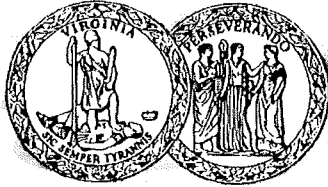


**EXAMINATION REPORT**  
**of the**  
**HIGHLAND MUTUAL FIRE**  
**INSURANCE COMPANY**  
**McDowell, Virginia**  
**as of**  
**December 31, 2018**

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

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Highland Mutual Fire Insurance Company as of December 31, 2018, 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 17<sup>th</sup> day of April 2020

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Scott A. White  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Scope of the Examination ..... 1

History ..... 2

Management and Control ..... 2

Territory and Plan of Operations..... 3

Reinsurance ..... 4

Growth of the Company ..... 5

Financial Statements ..... 6

Recommendation for Corrective Action..... 10

Acknowledgments.....11

Richmond, Virginia  
January 17, 2020

Honorable Scott A. White  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

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

**HIGHLAND MUTUAL FIRE INSURANCE COMPANY**

**McDowell, Virginia**

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

**SCOPE OF THE EXAMINATION**

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2015. The current examination covers the three year period from January 1, 2016 through December 31, 2018.

The 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, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination includes report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### HISTORY

The Company is a mutual assessment property and casualty insurer licensed under Chapter 25 of Title 38.2 of the Code of Virginia.

The Company was chartered on September 2, 1916. According to the charter, the purpose for which it was organized is as follows:

The insurance of dwelling houses, barns and their contents, growing crops, and other property not more hazardous, and buildings not more hazardous in towns and villages, detached at such distances as the bylaws of the corporation may prescribe, and their contents and livestock owned on the premises, and while in barns and stables insured, upon the mutual assessment plan without distribution of profits among its members, and upon the terms and conditions provided in the bylaws, against loss or damage caused by fire, storm or lightning.

### MANAGEMENT AND CONTROL

The management of the Company is vested in a Board of Directors ("Board") composed of at least five members elected annually by the membership. The bylaws provide for the Board to elect a President, a Vice President and a Secretary-Treasurer from its membership for a term of one year.

It is the Board's responsibility to audit claims, to approve or reject applications for insurance, to adopt forms of policy and applications and to serve as agents. When in the interest of the Company, the Board may levy an assessment based on an estimate of the amount that will be necessary to pay all losses, damages and expenses for the current year and to make up any deficiencies in funds for the preceding year. If the Board deems necessary, an additional assessment may be included for a safety fund to serve as a reserve for claims. However, no more than one such general assessment may be made in any six-month period. The directors and officers of the Company at December 31, 2018 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Richard Byrd	Retired Hot Springs, Virginia
Roy Gutshall	Real Estate Monterey, Virginia
Angelia Lindsay	Contract Flagger Hot Springs, Virginia
Jesse Swecker	Farmer Monterey, Virginia
Nancy M. Vance	Retired McDowell, VA
Joseph T. Neil	Farmer McDowell, VA
Ronald White	Retired Mustoe, VA
 <u>Officers</u>	
Nancy M. Vance	President
Ronald White	Vice President
Jessie J. Swecker	Secretary-Treasurer

### TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and operates in Highland and Bath Counties as provided by its charter.

Applications for fire and lightning insurance are solicited by the Board who appraise the property to be insured. Upon approval of the Board, a continuous policy is issued and the Company retains a maximum of \$35,000 on each risk. Applicants are required to pay an initiation fee of \$15 per policy, plus prevailing premiums for new business. Applicants are then subject to all future assessments levied against members. Assessments are levied yearly or in advance if the Board deems that additional funds are necessary for operation. If, however, members should withdraw from the Company by giving 30 days notice, a refund of any advance assessment is made. Members are also entitled to a refund of the unearned portion of an assessment when a policy is canceled before its expiration date.

Property insured by the Company is classified into three groups:

- Class 1: Brick, stone, or wooden buildings, with metal, slate, slate-surfaced asphalt or asbestos roofs  
 Class 2: Barns, other outbuildings and unoccupied dwellings  
 Class 3: Mobile homes

Losses are adjusted by the directors and the payment of all claims is approved by the Board. Directors receive the following compensation for their services: \$75 for attending Board meetings and \$30 per policy (\$15 paid by the policyholder and \$15 paid by the Company) for new or revised policies written.

### REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2018:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company Retention</u>	<u>Reinsurers' Limit</u>
Property Facultative Pro Rata	Property	\$25,000	A maximum cession amount of \$300,000 subject to a minimum retention of \$7,500 as respects any one risk
Aggregate Excess of Loss	Property	100% of amount equal to 85% of net premiums and assessments earned.	100% of 200% of net premiums and assessments earned

All reinsurance has been placed through Guy Carpenter & Co., LLC, a reinsurance intermediary. Both agreements contain an insolvency clause.

### GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and examination reports, reflect the growth of the Company for the ten-year period ending December 31, 2018:

<u>Year</u>	<u>Admitted</u>			<u>Number of Policies</u>	<u>Insurance In Force</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>		
2009	\$413,958	\$25,125	\$388,833	488	\$29,412,035
2010	394,140	4,108	390,032	479	28,828,235
2011	397,056	5,566	391,490	457	28,848,210
2012	388,565	1,319	387,246	448	28,064,210
2013	406,127	3,498	402,629	446	28,735,130
2014	422,572	1,085	421,487	440	29,501,160
2015	442,072	1,414	440,658	433	30,111,360
2016	448,407	1,299	447,108	440	31,317,110
2017	513,646	52,976	460,670	428	30,739,970
2018	534,219	57,021	477,198	424	31,057,150

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In Force</u>
2009	\$34,696	\$7,650	\$25,000	488	\$29,412,035
2010	38,697	5,507	49,620	479	28,828,235
2011	31,532	3,343	4,025	457	28,848,210
2012	33,994	2,155	26,157	448	28,064,210
2013	33,891	1,604	0	446	28,735,130
2014	33,362	1,461	0	440	29,501,160
2015	33,674	1,450	310	433	30,111,360
2016	35,644	1,486	10,000	440	31,317,110
2017	34,468	1,443	0	428	30,739,970
2018	33,757	5,311	62	424	31,057,150



**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, 2018.

**INCOME FOR THE PERIOD UNDER REVIEW**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net assessments received	\$35,644	\$34,468	\$33,757
Interest on cash deposits	1,486	1,443	5,311
Reconciling amounts			
Social security	643	643	643
Federal withholding	840	840	840
Increase by adjustment in book value		51,717	4,036
Other income		235	
	<u>          </u>	<u>          </u>	<u>          </u>
Total income	\$38,613	\$89,346	\$44,587
Deduct total disbursements for the year	<u>32,290</u>	<u>24,250</u>	<u>24,325</u>
Net income	\$6,323	\$65,096	\$20,262
Add ledger assets December 31, previous year	<u>441,888</u>	<u>448,211</u>	<u>513,307</u>
Ledger assets December 31, current year	<u><u>\$448,211</u></u>	<u><u>\$513,307</u></u>	<u><u>\$533,569</u></u>

**DISBURSEMENTS FOR THE PERIOD UNDER REVIEW**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net losses paid	\$10,000	\$0	\$62
Net commission and brokerage	840	1,050	1,320
Gross salaries	8,400	8,400	8,400
Directors' fees	2,250	2,100	1,875
Travel and travel items	702	719	556
Boards, bureaus and associations	400	1,050	1,750
Legal and auditing, not in connection with losses	636	275	315
Furniture, fixtures and equipment			
Rent, office and equipment maintenance			
Advertising	2,316	1,016	825
Printing and stationery	245	1,335	1,036
Postage, telephone and express	974	686	951
Insurance and fidelity bonds		2,124	1,705
Data processing			
Charitable contributions	1,425	1,525	1,575
Other expenses	581	432	495
Taxes, licenses and fees	1,383	1,325	1,284
Payroll items	<u>2,138</u>	<u>2,213</u>	<u>2,176</u>
Total disbursements	<u><u>\$32,290</u></u>	<u><u>\$24,250</u></u>	<u><u>\$24,325</u></u>

**ASSETS**

	Ledger Assets	Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Cash on deposit	\$533,569			\$533,569
Interest due or accrued		650		650
Totals	<u>\$533,569</u>	<u>\$650</u>	<u>\$0</u>	<u>\$534,219</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Net unpaid losses	\$0
Taxes, licenses and fees	1,267
Assessments unearned	<u>55,754</u>
Total liabilities	\$57,021
Excess of admitted assets over liabilities (surplus)	<u>477,198</u>
Totals	<u>\$534,219</u>

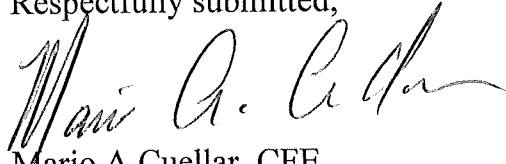
**RECOMMENDATION FOR CORRECTIVE ACTION**

1. The Company did not obtain a signed conflict of interest statement from officers and directors elected during the period under review. The Conflict of Interest Statements identify any potential transactions that may not be in compliance with sections 38.2-210 to 38.2-213 of the Code of Virginia. The Company should ensure that conflict of interest statements are properly obtained for each officer and director on a regular basis.

**ACKNOWLEDGMENTS**

The courteous cooperation extended to the Examiners by the Company is hereby acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is written in a cursive style with a long horizontal flourish at the end.

Mario A Cuellar, CFE  
Senior Insurance Examiner



# Highland Mutual Fire Insurance Company

Protecting properties in Bath and Highland since 1916.

[highlandmutual.blogspot.com](http://highlandmutual.blogspot.com)

8171 Mill Gap Road, Monterey, VA 24465

(540) 499-2700

[highlandmutual@yahoo.com](mailto:highlandmutual@yahoo.com)

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7 April 2020

David H. Smith  
Chief Examiner  
Virginia Bureau of Insurance

Dear Mr. Smith,

This letter is in response to the Examination Report for Highland Mutual Fire Insurance Company, done by Mario A. Cuellar.

The information in the report accurately reflects our company and its operations for the examination period.

In regard to the Recommendation for Corrective Action on page 10, Conflict of Interest Statements will be signed in June of each year at the quarterly meeting of the Board of Directors, as noted in the minutes for the March 4, 2020 meeting (see attached).

Sincerely,

Nancy M. Vance, President

## **ATTACHMENT**

The Company's response to the Examiner's recommendations in the December 31, 2018 Examination Report included a supplemental attachment. The attachment was not incorporated as a part of this Examination Report; however, the attachment was considered during the Examiners' review of the Company's response and has been incorporated into the examination workpapers.