

EXAMINATION REPORT
on
SHENANDOAH MUTUAL FIRE INSURANCE COMPANY
WOODSTOCK, 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



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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 Shenandoah 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 23rd day of July, 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
April 21, 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

SHENANDOAH MUTUAL FIRE INSURANCE COMPANY
Woodstock, 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 granted a charter on February 7, 1876, as Shenandoah Farmers Mutual Fire Insurance Company. The name was shortened to its present form by charter amendment on December 14, 1943. The charter was restated on September 9, 1965, and as it presently reads, the purpose of the Company is as follows:

The conduct of a mutual assessment fire insurance business, within the widest definition of Section 38.1-659, Chapter 15, Code of Virginia of 1950, as amended from time to time.

On May 1, 1967, Frederick Mutual Fire Insurance Company of Winchester, Virginia was merged into the Company and on April 1, 1970, East Rockingham and Page Farmers Home Mutual Fire Insurance Company of Luray, Virginia was merged into the Company.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of nine directors who are required to be members of the Company. Directors are elected by the members at the annual meeting in February of each year for a term of one year.

With respect to authority established in the bylaws, the board of directors shall fix their own compensation and that of all officers, set remuneration for travel expenses and establish the rate of commissions or other compensation for agents of the Company.

Officers of the Company shall be elected by the board at its annual meeting. The officers of the Company shall be a chairman of the board (if elected), president, one or more vice presidents, secretary, treasurer, and such other officers as may be needed. The board of directors may, by a resolution passed by a majority of the whole board, designate the chairman of the board (if elected), president, vice president, secretary, and treasurer to constitute an executive committee. To the extent provided in the resolution, the committee shall have and exercise the power of the board of directors in the management and control of the business and affairs of the Company.

The bylaws also provide that any vacancy of a director or officer whose term has not expired may be filled by the board of directors for the unexpired term.

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

<u>Directors</u>	<u>Principal Occupation</u>
Donald L. Atwood	Farmer Front Royal, Virginia
Larry A. Carbaugh	Farmer Stephens City, Virginia
Dennis K. Fleming	Store Owner Luray, Virginia
Donald E. Foltz	Retired Edinburg, Virginia

Mark K. Getz	Treasurer/VP of Operations Edinburg, Virginia
Randall S. Jones	Secretary/Claims Manager Woodstock, Virginia
Gary D. Ramsey	Farmer Fort Valley, Virginia
Dudley H. Rinker	Self-Employed Stephens City, Virginia
Calvin F. Swartz	Retired Edinburg, Virginia

Officers

Calvin F. Swartz	Chairman of the Board
Donald L. Atwood	President
Gary D. Ramsey	Vice President
Mark K. Getz	Treasurer
Randall S. Jones	Secretary

FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force at December 31, 2013, in the amount of \$100,000 covering its employees. In addition, the Company was insured under building and personal property and business catastrophe liability. Other coverages include workers' compensation and employment practices liability, robbery, directors' and officers' liability, and agents' errors and omissions coverage, and a fiduciary liability policy.

EMPLOYEE WELFARE

Since 2002, the Company provides full-time employees with a defined contribution plan and a 401(k) plan.

The Company also furnishes full-time employees with life, health, and disability insurance as well as paid vacations.

TERRITORY AND PLAN OF OPERATION

The Company may operate throughout the Commonwealth of Virginia. However, business is currently written only in the counties of Alleghany, Augusta, Bath, Clarke, Culpeper, Fauquier, Frederick, Greene, Highland, Loudoun, Madison, Page, Rappahannock, Rockbridge, Rockingham, Shenandoah, Warren and the cities of Buena Vista, Covington, Harrisonburg, Lexington, Staunton, Waynesboro and Winchester.

Marketing of insurance is conducted through 30 commissioned captive or independent agents, including three employees who are licensed agents. The lines of insurance written include fire and allied lines, comprehensive personal liability, dwelling properties, homeowner's, farm machinery, and livestock floaters. It is the practice of the Company to retain \$55,000 on property, bodily injury, property damage, and medical payment coverages. The balance of coverage is reinsured and is limited only by the amount the facultative reinsurer will accept.

Company personnel in conjunction with the binding authority of agents underwrite business. Property is classified according to use, construction, location, and occupancy.

All rates are set by the board of directors, who frequently establish special rates as needed for risks with unique hazards. Two full-time employees who also have secondary responsibilities for underwriting handle claims adjustment. The services of independent adjusting firms are used at times.

REINSURANCE

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

<u>Type of Contract</u>	<u>Lines</u>	<u>Net Retention</u>	<u>Reinsurance Limits</u>
First Per risk Excess of Loss (property)	Fire, Inland Marine, and Multiple Lines	\$55,000	\$145,000, any one loss
Second Property Per risk Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$200,000	100% of \$400,000 in excess of \$200,000, any one loss
Third Property Per Risk Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$600,000	100% of \$600,000 in excess of \$600,000, any one loss
Property Facultative Pro Rata	Property	\$45,000	\$750,000 any one risk
Property Catastrophe Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$150,000	100% of \$1,000,000 in excess of \$150,000 combined net loss, each occurrence
Casualty Excess of Loss	Bodily Injury, Property Injury, Personal Injury, and Medical Payments	\$45,000	100% of \$1,000,000 in excess of \$45,000, per occurrence
Special Casualty Excess of Loss	Bodily Injury, Property Injury, Personal Injury, and Medical Payments	\$500,000	100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence

<u>Type of Contract</u>	<u>Lines</u>	<u>Net Retention</u>	<u>Reinsurance Limits</u>
Aggregate Excess of Loss	All	57.50% of the Company's gross net premiums earned, or \$966,000 whichever is the greater, plus 10% of any excess loss recoverable hereunder	90% of 150% of Company's net premiums earned or 90% of \$3,780,000 whichever is lesser in excess of an amount which exceeds 57.50% of the Company's gross net premiums earned, or \$966,000 whichever is the greater
Umbrella Facultative	Personal, Farm and Commercial Umbrella Liability	\$5,000	95% of \$1,000,000 of Ultimate Net Loss, each occurrence, each policy

Note: Under the terms of the facultative agreement, the Company has binding authority for \$500,000 of additional risk in excess of \$600,000. For risks greater than \$1,100,000, Guy Carpenter & Company, Inc., a reinsurance intermediary (Guy Carpenter), will, upon approving an application, place the additional reinsurance with other multiple lines reinsurance companies. These placements are subject to the provisions set forth in its reinsurance intermediary contract with the Company. Individual certificates of coverage are issued for each facultative reinsured risk.

All reinsurance agreements are placed through Guy Carpenter. Each reinsurance agreement contains 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:

<u>Year</u>	Net Assessments <u>Received</u>	Investment <u>Income</u>	Net Losses <u>Paid</u>
2004	\$1,519,209	\$116,292	\$827,114
2005	1,954,639	114,783	523,150
2006	2,121,011	118,012	1,093,192
2007	1,940,801	141,966	1,250,732
2008	1,711,571	127,126	868,609
2009	1,943,595	116,069	1,121,635
2010	2,138,031	85,511	663,865
2011	2,151,981	97,183	1,160,715
2012	2,230,917	96,836	910,155
2013	2,542,341	80,472	807,093

<u>Year</u>	Number Of <u>Policies</u>	Insurance In <u>Force</u>	Admitted <u>Assets</u>	<u>Liabilities</u>	Surplus As Regards <u>Policyholders</u>
2004	6,415	\$1,126,645,000	\$3,455,434	\$1,619,510	\$1,835,924
2005	6,555	1,326,917,325	3,911,976	1,642,730	2,269,246
2006	6,699	1,594,112,520	3,934,540	1,783,206	2,151,334
2007	6,716	1,753,077,070	3,615,447	1,770,042	1,845,405
2008	6,642	1,801,715,050	3,295,427	1,737,320	1,558,107
2009	6,431	1,751,963,350	2,966,997	1,741,495	1,225,502
2010	6,167	1,677,178,875	3,109,059	1,914,269	1,194,790
2011	5,607	1,607,156,517	2,995,037	2,114,132	880,905
2012	5,627	1,621,129,580	3,300,797	2,146,354	1,154,443
2013	5,777	1,684,056,311	3,874,982	2,292,430	1,582,552

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, 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	\$2,151,981	\$2,230,917	\$2,542,341
Interest on bonds	78,395	78,094	62,413
Interest on cash deposits	2,740	2,881	1,719
Dividends on stocks	7,150	12,855	9,958
Real estate income	3,000	3,000	3,000
Gain on sale of investments	5,898	6	3,382
Reconciling amounts	66,223	60,695	68,502
Other income	32,027	33,151	35,791
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Total Income	\$2,347,414	\$2,421,599	\$2,727,107
Deduct total disbursements for the year	<u>2,555,085</u>	<u>2,292,922</u>	<u>2,275,558</u>
Net Income	(\$207,671)	\$128,677	\$451,549
Add Ledger Assets December 31, previous year	<u>2,976,064</u>	<u>2,768,393</u>	<u>2,897,070</u>
Ledger Assets December 31, current year	<u><u>\$2,768,393</u></u>	<u><u>\$2,897,070</u></u>	<u><u>\$3,348,619</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net losses paid	\$1,160,715	\$910,155	\$807,092
Loss adjustment expense	55,334	34,047	53,974
Net commission and brokerage	454,209	514,695	520,005
Gross salaries	351,526	328,163	339,099
Directors' fees	9,455	7,830	8,310
Travel and travel items	9,500	9,977	10,281
Boards, bureaus and associations	30,056	30,540	30,666
Legal and auditing, not in connections with losses	32,708	37,108	37,291
Outside inspections, loss prevention and survey services	2,073		583
Furniture, fixtures and equipment	2,904	3,639	2,721
Rent, office and equipment maintenance	3,000	3,000	3,000
Advertising	14,417	14,501	14,533
Printing and stationery	10,326	9,861	14,388
Postage, telephone and express	22,277	22,298	24,198
Insurance and fidelity bonds	20,644	17,424	17,724
General operating expenses	89,613	69,971	73,051
Taxes, licenses and fees	70,569	70,395	69,939
Payroll items	152,844	145,410	183,451
Real estate	41,031	46,307	43,147
Decrease by adjustment in book value	5,942	1,613	7,424
Borrowed money repaid			
Interest paid on borrowed money	<u>15,942</u>	<u>15,988</u>	<u>14,680</u>
Total disbursements	<u><u>\$2,555,085</u></u>	<u><u>\$2,292,922</u></u>	<u><u>\$2,275,557</u></u>

ASSETS

	<u>Ledger</u> <u>Assets</u>	<u>Non-</u> <u>Ledger</u> <u>Assets</u>	<u>Assets</u> <u>Not</u> <u>Admitted</u>	<u>Net</u> <u>Admitted</u> <u>Assets</u>
Bonds	\$1,476,762			\$1,476,762
Common stocks	638,382	208,203		846,585
Cash in company's office	200			200
Cash on deposit	706,034	25,003		731,037
Real estate	524,261			524,261
Amount due from agents	75			75
Interest due and accrued	155	11,516		11,671
Assessments due		208,933	2,462	206,471
Equipment, furniture and supplies	2,747		827	1,920
Deferred income taxes		76,000		76,000
Totals	<u>\$3,348,616</u>	<u>\$529,655</u>	<u>\$3,289</u>	<u>\$3,874,982</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

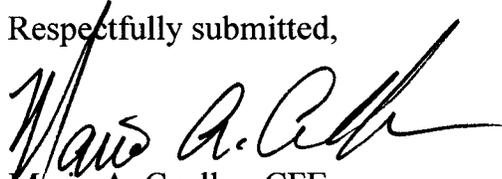
Net unpaid losses	\$101,100
Loss adjustment expenses unpaid	2,400
Fees or commissions payable	39,438
Other expenses due or accrued	101,994
Accrued pension expense	25,003
Taxes, licenses and fees	39,145
Ceded reinsurance balances payable	82,204
Assessments unearned	1,895,961
Unapplied cash	1,688
Advertising, auditing and legal	2,747
Utilities, janitorial and printing	748
Total liabilities	<u>\$2,292,430</u>
Excess of admitted assets over liabilities (surplus)	<u>1,582,552</u>
Totals	<u>\$3,874,982</u>

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, Jennifer K. Blizzard, CFE, Chris Collins, CFE and 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 a long horizontal stroke at the end.

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



**Fire Insurance Company
P. O. Box 106
Woodstock, VA 22664-0106**

Calvin F. Swartz – Chairman Of The Board

Donald L. Atwood – President

Gary D. Ramsey – Vice President

Mark K. Getz – VP of Operations & Treasurer

Randall S. Jones – Secretary & Claims Manager

STATE CORP COMMISSION
BUREAU OF INSURANCE

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July 14, 2014

Mr. David H. Smith
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond Va 23218

RE: Acknowledgement of Receipt of Report

Dear Mr. Smith:

Please be advised that we are in receipt of the Examination report of Shenandoah Mutual Fire Insurance Company as of December 31, 2013 and have no issues with any matter contained in the report.

Please supply us with 12 copies of the report for future use.

It was a pleasure working with the examiners during the course of the examination.

Yours truly,

Mark K. Getz
Vice-President of Operations & Treasurer