.

GROWTH OF THE COMPANY

The following data, obtained taken from Annual Statements filed with the Bureau and the financial statements contained in examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2013:

	Net Assessments Received	Investment Income	Net Losses Paid
Year			
2004	\$84,708	\$6,935	\$19,162
2005	84,160	8,603	3,632
2006	97,058	14,514	27,164
2007	92,208	18,208	2,154
2008	90,878	14,841	26,065
2009	91,790	13,954	10,927
2010	89,981	10,531	19,391
2011	84,655	8,739	28,561
2012	82,069	7,016	17,234
2013	76,428	6,740	11,054

Year	Number of Policies	Insurance In force	Admitted Assets	Liabilities	Surplus As Regards Policyholders
2004	915	\$50,350,675	\$364,244	\$8,727	\$355,517
2005	877	49,434,625	370,707	8,105	362,602
2006	841	49,421,475	379,977	7,403	372,574
2007	816	50,013,475	413,211	7,465	405,746
2008	781	48,275,475	416,273	6,821	409,452
2009	774	49,521,900	435,512	7,530	427,982
2010	766	49,359,700	439,888	9,623	430,265
2011	726	47,112,750	426,833	8,789	418,044
2012	706	46,401,100	422,721	8,226	414,495
2013	690	44,400,800	422,093	7,657	414,436

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 period under review and a statement of financial condition as of December 31, 2013.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net assessments received	\$84,655	\$82,069	\$76,428
Interest on cash deposits	8,739	7,016	6,740
Reconciling amounts			
Social security	3,139	3,002	3,981
Federal withholding	2,880	2,930	3,600
State withholding	960	1,004	1,200
Other income			
Insurance brokerage litigation	12		
Total Income	<u>\$100,385</u>	<u>\$96,021</u>	<u>\$91,949</u>
Deduct total disbursements for the year	<u>113,440</u>	<u>100,133</u>	<u>92,577</u>
Net Income	(\$13,055)	(\$4,112)	(\$628)
Add Ledger Assets December 31, previous year	<u>439,888</u>	<u>426,833</u>	<u>422,721</u>
Ledger Assets December 31, current year	<u><u>\$426,833</u></u>	<u><u>\$422,721</u></u>	<u><u>\$422,093</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net losses paid	\$28,561	\$17,234	\$11,054
Loss adjustment expense	110	15	114
Net commission and brokerage	4,366	3,634	6,166
Gross salaries	44,576	44,221	40,784
Directors' fees	6,396	5,172	4,899
Boards, bureaus and associations	362	419	387
Legal and auditing, not in connections with losses	1,050	825	835
Rent, office and equipment maintenance	6,677	6,299	6,064
Advertising	1,265	1,429	1,365
Printing and stationery		1,247	1,436
Postage, telephone and express	1,352	2,406	3,654
Insurance and fidelity bonds	3,015	3,063	
Personal property tax	15	15	15
Taxes, licenses and fees:			
License fees		60	
Registration fees	25	25	25
Fire Assessment	2,265	2,180	2,136
Assessment for maintenance of Bureau of Insurance	300	300	300
Agents license & examiners report	1,202		
VA property & casualty		11	
Other	213	209	255
Payroll items:			
Social security	7,387	7,066	7,963
Federal withholding	2,880	2,930	3,600
State withholding	960	1,005	1,200
State unemployment insurance	234	234	176
Federal unemployment insurance	229	134	149
Total disbursements	<u>\$113,440</u>	<u>\$100,133</u>	<u>\$92,577</u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash in company's office	\$200			\$200
Cash on deposit	421,893			421,893
Totals	<u>\$422,093</u>	<u>\$0</u>	<u>\$0</u>	<u>\$422,093</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Taxes, licenses and fees:	
Fire assessment	\$2,082
Assessment for maintenance of Bureau of Insurance	300
Flood assessment	100
Fraud assessment	104
Assessments unearned	<u>5,071</u>
Total liabilities	\$7,657
Excess of admitted assets over liabilities	<u>414,436</u>
Totals	<u>\$422,093</u>

RECOMMENDATION FOR CORRECTIVE ACTION

During 2013 the Company amended its bylaws to reduce the minimum number of directors on its Board of Directors to four. § 38.2-2509 of the Code of Virginia requires that a board consist of a minimum of five directors. The Company should amend its bylaws to comply with the minimum board requirements set forth in the Code of Virginia.

CONCLUSION

The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, Allison L. Bohrer, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with the first name "Mario" being particularly prominent.

Mario A. Cuellar, CFE
Senior Insurance Examiner
Commonwealth of Virginia

C. Michael Sandridge., President

Myrna C. Johnston, Secretary-Treasurer

STATE CORP COM
BUREAU OF INSURANCE
MAY 12 AM 8:23

ROCKBRIDGE MUTUAL FIRE INSURANCE COMPANY
156 SOUTH MAIN STREET
LEXINGTON, VIRGINIA 24450

May 8, 2014

State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Attention: David A. Smith
Chief Examiner

RE: Rockbridge Mutual Fire Insurance Company
Examination Report as of December 31, 2013

Dear Mr. Smith:

This letter is in response to the recommendation for corrective action referred to in your Examination report and letter of May 6, 2014.

1. We will amend our by-laws to increase the number of Directors from four to five to comply with the Code of Virginia 38.2-2509. We are actively looking for an additional Director to cover the vacancy left by our former President.

With regard to the number of copies of the examination report, I believe twelve (12) copies will be sufficient.

Sincerely



Myrna C. Johnston
Secretary-Treasurer