

**EXAMINATION REPORT**  
**on**  
**THE DAN RIVER FARMERS MUTUAL**  
**FIRE INSURANCE COMPANY**  
**Danville, 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 The Dan River Farmers Mutual Fire Insurance Company 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 22<sup>nd</sup> day of November, 2013

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
August 29, 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 affairs and financial condition of

**THE DAN RIVER FARMERS MUTUAL  
FIRE INSURANCE COMPANY**  
Danville, 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 insurance company licensed under Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the Virginia State Corporation Commission's Bureau of Insurance as of December 31, 2009. The current examination covers a three-year period from January 1, 2010 through December 31, 2012.

**HISTORY**

The Company was granted a charter on April 8, 1893, by the Corporation Court of the City of Danville, and has been in continuous operation since that time. The Charter has been amended on nine occasions, most recently on February 18, 1987.

According to its Restatement of Articles of Incorporation, as currently amended, the purposes for which the Company was formed are as follows:

- (1) to engage in the business of a mutual assessment property and casualty insurance company as defined in Code 38.1-659(2), as may be amended from time to time, with full authority to transact mutual assessment fire insurance as defined in Code 38.1-659(1), as may be amended from time to time, and to transact such mutual assessment

fire insurance so as to insure perils and property to the full extent permitted by Chapter 15 of Title 38.1 of the Code, as may be amended from time to time.

- (2) to do all acts and everything necessary, suitable, and proper for the accomplishments of any of its purposes and to engage in the transaction of any or all lawful business not required to be specifically stated in these Amended and Restated Articles of Incorporation, provided such acts can lawfully be performed by a mutual fire insurance assessment company as defined in Code 38.1-659(2), as may be amended from time to time.

### **MANAGEMENT AND CONTROL**

According to the Company's bylaws, management is vested in a board of not less than five directors, each of whom shall be a member of the Company. Directors are elected at the annual meeting of members for a term of one year or until a successor is elected and qualified. The board appoints an investment committee, which is responsible for monitoring the Company's adherence to its investment policies and the submission of the minutes of its meetings to the board as soon as practicable.

Officers of the Company are elected by the board and include a president, a vice president, a treasurer, a secretary and a general manager, and other officers as deemed necessary. The president and vice president must be directors of the Company. The president is responsible for presiding at all meetings of the board of directors.

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

<b><u>Directors</u></b>	<b><u>Principal Business Affiliation</u></b>
Martin G. Lane, Jr.	Chairman of the Board Aegis Security Insurance Company Harrisburg, Pennsylvania
Darleen J. Fritz	President and Chief Executive Officer Aegis Security Insurance Company Harrisburg, Pennsylvania
E. M. Avery	Director Aegis Security Insurance Company Harrisburg, Pennsylvania

William J. Wollyung, III

Treasurer and Chief Financial Officer  
Aegis Security Insurance Company  
Harrisburg, Pennsylvania

Ronald K. Thomas

Director  
Aegis Security Insurance Company  
Harrisburg, Pennsylvania

### **Investment Committee**

Martin G. Lane, Jr.  
Ronald K. Thomas  
William J. Wollyung, III

### **Officers**

Martin G. Lane, Jr.	President
Darleen J. Fritz	Vice President and General Manager
E. M. Avery	Secretary
William J. Wollyung, III	Treasurer

### **REINSURANCE**

The Company had an aggregate and excess of loss reinsurance agreement with Aegis Security Insurance Company (Aegis), a Pennsylvania-domiciled insurer licensed in Virginia. The agreement became effective on August 1, 1995 and was amended in 1999 so that the agreement and all addendums would be renewed automatically every calendar year. Termination requires 180 days advance notice by either party wishing to cancel the agreement. Pursuant to the agreement, Aegis agreed to indemnify the Company for 100% of the losses and loss adjustment expenses (for both the physical damage and the liability portion of any claim) incurred during the term of the agreement under any policies issued and/or renewed by the Company. The Company shall pay Aegis a monthly premium based on a rate of 1% of the net premiums written by the Company during that month. This agreement was terminated as of December 31, 2011.

On January 1, 2012, the Company entered into a quota share agreement with Aegis. The Company will cede 25% of all business to Aegis under the agreement. In the event that the Company's surplus falls below \$750,000, the contract will convert 25% participation to 100% within 30 days.

For 2012, the Company reported \$6,301 in direct losses paid. However, 25% of the losses were recovered, resulting in net losses paid of \$4,726.

### **MANAGEMENT SERVICE AGREEMENT**

Effective January 25, 1999, the Company entered into a management service agreement with Aegis under which Aegis agrees to perform the administrative, underwriting and accounting functions on behalf of the Company relative to the operation of the Company's business. While the agreement includes provision for the possible payment of a fee to Aegis for such services, no such fees have been charged the Company to date.

On January 1, 2012, the Company entered into a new agreement with Aegis due to expanded duties. For the functions mentioned above, the Company shall be charged a monthly fee which is commensurate with Aegis's actual costs but under no circumstances shall the fee be greater than 15% of the earned premium monthly.

The Company paid fees for these services in the amount of \$9,488 for 2012.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a mutual assessment property and casualty insurance company and as such may operate in any and all areas of the Commonwealth of Virginia. The Company has chosen to operate statewide; however, the majority of its business remains in the counties of Dickenson, Henry, Lee, Pittsylvania, Russell, Washington and Wise and the city of Danville.

Applications for insurance are processed and underwritten at Aegis' facility in Harrisburg, Pennsylvania, under provisions of the management service agreement outlined above. A continuous type policy is written covering fire and lightning with extended coverage available as an option. All policies are subject to a \$100 or \$250 deductible clause and the amount of coverage written is limited to \$100,000, or 100% of the actual cash value, whichever is less. Liability coverage is also written for amounts up to \$100,000.

Assessment rates are set by the board of directors. Annual assessments are levied by the board of directors on the anniversary date each calendar year. Risks are classified according to usage, type of construction, location, and moral risk.

Claims are adjusted by Aegis, or assigned, at the discretion of Aegis, to an independent adjuster.

## FIDELITY BOND AND OTHER INSURANCE

The Company has \$1,650,000 of fidelity bond coverage through endorsement to a policy issued to Aegis. It is also covered for property and general liability risk under the same policy.

## GROWTH OF THE COMPANY

The following data obtained from the Company's annual statements and from examination reports reflect the growth of the Company for the ten-year period ending December 31, 2012.

<u>Year</u>	<u>Number of Policies</u>	<u>Amount of Insurance In-force</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>
2003	599	\$29,962,273	\$698,695	\$111,302	\$587,393
2004	554	31,913,518	853,881	125,201	728,680
2005	507	31,260,558	992,951	100,730	892,221
2006	424	25,935,849	1,119,771	81,469	1,038,302
2007	375	23,200,492	1,250,338	72,247	1,178,091
2008	348	21,999,838	1,362,775	64,861	1,297,914
2009	321	20,097,444	1,461,524	60,640	1,400,884
2010	303	19,419,177	1,548,213	57,629	1,490,584
2011	257	17,031,278	1,611,702	47,204	1,564,498
2012	172	8,749,398	1,643,297	45,758	1,597,539

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Other Income</u>	<u>Net Losses Paid</u>
2003	\$197,632	\$0	\$4,329	\$0
2004	200,732	36,576	4,063	0
2005	181,073	16,586	4,290	0
2006	143,313	26,280	3,502	0
2007	129,784	39,342	2,779	0
2008	118,068	40,046	2,396	0
2009	107,651	29,372	2,107	0
2010	103,219	17,487	1,951	0
2011	87,874	8,374	1,903	0
2012	61,332	5,696	1,781	4,726

## **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. 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, 2012.

**INCOME FOR THE PERIOD UNDER REVIEW**

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net assessments received	\$103,219	\$87,874	\$61,332
Interest on cash deposits/bonds	17,487	8,374	5,696
Service fees collected	<u>1,951</u>	<u>1,903</u>	<u>1,781</u>
 Total Income	 \$122,657	 \$98,151	 \$68,809
 Deduct total disbursements for the year	 <u>34,391</u>	 <u>33,956</u>	 <u>36,579</u>
 Net Income	 \$88,266	 \$64,195	 \$32,230
 Add Ledger Assets December 31, previous year	 <u>1,458,171</u>	 <u>1,546,437</u>	 <u>1,610,632</u>
 Ledger Assets December 31, current year	 <u><u>\$1,546,437</u></u>	 <u><u>\$1,610,632</u></u>	 <u><u>\$1,642,862</u></u>

**DISBURSEMENTS FOR THE PERIOD UNDER REVIEW**

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net losses paid			\$4,726
Loss adjustment expense			1,939
Commission and brokerage	\$25,379	\$21,466	7,585
Directors' fees	950	1,000	
Boards, bureaus and associations	490	522	394
Legal, and auditing, not in connection with losses	1,945	3,865	5,816
Printing and stationery	135	183	76
Insurance department expenses			
Guaranty fund refunds	(1,117)		
Agent appointments	2,965	3,409	3,506
Management fees			9,488
Taxes, licenses and fees	2,607	2,516	2,201
Reinsurance premium payment	<u>1,037</u>	<u>995</u>	<u>848</u>
 Total disbursements	 <u>\$34,391</u>	 <u>\$33,956</u>	 <u>\$36,579</u>

**ASSETS**

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$277,352			\$277,352
Cash in company's office	100			100
Cash on deposit	201,677			201,677
Certificates of deposit	1,152,900			1,152,900
Interest due and accrued:				
On bonds		165		165
On certificates of deposit		270		270
Assessments due	10,332			10,332
Reinsurance recoverable	501			501
Totals	<u>\$1,642,862</u>	<u>\$435</u>	<u>\$0</u>	<u>\$1,643,297</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Salaries due or accrued	\$5,855
Taxes, licenses and fees	2,182
Ceded reinsurance balances payable	3,413
Assessments unearned	31,257
Management fees	<u>3,051</u>
Total liabilities	\$45,758
Excess of admitted assets over liabilities (surplus)	<u>1,597,539</u>
Totals	<u>\$1,643,297</u>

**CONCLUSION**

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

In addition to the undersigned, Mario A. Cuellar, CFE, of the Examination Section of the State Corporation Commission Bureau of Insurance Financial Regulation Division participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive, flowing style.

Jennifer K. Blizzard, CFE  
Senior Insurance Examiner

**THE DAN RIVER FARMERS MUTUAL FIRE  
INSURANCE COMPANY**

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STATE CORP COMMISSION  
BUREAU OF INSURANCE  
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November 11, 2013

David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

RE: Dan River Farmers Mutual Fire Insurance Company  
Examination Report as of December 31, 2012

Dear Mr. Smith,

We are in receipt of the examination report for The Dan River Farmers Mutual Fire Insurance Company as of December 31, 2012. We accept the report as has been presented.

We appreciate the time and effort and the effectiveness of your examination team.

Should you need any additional information please don't hesitate to contact.

Sincerely yours,



William J. Wollyung, III CPA  
Treasurer