

**EXAMINATION REPORT**  
**on**  
**VIRGINIA FARM BUREAU**  
**FIRE AND CASUALTY INSURANCE COMPANY**  
**Richmond, Virginia**  
**as of**  
**December 31, 2014**

# 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 Virginia Farm Bureau Fire and Casualty Insurance Company as of December 31, 2014, 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 11<sup>th</sup> day of February, 2016

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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November 9, 2015  
Richmond, Virginia

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

Dear Madam:

Pursuant to your instructions and in accordance with the requirements of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of

**VIRGINIA FARM BUREAU  
FIRE AND CASUALTY INSURANCE COMPANY**

Richmond, Virginia,

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

**DESCRIPTION**

The Company is a stock property and casualty insurer and was last examined by representatives of the Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2011. This examination covers the period from January 1, 2012 through December 31, 2014.

**HISTORY**

The Company was granted a charter by the Virginia State Corporation Commission (Commission) on December 7, 1961 and commenced business on January 28, 1962. The purposes, in part, for which the Company was organized, according to the articles of incorporation, are as follows:

- (1) To make, issue and effect contracts or policies of insurance providing coverage for any and all classes of insurance, excluding life insurance, annuities and title insurance, ...

(2) To assume reinsurance from other insurance companies and to cede reinsurance to other insurance companies, with or without contingent liability or participation.

(3) To have and to exercise all powers necessary or convenient to carry into effect any or all of the purposes for which the corporation is organized, including the doing of any and all acts incidental to carrying into effect the purposes aforesaid.

The Company amended its Articles of Incorporation on April 6, 1993, to change its name from Early Settlers Insurance Company to its current name. Additionally, the Company amended its bylaws on May 26, 1993, to reflect its new name and the move of its Registered Office from the City of Richmond to the County of Goochland.

On June 30, 1994, the Company issued an additional 10,000 shares of common stock to Virginia Farm Bureau Mutual Insurance Company (VFBMIC), its parent and sole stockholder. VFBMIC paid \$350,000, which was composed of \$20,000 in common capital stock and \$330,000 of gross paid in and contributed surplus. On July 1, 1994, the Commission issued a Certificate of Amendment to the Company, which provided for the Company's common stock to have no par value. This transaction had the effect of transferring the balance of the Company's gross paid in and contributed surplus account to its common capital stock account, thereby bringing its balance to \$1,000,000. This transaction brought the Company into compliance with the minimum capital and surplus requirements of Code of Virginia § 38.2-1028.

On October, 31, 1994, VFBMIC transferred 100% of the common capital stock of the Company, along with \$953,620 in cash and 100% of the common capital stock of Virginia Farm Bureau Town and Country Insurance Company (VFBTCIC), to Farm Bureau Holdings of Virginia, Inc. (Holdings) in exchange for 100% of the common capital stock of Holdings. At the conclusion of the exchange, Holdings contributed an additional \$5,000,000 of paid in capital to the Company. In 1998, Holdings contributed another \$5,000,000 to paid-in capital.

Also during 1998, Holdings issued 4,150 shares of its common stock to Southern Farm Bureau Life Insurance Company (SFBLIC) for \$9,900,000 in cash. This resulted in VFBMIC owning 70.7% of Holdings and SFBLIC owning the remaining 29.3%. In December 2006, VFBMIC paid \$10,000,000 in cash to purchase the 29.3% interest in Holdings held by SFBLIC. VFBMIC now owns 100% of Holdings.

## MANAGEMENT AND CONTROL

The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need be a member or policyholder of the Company, but all must be members of the Board of Directors of the Federation. A majority of the members of the board shall constitute a quorum for the transaction of business.

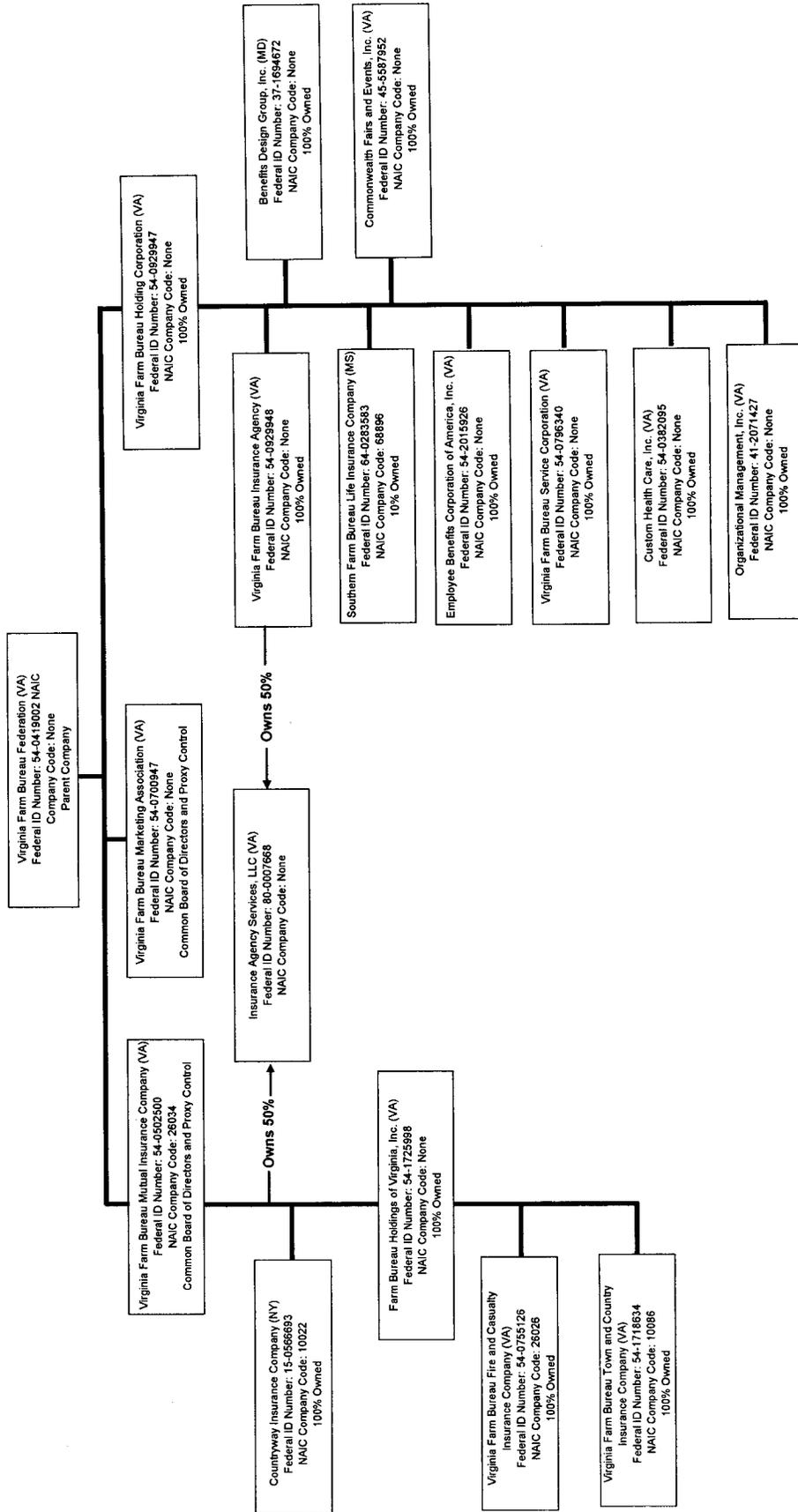
The bylaws also provide that the officers of the Company shall be a president, a first vice president, an executive vice president, a secretary and a treasurer, and such other officers and positions as the board may deem necessary.

At December 31, 2014, directors and officers were as follows:

<u>Directors</u>	<u>Business or Affiliation</u>	<u>County of Residence</u>
Wayne F. Pryor	Farmer/President of the Company	Goochland
Janice R. Burton	Farmer	Halifax
Grant A. Coffee	Farmer	Lunenburg
Emily F. Edmondson	Farmer	Tazewell
Marvin L. Everett	Farmer	Southampton
Thomas E. Graves, Jr.	Farmer	Orange
David L. Hickman	Farmer	Accomack
Evelyn H. Janney	Farmer	Montgomery
Jordan M. Jenkins, Jr.	Farmer	Lunenburg
Gordon R. Metz, Jr.	Farmer	Henry
Robert J. Mills, Jr.	Farmer	Pittsylvania
William F. Osl, Jr.	Farmer	Cumberland
Chapman L. H. Pemberton	Farmer	Hanover
Stephen L. Saufley	Farmer	Rockingham
Scott E. Sink	Farmer	Franklin
Richard L. Sutherland	Farmer	Grayson
Peter A. Truban	Farmer	Shenandoah
William E. Walton	Farmer	Middlesex

<u>Officers</u>	<u>Title</u>
Wayne F. Pryor	President, Administrative Officer and Chief Executive Officer
Darlene P. Wells	Executive Vice President and General Manager
Scott E. Sink	First Vice President
Jeffrey W. Dillon	Treasurer
Jonathan S. Shouse	Secretary
G. Christopher Kern	Assistant Treasurer
David A. Priddy	Assistant Treasurer

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is a wholly owned subsidiary of Holdings. Holdings is 100% owned by VFBMIC, which is controlled by the Federation by means of a common board of directors and through proxy control. The following organizational chart illustrates this relationship at December 31, 2014:



## **RELATED PARTY TRANSACTIONS**

### **Administrative Services Agreement**

The Company entered into an Administrative Services Agreement with VFBMIC effective January 1, 1995. Under the terms of the Agreement, VFBMIC will perform and provide accounting, financial, investment, actuarial, underwriting, claims and computer services for the Company. In consideration of the services provided, the Company will pay VFBMIC a quarterly fee equal to the actual cost of labor and expenses incurred in providing the services. The Company incurred expenses of \$7,801,937, \$7,680,224 and \$7,984,482 for 2012, 2013 and 2014, respectively.

### **Federal Income Tax Allocation Agreement**

Effective January 1, 2007, the Company entered into a federal income tax allocation agreement with VFBMIC and VFBTCIC. This agreement was amended in 2011 to include Countryway Insurance Company, a New York domestic insurer that was purchased by VFBMIC in 2011. The purpose of this agreement is to provide for the filing of consolidated federal income tax returns for the allocation of federal income tax liability and savings among the companies. The method of allocation between the companies is made primarily on a separate return basis. The intercompany tax balances are settled quarterly. The final settlement shall be made within 30 days after the filing of the consolidated income tax return.

## **DIVIDENDS TO SHAREHOLDER**

The Company paid no dividends to its sole shareholder during the period covered by this examination.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2014, the Company was a named insured on a fidelity bond with a \$3,000,000 policy limit and a \$30,000 deductible. Additionally, the Company was a named insured on the following insurance policies: Fleet Automobile, Workers' Compensation and Employers' Liability, Directors' and Officers' Liability, Professional Liability, Blanket Building and Business Personal Property, Commercial Umbrella Liability and Cyber Liability.

## **TERRITORY AND PLAN OF OPERATION**

The Company confines its operations to Virginia where it is licensed to transact the business of accident and sickness, fire, miscellaneous property, farm owners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery, animal and water damage insurance.

Business is produced by 193 agents, who are compensated based on the amount of premiums written plus bonuses which are dependent upon a combination of the growth and profitability of the agent's book of business plus the Company's net income before taxes. Office space and clerical help are furnished to the agents in their territories by county Farm Bureaus under a Memorandum of Agreement with the Federation, which are compensated by the Company based upon a percentage of premium income, or under a Joint Operations Agreement whereby the Company incurs all operational costs of the office.

Risks are bound by the agents when applications are accepted in the field from qualified applicants, after which policies are issued from the Richmond office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that coverage will be canceled.

Losses are reported to the county Farm Bureau through which the application was taken. Claims are confirmed and adjusted by the Company's salaried personnel where practicable, otherwise independent professional adjusters or Farm Bureau insurance companies in other states are used.

### GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2014:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid in and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2005	\$38,726,268	\$25,800,333	\$1,000,000	\$10,000,000	\$1,925,935
2006	43,073,221	28,825,713	1,000,000	10,000,000	3,247,508
2007	43,750,433	28,635,322	1,000,000	10,000,000	4,115,111
2008	43,386,363	28,281,296	1,000,000	10,000,000	4,105,067
2009	43,429,854	26,749,688	1,000,000	10,000,000	5,680,166
2010	43,764,073	26,207,419	1,000,000	10,000,000	6,556,654
2011	48,761,574	32,132,769	1,000,000	10,000,000	5,628,805
2012	44,938,595	30,001,455	1,000,000	10,000,000	3,937,140
2013	50,901,305	33,101,671	1,000,000	10,000,000	6,799,634
2014	51,144,367	31,602,596	1,000,000	10,000,000	8,541,771

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2005	\$20,486,533	\$13,388,208	\$7,542,316	(\$443,991)
2006	25,376,167	17,473,662	8,339,498	(436,993)
2007	24,080,618	16,642,713	8,397,255	(959,350)
2008	23,527,686	14,749,518	8,100,855	677,313
2009	22,994,470	15,151,380	8,276,050	(432,960)
2010	22,945,444	14,390,908	9,364,721	(810,185)
2011	25,450,118	20,006,011	7,813,366	(2,369,259)
2012	26,823,648	20,162,825	8,406,086	(1,745,263)
2013	26,826,897	18,427,774	8,079,862	319,261
2014	26,768,848	17,466,320	7,922,608	1,379,920

**REINSURANCE**

The Company had the following reinsurance agreements in force at December 31, 2014:

**Ceded:**

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Surplus Share	Property (except auto physical damage)	\$300,000 each risk	\$4,700,000
Facultative	Property	\$5,000,000	\$10,000,000
Excess of Loss	Property (Catastrophe)	\$5,000,000	\$215,000,000 per occurrence; \$430,000,000 all occurrences
Excess of Loss	Property (Catastrophe -Terrorism)	\$4,978,233	\$9,956,466
Aggregate	Catastrophe and Auto Physical Damage	67.5% loss and loss adjustment expense ratio – 10% co-participation	6% of SMP or \$8,100,000, not to exceed \$9,900,000
Excess of Loss	Liability	\$600,000	\$30,000,000; occurrence cap of \$1,200,000
	Workers' Compensation	\$500,000	\$30,000,000 (\$1,200,000 maximum employers' liability limit)
Quota Share	Casualty (Umbrella Liability)	15% of first \$10,000,000	85% of first \$1,000,000; 100% up to \$15,000,000

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Farm Pollution Liability (Claims Made)	\$500 each incident	\$1,000,000
Pro Rata	Workers' Compensation		Proportionate share of losses incurred by the National Workers' Compensation Pool; based on participation percentage

Assumed:

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Pro Rata	Automobile		Proportionate share of losses incurred by the Virginia Commercial Auto Insurance Procedure; based on participation percentage

Affiliate Agreements:

On March 24, 1966, the Company's Board of Directors approved a Net Premiums Reinsurance Agreement with VFBMIC. The agreement, as amended, provides for reinsurance of 100% of the Company's net losses and underwriting expenses incurred for which VFBMIC receives 100% of earned premiums, less a commission of one half of one percent of premiums ceded. The Bureau approved the original agreement and subsequent amendments. On December 13, 1995, the Company entered into a Net Premiums Reinsurance Agreement with VFBMIC, to be effective January 1, 1995. The agreement provides for reinsurance of 95% of the Company's net losses and underwriting expenses incurred, for which VFBMIC receives 95% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement. The Net Premiums Reinsurance Agreement dated March 24, 1966 between the parties shall remain in full force and effect for all net premium earned, net losses incurred, and net underwriting expenses incurred for accident years 1994 and prior.

On December 19, 1997, the Company entered into a separate Net Premiums Reinsurance Agreement with VFBMIC, which became effective beginning with accident year 1998. This agreement provides for the reinsurance of 100% of the Company's net losses and underwriting expenses incurred for all lines of business except automobile, for which VFBMIC receives 100% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement.

Reinsurance Pooling Agreement:

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBMIC and VFBTCIC for automobile policies. Each of the companies is an insured as well as a participant in the agreement. Pursuant to this agreement, each of the companies will cede 100% of their direct automobile business earned and assumed, after deduction for any reinsurance ceded to all other companies, after the effective date of this agreement. For the 1998 accident year, each participant will assume an initial retrocession from the Pool in the percentage as indicated below:

Virginia Farm Bureau Mutual Insurance Company	60%
Virginia Farm Bureau Fire and Casualty Insurance Company	20%
Virginia Farm Bureau Town and Country Insurance Company	20%

Each participant will assume their proportionate share of the net premiums earned, net losses and loss adjustment expenses incurred, and underwriting expenses incurred that are ceded to the Pool, but shall not be liable for any amounts beyond said proportionate share, irrespective of the inability of other Participants or Reinsureds to meet their respective obligations.

For the 1999 accident year and for each subsequent accident year, each participant will assume a retrocession from the Pool in a percentage that will be determined by the Board of Directors of the participating companies in January of the applicable year. For accident years 2012 through 2014, the respective Boards elected to retain the percentages as indicated above.

All agreements have an insolvency clause.

## **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, 2012 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The services of Merlinos & Associates, Inc. were employed pursuant to the provisions of Code of Virginia § 38.2-1318.E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2014.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$38,876,759		\$38,876,759
Cash and short term investments	4,575,954		4,575,954
Investment income due and accrued	339,089		339,089
Uncollected premiums and agents' balances in course of collection	2,084,437	258,015	1,826,422
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,601,371	5,296	2,596,075
Amounts recoverable from reinsurers	1,348,737		1,348,737
Funds held by or deposited with reinsured companies	17,391		17,391
Net deferred tax asset	1,423,619	39,063	1,384,556
Guaranty funds receivable or on deposit	167,254		167,254
Aggregate write-ins for other than invested assets	12,130		12,130
Totals	<u>\$51,446,741</u>	<u>\$302,374</u>	<u>\$51,144,367</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$12,695,923
Reinsurance payable on paid losses and loss adjustment expenses		1,877,765
Loss adjustment expenses		1,556,386
Taxes, licenses and fees		413,634
Current federal income taxes		450,927
Unearned premiums		12,312,164
Advance premium		1,020,960
Ceded reinsurance premiums payable		1,246,171
Payable to parent, subsidiaries and affiliates		8,804
Aggregate write-ins for liabilities		<u>19,862</u>
 Total liabilities		 \$31,602,596
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	10,000,000	
Unassigned funds	<u>8,541,771</u>	
 Surplus as regards policyholders		 <u>19,541,771</u>
 Totals		 <u><u>\$51,144,367</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$26,768,848
Deductions:	
Losses incurred	\$15,031,470
Loss adjustment expenses incurred	2,434,850
Other underwriting expenses incurred	7,922,608
Total underwriting deductions	\$25,388,928
Net underwriting gain	\$1,379,920

INVESTMENT INCOME

Net investment income earned	\$1,022,552
Net realized capital gains	27,864
Net investment gain	\$1,050,416

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$173,499)
Finance and service charges not included in premiums	134,963
Total other income	(\$38,536)
Net income before federal income taxes	\$2,391,800
Federal income taxes incurred	664,951
Net income	\$1,726,849

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Surplus as regards policyholders, December 31, previous year	<u>\$16,628,805</u>	<u>\$14,937,140</u>	<u>\$17,799,634</u>
Net income	(\$468,887)	\$1,460,336	\$1,726,849
Change in net unrealized capital gains or (losses)			
Change in net deferred income tax	(1,437,441)	1,436,523	(35,636)
Change in nonadmitted assets	203,168	(34,365)	57,393
Aggregate write-ins for gains and losses in surplus	<u>11,495</u>		<u>(6,469)</u>
Change in surplus as regards policyholders for the year	<u>(\$1,691,665)</u>	<u>\$2,862,494</u>	<u>\$1,742,137</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$14,937,140</u></u>	<u><u>\$17,799,634</u></u>	<u><u>\$19,541,771</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$28,648,380
Net investment income	1,397,525
Miscellaneous income	(38,536)
Total	<u>\$30,007,369</u>
Benefit and loss related payments	\$16,381,472
Commissions, expenses paid and aggregate write-ins for deductions	10,341,035
Federal income taxes paid (recovered)	251,756
Total	<u>\$26,974,263</u>
Net cash from operations	<u>\$3,033,106</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$3,200,705
Total investment proceeds	<u>\$3,200,705</u>
Cost of investments acquired (long-term only):	
Bonds	\$2,822,316
Total investments acquired	<u>\$2,822,316</u>
Net cash from investments	<u>\$378,389</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash applied	(\$369,881)
Net cash from financing and miscellaneous sources	<u>(\$369,881)</u>
Net change in cash and short-term investments	<u>\$3,041,614</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$1,534,340
End of year	4,575,954
Net change in cash and short-term investments	<u>\$3,041,614</u>

**CONCLUSION**

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, Allison L. Bohrer, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., CFE, CPCU, AIAF  
Insurance Principal Financial Analyst



January 19, 2016

State Corporation Commission  
Bureau of Insurance  
Attention: David H. Smith, Chief Examiner  
PO Box 1157  
Richmond, VA 23218

To Whom It May Concern,

Virginia Farm Bureau Fire & Casualty Insurance Company received and acknowledges the draft examination report dated January 8, 2016 as of December 31, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne F. Pryor". The signature is written in a cursive style with a large, prominent initial "W".

Wayne F. Pryor  
President