

**ASSOCIATION EXAMINATION REPORT
ON
SOUTHERN STATES INSURANCE EXCHANGE
Richmond, Virginia
as of
December 31, 2013**

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

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 Southern States Insurance Exchange 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 11th day of February, 2015

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 7, 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, a financial examination of the records and affairs of the

SOUTHERN STATES INSURANCE EXCHANGE

Richmond, Virginia

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

DESCRIPTION

The Exchange is a reciprocal insurer licensed pursuant to Chapter 12 of Title 38.2 of the Code of Virginia and was last examined by representatives from the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. The present examination, which was called and conducted under the auspices of the National Association of Insurance Commissioners, was conducted by Examiners from the Bureau representing the Southeastern Zone. This examination covers the period from January 1, 2011, through December 31, 2013.

HISTORY

The Exchange was organized in March 1953 under the provisions of Chapter 16 of Title 38.1 (currently Chapter 12 of Title 38.2) of the Code of Virginia for the purpose of permitting Southern States Cooperative, Inc. (Cooperative), and its subsidiary and affiliated corporations to exchange among themselves contracts of insurance through a duly authorized attorney-in-fact. To accomplish this, the Cooperative organized Southern States Underwriters, Inc. (name changed to Southern States Underwriters, LLC, hereinafter referred to as SSU) to serve as Attorney-in-Fact and advanced \$350,000 to the Exchange to enable it to begin operations.

At the organizational meeting, a subscriber's agreement was adopted which appointed SSU as Attorney-in-Fact for the Exchange. The agreement also set forth the

rights, privileges, and obligations of the subscriber as an underwriter and policyholder and the powers and duties of SSU. The agreement further provided that SSU, while acting in such capacity, has the power, on behalf of subscribers, to insure and accept reinsurance on property and insurable interest therein, and to issue contracts of insurance. The lines of insurance specified in this agreement include: fire, miscellaneous property, water damage, burglary and theft, glass, boiler and machinery, elevator, animal, collision, workers' compensation and employers' liability, fidelity and surety, credit, marine, and contingent and consequential losses.

After making application and filing the required declarations with the Bureau, a license was granted to the Exchange on April 8, 1953. Operations commenced on May 1, 1953.

By 1982, the Exchange had expanded its homogeneous subscriber base to include independent agricultural businesses that are referred to as "dealers". In 1991, the Exchange began to increase its dealers business. By 2013, approximately 170 of these businesses had become dealers.

On April 22, 1987, by resolution, SSU executed a Power of Attorney to appoint the Clerk of the State Corporation Commission and his successor in office as agent of the Exchange upon who may be served all lawful process against the Exchange.

On April 26, 1988, by resolution, several modifications were made to the Subscriber's Agreement and Power of Attorney. These modifications included entitling Class I subscribers to just one vote on all matters which the Class I subscribers are entitled to vote. This change to voting rights became effective July 1, 1988. Also modified were the procedures for the payment of equities to withdrawn subscribers and the calculation of the management fee.

On April 28, 2003, by resolution, the Subscriber's Agreement and Power of Attorney was amended to increase the management fee paid to SSU from 10% of direct earned premiums to 15% of direct earned premiums.

MANAGEMENT AND CONTROL

Supervision of the affairs of the Exchange is vested in an Advisory Committee of not less than 6, nor more than 15 persons who are elected by the subscribers at their annual meeting. No less than 3/4 of the members of the committee may be composed of Class I subscribers or representatives of the Class I subscribers, other than SSU or any person employed by, representing, or having a financial interest in SSU. The Class I subscribers consist exclusively of subscribers that are cooperative associations. All other subscribers are deemed Class II subscribers. The Subscriber's Agreement and Power of

Attorney, among other things, specifies the powers and duties of both the committee and SSU.

The Cooperative represents a majority of the subscribers and owns all of the outstanding stock of SSU, thereby giving the Cooperative apparent control over the Exchange.

At December 31, 2013, the Members of the Advisory Committee and its officers were as follows:

<u>Advisory Committee</u>	<u>Principal Business Affiliation</u>
Kevin M. Brown	President Southern States Underwriters, LLC Richmond, Virginia
William T. Didlake, Jr.	Controller and Vice President Southern States Cooperative Richmond, Virginia
Frederic Jezouit	Treasurer and Vice President Southern States Cooperative Richmond, Virginia
Robert H. Mauck, Jr.	President Scott Insurance Richmond, Virginia
Leslie T. Newton	Executive Vice President and Chief Financial Officer Southern States Cooperative Richmond, Virginia
Steve R. Smith	Vice President-Strategic Planning Southern States Cooperative Richmond, Virginia
Wayne D. Wayland	Manager Southern States Orange-Madison Cooperative, Inc. Madison, Virginia

Advisory Committee (continued) Principal Business Affiliation

Norman R. Wenger General Manager
 Rockingham Cooperative Farm Bureau
 Harrisonburg, Virginia

Samuel G. Williams Manager
 Southern States Bedford Cooperative, Inc.
 Bedford, Virginia

Officers

Leslie T. Newton Chairman
 Kevin M. Brown Secretary

The board of directors and officers of SSU were as follows at December 31, 2013:

Directors

Kevin M. Brown
 Leslie T. Newton

Officers

Kevin M. Brown President
 Denise L. Hustead Secretary and Treasurer
 Diane D. Sexton Assistant Treasurer

COMPENSATION OF ATTORNEY-IN-FACT

SSU is authorized to pay all expenses and disbursements of every kind and character incident to the Exchange's administration and the exchange of insurance contracts from the funds of the Exchange. However, SSU must use its own funds to pay all customary office and business expenses and all expenses incurred in connection with bonds and other legal requirements affecting the ability of SSU to serve as Attorney-in-Fact. SSU is also authorized to receive from the funds of the Exchange an annual management fee, to the extent and at such times expressly permitted by the Advisory Committee. Unless otherwise rescinded by mutual agreement of the Advisory Committee and SSU, the management fee shall be fixed at 15% of direct earned premiums, net of returned premiums, and is to be paid monthly. In April 2003, the Advisory Committee received approval from the Bureau to increase this fee from 10%. A final year-end adjustment, subject to the limits established by the Subscribers' Agreement, is to be made promptly after a final determination has been made of revenue

received and accrued for the calendar year. The management fee for 2011, 2012 and 2013 was \$2,688,997, \$2,914,125 and \$2,909,955, respectively.

Joint Sales and Marketing Agreement

On January 1, 2009, the Exchange amended its joint sales and marketing agreement with SSC Insurance Agency, LLC. (SSCIA), an affiliate of SSU. This agreement provides for SSCIA to assist the Exchange in marketing insurance products to certain of its existing and potential Class I subscribers located in the states of Virginia, North Carolina, Kentucky, West Virginia, Maryland, Delaware, Pennsylvania, Georgia, Alabama, South Carolina and Tennessee. This agreement further provides that, in no event, shall SSCIA have authority to bind insurance coverage or issue insurance policies on behalf of the Exchange. As compensation for SSCIA's assistance in developing new business as provided by the agreement, the Exchange will pay commissions to SSCIA as specified by the agreement. The Exchange paid commissions of \$449,329, \$496,235 and \$539,923 to SSCIA during 2011, 2012 and 2013, respectively.

FIDELITY BOND

SSU was a named insured on two policies that provided fidelity coverage at December 31, 2013. The first policy was issued by the Exchange and has a \$75,000 policy limit with a \$5,000 deductible. The second policy, issued by a commercial insurer, has a \$5,000,000 limit of liability and is subject to a \$75,000 deductible.

TERRITORY AND PLAN OF OPERATION

The Exchange was authorized to operate in the following states at December 31, 2013, as evidenced by licenses in its possession:

Alabama	Pennsylvania
Delaware	South Carolina
Georgia	Tennessee
Kentucky	Virginia
Maryland	West Virginia
North Carolina	

In Virginia, the Exchange was licensed to write the following insurance coverages at December 31, 2013:

Fire	Water Damage
Miscellaneous Property and Casualty	Burglary and Theft
Commercial Multiple Peril	Liability Other Than Auto
Automobile Physical Damage	Automobile Liability
Ocean Marine	Fidelity
Inland Marine	Surety
Workers' Compensation and Employers' Liability	

Organized as a reciprocal or interinsurance exchange, the Exchange provides policy contracts to its subscribers through an Attorney-in-Fact. Its subscribers consist of the Cooperative; 54 independent local farm cooperatives operated by the Cooperative under management agreements; 11 independent local cooperatives not operated by management agreement; and approximately 170 other agribusinesses.

The Subscriber's Agreement and Power of Attorney has a contingent liability provision that is not joint, but several. The liability is limited to not more than one additional annual premium on any policy during the calendar year.

Effective July 1, 1989, the Exchange began writing commercial automobile and comprehensive general liability insurance for the Cooperative and its managed affiliates. Liability coverages are now offered to all subscribers.

In 1991, the Exchange began offering all coverages to additional agribusinesses. In order to qualify for coverage, each individual prospective insured must meet certain underwriting criteria.

Accounts are maintained for each subscriber which includes accumulated figures for premiums earned, dividends paid, and subscriber savings accounts (equity in the surplus of the Exchange). After providing for operating expenses, which includes a management fee to the Attorney-in-Fact, amounts are occasionally set aside as a reserve for contingencies. Upon authorization of the Advisory Committee, the remaining savings are paid to each subscriber as dividends or applied as credits to their individual subscriber savings accounts. Distributions of prior years' subscriber savings were made to subscribers in 2011, 2012 and 2013. Such distributions, combined with dividends paid to policyholders, are included in the Growth of the Exchange section of this report. Additionally, subscribers receive their remaining savings upon withdrawal from the Exchange, generally by March 15 of the following year after their withdrawal as a subscriber.

GROWTH OF THE EXCHANGE

GROWTH OF THE EXCHANGE

The following data, obtained from annual statements filed with the Bureau and from examination reports, indicates the growth of the Exchange for the ten-year period ending December 31, 2013:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Subscriber Savings Accounts</u>	<u>Unassigned Funds</u>
2004	\$31,517,847	\$16,976,847	\$10,501,801	\$4,039,199
2005	33,923,250	19,382,250	10,309,566	4,231,434
2006	34,403,439	19,862,439	10,674,298	3,866,702
2007	36,321,076	20,821,077	12,664,358	2,835,641
2008	33,036,908	19,608,075	13,280,794	148,039
2009	37,438,376	21,438,376	13,646,429	2,353,571
2010	39,662,477	23,412,477	12,586,946	3,663,054
2011	41,367,702	24,867,702	12,644,680	3,855,320
2012	43,377,291	26,627,291	11,646,963	5,103,037
2013	42,410,562	25,410,562	10,632,490	6,367,510

	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain</u>
2004	\$9,619,540	\$6,629,452	\$2,982,170	\$7,918
2005	10,788,092	7,155,820	3,227,960	404,312
2006	11,366,444	6,624,636	3,369,808	1,372,000
2007	11,509,696	7,909,669	3,544,427	55,600
2008	12,064,822	8,024,201	3,432,792	607,829
2009	12,788,820	7,093,703	3,306,981	2,388,136
2010	12,423,429	7,533,301	3,013,431	1,876,697
2011	13,099,114	8,503,825	3,006,419	1,588,870
2012	13,989,919	8,794,427	3,174,266	2,021,226
2013	13,707,265	8,740,333	3,300,827	1,666,105

	<u>Management Fees Incurred</u>	<u>Equities and Dividends Paid to Subscribers</u>
2004	\$1,881,886	\$2,500,015
2005	2,035,688	922,822
2006	2,080,418	1,785,995
2007	2,199,937	3,405,767
2008	2,316,521	615,782
2009	2,470,617	0
2010	2,463,830	2,377,372
2011	2,688,997	3,488,830
2012	2,914,125	2,640,984
2013	2,909,955	4,181,834

REINSURANCE

At December 31, 2013, the Exchange had the following reinsurance coverage in force:

<u>Type of Agreement</u>	<u>Types of Policies Covered</u>	<u>Limit of Reinsurance</u>
Combined Excess of Loss	Property	\$700,000 excess of \$300,000 per risk, subject to \$2,100,000 limit any one loss occurrence
	Workers' Compensation, and Employers' Liability	\$700,000 excess of \$300,000 each loss occurrence
	Automobile Liability, Commercial General Liability, and Garage Liability	\$700,000 excess of \$300,000 each loss occurrence
		In the event of a combined loss recoverable of all of the above, \$600,000 each occurrence excess of \$300,000 each loss occurrence
First Property Per Risk Excess of Loss	Property	\$4,000,000 each and every loss, each and every risk excess of \$1,000,000 each and every loss, each and every risk, subject to a limit of \$12,000,000 any one loss occurrence
Second Property Per Risk Excess of Loss	Property	\$5,000,000 each and every loss, each and every risk excess of \$5,000,000 each and every loss, each and every risk, subject to a limit of \$15,000,000 any one loss occurrence

<u>Type of Agreement</u>	<u>Types of Policies Covered</u>	<u>Limit of Reinsurance</u>
Casualty Excess of Loss	Workers' Compensation and Employers' Liability, Automobile Liability, Commercial General Liability, and Garage Liability	\$4,000,000 each occurrence excess of \$1,000,000 each loss occurrence
Workers' Compensation Excess of Loss	Workers' Compensation and Employers' Liability	\$9,000,000 each loss occurrence excess of \$1,000,000 each loss occurrence; maximum policy limit for employer's liability is \$27,000,000
First Property Catastrophe Excess of Loss	Property	\$500,000 first loss occurrence subject to limit of \$500,000; \$375,000 each subsequent occurrence subject to a limit of \$625,000 any one occurrence; \$1,125,000 all loss occurrences

<u>Type of Agreement</u>	<u>Types of Policies Covered</u>	<u>Limit of Reinsurance</u>
Second Property Catastrophe Excess of Loss	Property	\$2,000,000 each and every loss occurrence excess of \$1,000,000 each and every loss occurrence; \$4,000,000 all loss occurrences
Third Property Catastrophe Excess of Loss	Property	\$2,000,000 each and every loss occurrence excess of \$3,000,000 each and every loss occurrence; \$4,000,000 all loss occurrences
Umbrella Facultative Excess of Loss	Commercial Liability	90% up to \$1,000,000 of ultimate net loss, each loss occurrence, each policy; 100% of \$4,000,000 excess of \$1,000,000 each loss occurrence, each policy
Umbrella Excess of Loss Facultative	Commercial Liability	\$5,000,000 each loss occurrence excess of \$5,000,000 each loss occurrence, each policy

The Exchange also had an equipment breakdown treaty reinsurance agreement to cover losses in excess of stated amounts for policies issued under the Exchange's equipment breakdown coverages.

The reinsurance agreements contain insolvency and guarantee of intermediary credits clauses.

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.

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 Exchange's financial condition and identify prospective risks of the Exchange, assess corporate governance, identify and assess inherent risks within the Exchange 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 to provide an actuarial report as to the reasonableness of the Exchange's loss and loss adjustment expense reserves as of December 31, 2013.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Exchange at December 31, 2013, a statement of income for the year ending December 31, 2013, a reconciliation of surplus for the period under review and a statement of cash flow for the year ending December 31, 2013. 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	\$22,328,155		\$22,328,155
Common stocks	9,088,554		9,088,554
Cash and short-term investments	2,379,731		2,379,731
Investment income due and accrued	192,752		192,752
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	86,824	3,496	83,328
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,953,075		5,953,075
Amounts recoverable from reinsurers	1,411,360		1,411,360
Net deferred tax asset	1,283,553	378,223	905,330
Guaranty funds receivable or on deposit	42,011		42,011
Aggregate write-ins for other than invested assets	496,360	470,094	26,266
Totals	<u>\$43,262,375</u>	<u>\$851,813</u>	<u>\$42,410,562</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$12,625,810
Loss adjustment expenses		1,337,656
Commissions payable, contingent commissions and other similar charges		45,476
Other expenses		314,031
Taxes, licenses and fees		82,750
Unearned premiums		6,642,398
Advance premium		1,079
Dividends declared and unpaid		999,601
Ceded reinsurance premiums payable		43,795
Payable for securities		179,032
Aggregate write-ins for liabilities		<u>3,138,934</u>
 Total liabilities		 \$25,410,562
 Aggregate write-ins for other than special surplus funds:		
Subscriber saving accounts	\$10,632,490	
Unassigned funds (surplus)	<u>6,367,510</u>	
 Surplus as regards policyholders		 <u>17,000,000</u>
 Totals		 <u><u>\$42,410,562</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$13,707,265</u>
Deductions:	
Losses incurred	\$6,597,193
Loss adjustment expenses incurred	2,143,140
Other underwriting expenses incurred	<u>3,300,827</u>
Total underwriting deductions	<u>\$12,041,160</u>
Net underwriting gain	<u>\$1,666,105</u>

INVESTMENT INCOME

Net investment income earned	\$648,560
Net realized capital gains	<u>601,234</u>
Net investment gain	<u>\$1,249,794</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$24,172</u>
Total other income	<u>\$24,172</u>
Net income before dividends and federal income taxes	\$2,940,071
Dividends to policyholders	<u>1,000,000</u>
Net income after dividends and before federal income taxes	\$1,940,071
Federal income taxes incurred	<u>(309,725)</u>
Net income	<u><u>\$2,249,796</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Surplus as regards policyholders, December 31, previous year	<u>\$16,250,000</u>	<u>\$16,500,000</u>	<u>\$16,750,000</u>
Net income	\$1,900,947	\$2,295,923	\$2,249,796
Change in net unrealized capital gains or (losses)	(113,684)	1,023,785	1,054,019
Change in net deferred income tax	222,115	(26,796)	(11,825)
Change in nonadmitted assets	(166,165)	728	(26,874)
Change in provision for reinsurance Aggregate write-ins for gains and (losses) in surplus	<u>(1,593,213)</u>	<u>(3,043,640)</u>	<u>(3,015,116)</u>
Change in surplus as regards policyholders for the year	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$250,000</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$16,500,000</u></u>	<u><u>\$16,750,000</u></u>	<u><u>\$17,000,000</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$13,558,127
Net investment income	891,863
Miscellaneous income	24,326
Total	<u>\$14,474,316</u>
Benefits and loss related payments	\$8,280,935
Commissions, expenses paid and aggregate write-ins for deductions	5,382,364
Dividends paid to policyholders	1,000,399
Total	<u>\$14,663,698</u>
Net cash from operations	<u>(\$189,382)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$27,784,112
Stocks	5,440,817
Miscellaneous proceeds	179,032
Total investment proceeds	<u>\$33,403,961</u>
Cost of investments acquired (long-term only):	
Bonds	\$24,892,837
Stocks	7,942,541
Total investments acquired	<u>\$32,835,378</u>
Net cash from investments	<u>\$568,583</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>(\$3,076,517)</u>
Net cash from financing and miscellaneous sources	<u>(\$3,076,517)</u>
Net change in cash and short-term investments	<u><u>(\$2,697,316)</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$5,077,047
End of year	2,379,731
Net change in cash and short-term investments	<u><u>(\$2,697,316)</u></u>

CONCLUSION

The courteous cooperation extended by the Attorney-in-Fact's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Allison L. Bohrer, Jennifer K. Crawley, CFE, 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
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC



Southern States Insurance Exchange

Southern States Underwriters, LLC, Attorney-in-Fact
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STATE CORP. COMMISSION
2015 JAN 09 AM 9:07
BUREAU OF INSURANCE

January 26, 2015

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

RE: Southern States Insurance Exchange
Examination Report as of December 31, 2013

Dear Mr. Smith,

This letter is to provide you with written acknowledgement of receipt of two draft copies of the Examination Report as of December 31, 2013 for Southern States Insurance Exchange. We have reviewed the report and have no issues with any matter contained in the report.

In order to meet the Exchange's present and future needs, please provide us with twenty copies of the final report.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin M. Brown".

Kevin M. Brown
President