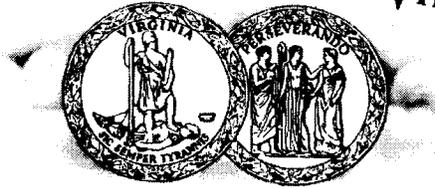


Examination Report
on
MUTUAL ASSURANCE SOCIETY OF VIRGINIA
Richmond, Virginia
as of
December 31, 2012

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 Mutual Assurance Society of Virginia as of December 31, 2012, 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 7th day of April, 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
December 20, 2013

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 records and affairs of the

MUTUAL ASSURANCE SOCIETY OF VIRGINIA
Richmond, Virginia

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

DESCRIPTION

The Society 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 conducts its business under one or more of the following assumed names that have been recorded pursuant to Chapter 5 of Title 59.1 of the Code:

Mutual Assurance Society
The Old Mutual
Mutual Assurance

The Society was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Society was chartered on December 22, 1794, by a special act of the General Assembly of Virginia by which the Society was authorized to insure citizens of Virginia against losses by fire. Operations were confined to fire insurance until May 17, 1955, when the charter was amended to permit the issuance of miscellaneous property and water damage coverages. On June 3, 1965, the charter was further amended to permit the Society:

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

...to transact Fire Insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, to issue, to engage in, and to transact Miscellaneous Property Insurance, Water Damage Insurance, Burglary and Theft Insurance, Glass Insurance, Boiler and Machinery Insurance, Elevator Insurance, Animal Insurance, Collision Insurance, Personal Injury Liability Insurance, Property Damage Liability Insurance, Motor Vehicle and Aircraft Insurance, Marine Insurance and Contingent and Consequential Losses Insurance as classified and defined in Article 2 of Chapter 1 of Title 38.1 of the Code of Virginia, and such other classes of insurance which an insurance company other than life insurance companies and title insurance companies may transact under the insurance laws of the Commonwealth of Virginia,...

MANAGEMENT AND CONTROL

The management of the Society is vested in a board of directors consisting of eight individuals, all of whom shall be members of the Society. As provided in the Society's bylaws, directors are elected by the 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 shall elect a President, who shall be a director of the Society, a Secretary and a Treasurer, each to hold office for one year or until their successors have been elected and have qualified.

At December 31, 2012, the directors and officers of the Society were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Mary C. Doswell	Senior Vice President, Alternative Energy Solutions Dominion Resources, Inc. Richmond, Virginia
O. H. Parrish, Jr.	Retired
L. Gerald Roach	President Mutual Assurance Society of Virginia Richmond, Virginia

Directors (continued)Principal Occupation

Julious P. Smith, Jr.

Chairman Emeritus
Williams Mullen
Richmond, Virginia

Richard T. Wheeler, Jr.

Chairman, President and Chief Executive Officer
Franklin Financial Corporation and
Franklin Federal Savings Bank
Richmond, Virginia

J. F. Williams, III

Chairman Emeritus
Harrison and Bates, Incorporated
Richmond, Virginia

Richard W. Wiltshire, Jr.

Retired

Coleman Wortham, III

Chairman
Davenport & Company LLC
Richmond, VirginiaOfficers

L. Gerald Roach

President

Theresa C. Lewis

Secretary and Treasurer

Jeffrey S. Wrobel, Sr.

Executive Vice President

FIDELITY BOND AND OTHER INSURANCE

The Society had a fidelity bond in force at December 31, 2012, in the amount of \$2,000,000, subject to a \$20,000 deductible. The Society also had insurance coverage in force that included workers compensation and employers liability, directors and officers liability, fiduciary responsibility insurance, employment practices liability insurance, business property and liability, commercial auto, and commercial umbrella coverage.

TERRITORY AND PLAN OF OPERATION

The Society is authorized to transact the business of a mutual assessment property and casualty insurance company in the Commonwealth of Virginia. Insurance is generally written only within the corporate limits of certain independent cities, protected areas of the counties of Henrico and Chesterfield, and other areas contiguous to certain independent cities rated ISO 7 or better. However, primary and secondary residences can be written as an accommodation to existing members located in the Commonwealth provided the Society can adequately service the insurance needs of its members.

Business is produced by salaried employees and independent agents who take applications. If the home office approves the application, a perpetual dwelling property, homeowners or personal umbrella liability policy is issued with the usual endorsement forms available. Independent agents are paid a commission of 20% of the policy premiums for new business and 15% for continuing business. No commissions are paid on premiums written directly by the home office.

Property is classified by type of construction and location of risk. Only dwellings that meet the Society's underwriting and eligibility requirements and which are in areas having adequate fire protection are insured as new risks. However, unprotected primary and secondary residences are written as an accommodation to homeowner policyholders. Dwelling property policy premium rates, adopted by the board of directors effective January 1, 2004, do not vary because of location of risk but differ between masonry and frame construction, with frame construction carrying a higher rate. Homeowner policy premium rates are determined by the Society's independent research. Current homeowner rates were adopted effective January 1, 2003.

Historically, the Society charged premiums and assessments on a calendar year basis; however, all policyholders now pay a full twelve-month premium on the inception date of a policy and pay the annual assessment on a policy's billing anniversary date. An additional assessment is leveled annually on secondary residences and coastal property.

GROWTH OF THE SOCIETY

The following data, obtained from annual statements and examination reports, indicates the growth of the Society for the ten-year period ending December 31, 2012:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2003	\$200,740,113	\$22,995,156	\$177,744,957
2004	204,855,641	24,211,505	180,644,136
2005	210,120,062	22,420,342	187,699,720
2006	226,266,420	26,862,512	199,403,908
2007	231,001,380	26,725,480	204,275,900
2008	171,078,284	7,040,624	164,037,660
2009	193,360,002	15,727,496	177,632,506
2010	205,791,429	19,941,508	185,849,921
2011	196,270,020	16,685,229	179,584,791
2012	211,153,479	21,744,021	189,409,458

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
2003	\$1,494,191	\$25,692,120	\$3,340,839	(\$27,538,768)
2004	2,206,911	12,827,526	3,700,279	(14,320,894)
2005	3,928,092	3,408,908	4,002,909	(3,483,725)
2006	3,337,340	6,323,573	1,988,800	(4,975,033)
2007	2,749,948	6,482,845	4,430,379	(8,163,276)
2008	2,793,302	5,194,076	4,199,865	(6,600,639)
2009	3,344,222	8,185,225	4,425,640	(9,266,643)
2010	3,809,888	8,422,466	4,770,187	(9,382,765)
2011	3,125,613	13,734,239	4,798,077	(15,406,703)
2012	4,975,682	10,882,587	5,412,582	(11,319,487)

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
Quota Share	Umbrella	5% of \$1,000,000, each occurrence, each policy	95% of \$1,000,000, each occurrence, each policy
Excess of Loss	Umbrella	\$1,000,000, each occurrence, each policy	\$4,000,000 in excess of \$1,000,000, each occurrence, each policy
Facultative Excess of Loss	Property	\$3,000,000	\$5,000,000
Quota Share	Equipment Breakdown		100% of \$50,000 each occurrence

Reinsurance is placed directly by the Society and through the reinsurance intermediaries of Guy Carpenter & Company, LLC and General Re Intermediaries, Corp. All of the reinsurance agreements in force contain an insolvency clause.

Assumed:

The Society is part of a reinsurance pool with NAMIC Insurance Company, Inc., under a quota share/retrocessional reinsurance agreement. Pursuant to the agreement, the Society, as retrocessionaire, assumes a small percentage of the ceding insurer's liabilities associated with directors and officers liability, insurance company professional liability, agents errors and omissions, insurance company trustees and fiduciaries liability and professional liability for insurance company associations.

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, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012.

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 Society's financial condition and identify prospective risks of the Society, assess corporate governance, identify and assess inherent risks within the Society 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.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012, a statement of income for the period ending December 31, 2012, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$43,885,124		\$43,885,124
Common stocks	158,054,673		158,054,673
Real estate	961,313		961,313
Cash and short-term investments	6,783,014		6,783,014
Investment income due and accrued	887,785		887,785
Uncollected premiums and agents' balances in course of collection	43,274		43,274
Guaranty funds receivable or on deposit	5,361		5,361
Electronic data processing equipment	261,225	133,590	127,635
Furniture and equipment	182,255	182,255	
Aggregate write-ins:			
Cash surrender value	165,000		165,000
Prepaid expenses	66,604	66,604	
Equities and deposits in pools and associations	240,300		240,300
Totals	<u>\$211,535,928</u>	<u>\$382,449</u>	<u>\$211,153,479</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,385,980
Loss adjustment expenses		669,755
Commissions payable, contingent commissions and other similar charges		461,928
Other expenses		81,975
Taxes, licenses and fees		95,087
Net deferred tax liability		9,739,167
Unearned premiums		4,388,666
Advance premium		222,288
Ceded reinsurance premiums payable		117,718
Aggregate write-ins for liabilities:		
Deferred compensation		1,223,101
Reserve for uncashed checks		8,193
Minimum Pension Liability		<u>1,350,163</u>
Total liabilities		\$21,744,021
Unassigned funds (surplus)	<u>189,409,458</u>	
Surplus as regards policyholders		<u>189,409,458</u>
Totals		<u><u>\$211,153,479</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$4,975,682
Deductions:	
Losses incurred	\$9,096,988
Loss adjustment expenses incurred	1,785,599
Other underwriting expenses incurred	5,412,582
Total underwriting deductions	\$16,295,169
Net underwriting loss	(\$11,319,487)

INVESTMENT INCOME

Net investment income earned	\$5,869,634
Net realized capital gains	3,987,226
Net investment gain	\$9,856,860

OTHER INCOME

Finance and service charges not include in premiums	\$2,406
Aggregate write-ins for miscellaneous income	10,618
Total other income	\$13,024
Net income before federal income taxes	(\$1,449,603)
Federal income taxes incurred	(1,872,392)
Net income	\$422,789

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus as regards policyholders, December 31, previous year	<u>\$177,632,506</u>	<u>\$185,849,921</u>	<u>\$179,584,791</u>
Net income	(\$933,744)	(\$7,665,589)	\$422,789
Change in net unrealized capital gains or (losses)	8,192,050	(1,539,331)	8,864,554
Change in net deferred income tax	1,411,435	3,725,894	570,426
Change in nonadmitted assets	455,636	24,993	(143,121)
Aggregate write-ins for gains and losses in surplus	<u>(907,962)</u>	<u>(811,097)</u>	<u>110,019</u>
Change in surplus as regards policyholders for the year	<u>\$8,217,415</u>	<u>(\$6,265,130)</u>	<u>\$9,824,667</u>
Surplus as regards policyholders, December 31, current year	<u>\$185,849,921</u>	<u>\$179,584,791</u>	<u>\$189,409,458</u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$5,796,439
Net investment income	6,069,537
Miscellaneous income	13,024
Total	<u>\$11,879,000</u>
Benefit and loss related payments	\$9,397,777
Commissions, expenses paid and aggregate write-ins for deductions	7,027,410
Total	<u>\$16,425,187</u>
Net cash from operations	<u><u>(\$4,546,187)</u></u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$8,014,199
Stocks	14,365,739
Total investment proceeds	<u>\$22,379,938</u>
Cost of investments acquired (long-term only):	
Bonds	\$3,863,337
Stocks	7,988,282
Real estate	27,994
Total investments acquired	<u>\$11,879,613</u>
Net cash from investments	<u><u>\$10,500,325</u></u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$67,587
Net cash from financing and miscellaneous sources	<u>\$67,587</u>
Net change in cash and short-term investments	<u><u>\$6,021,725</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$761,289
End of year	6,783,014
Net change in cash and short-term investments	<u><u>\$6,021,725</u></u>

CONCLUSION

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley', written in a cursive style.

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

Incorporated 1794

Mutual Assurance Society of Virginia
STATE CORP COMMISSION
2014 MAR 19 AM 8:02
Richmond, Virginia
BUREAU OF INSURANCE

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P.O. Box 6927
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March 17, 2014

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

Re: Examination Report as of December 31, 2012

Dear Mr. Smith:

This acknowledges receipt of your letter of February 20, 2014 as well as two draft copies of the Bureau's Examination Report of Mutual Assurance Society of Virginia as of December 31, 2012.

The Society respectfully requests 15 copies of the Examination Report for its present and future needs.

Sincerely,



L. Gerald Roach, CPCU, FLMI, CFE
President