

**EXAMINATION REPORT
of the
HIGHLAND MUTUAL FIRE
INSURANCE COMPANY
Monterey, Virginia
as of
December 31, 2022**

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

COMMONWEALTH OF VIRGINIA



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

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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 Insurance Company as of December 31, 2022, 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 20th day of June 2023

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
May 23, 2023

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

Monterey, 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, 2018. The current examination covers the four year period from January 1, 2019 through December 31, 2022.

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 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, 2022 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Roy M. Gutshall	Real Estate Monterey, Virginia
Angelia Lindsay	Housekeeper Hot Springs, Virginia
Joseph T. Neil	Farmer McDowell, VA
Jesse J. Swecker	Farmer Monterey, Virginia
Nancy C. Sweitzer	Communications Officer Hot Springs, Virginia
Nancy M. Vance	Retired McDowell, VA
Ronald J. White	Retired Mustoe, VA

Officers

Nancy M. Vance	President
Roy M. Gutshall	Vice President
Nancy C. Sweitzer	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, 2022:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company Retention</u>	<u>Reinsurers' Limit</u>
Property Facultative Pro Rata	Property	\$35,000	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, 2022:

<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>		
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
2019	532,256	61,941	470,315	414	29,813,090
2020	559,955	71,098	488,857	407	29,825,025
2021	567,402	68,939	498,463	400	29,239,665
2022	558,000	68,185	489,815	392	28,838,915

<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>
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
2019	35,242	6,811	26,656	414	29,813,090
2020	36,208	4,006	0	407	29,825,025
2021	30,598	1,310	935	400	29,239,665
2022	31,272	5,641	25,000	392	28,838,915

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, 2022.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Net assessments received	\$35,242	\$36,208	\$30,598	\$31,272
Interest on cash deposits	6,811	4,006	1,310	5,641
Reconciling amounts				
Social security	643	642	643	643
Federal withholding	840	840	840	840
Increase by adjustment in book value	4,924	9,178	(2,156)	(738)
Other income				
Total income	<u>\$48,460</u>	<u>\$50,874</u>	<u>\$31,235</u>	<u>\$37,658</u>
Deduct total disbursements for the year	<u>50,762</u>	<u>22,647</u>	<u>23,479</u>	<u>47,644</u>
Net income	(\$2,302)	\$28,227	\$7,756	(\$9,986)
Add ledger assets December 31, previous year	<u>533,568</u>	<u>531,266</u>	<u>559,493</u>	<u>567,249</u>
Ledger assets December 31, current year	<u><u>\$531,266</u></u>	<u><u>\$559,493</u></u>	<u><u>\$567,249</u></u>	<u><u>\$557,263</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Net losses paid	\$26,656		\$935	\$25,000
Net commission and brokerage	720	1,050	1,020	420
Gross salaries	8,400	8,400	8,400	8,400
Directors' fees	1,875	1,800	2,025	1,650
Travel and travel items	639	632	671	1,182
Boards, bureaus and associations	1,797	1,894	1,916	1,909
Legal and auditing, not in connection with losses	315	315	315	315
Furniture, fixtures and equipment	1,072		25	
Advertising	957	777	983	761
Printing and stationery	1,051	913	1,089	795
Postage, telephone and express	599	665	628	1,323
Insurance and fidelity bonds	1,738	2,275	1,822	1,901
Charitable contributions	1,475	75	75	200
Other expenses		328	132	282
Taxes, licenses and fees	1,292	1,347	1,267	1,330
Payroll items	2,176	2,176	2,176	2,176
Total disbursements	<u>\$50,762</u>	<u>\$22,647</u>	<u>\$23,479</u>	<u>\$47,644</u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$557,263			\$557,263
Interest due or accrued		737		737
Totals	<u>\$557,263</u>	<u>\$737</u>	<u>\$0</u>	<u>\$558,000</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Net unpaid losses	\$0
Taxes, licenses and fees	1,225
Assessments unearned	<u>66,960</u>
Total liabilities	\$68,185
Excess of admitted assets over liabilities (surplus)	<u>489,815</u>
Totals	<u>\$558,000</u>

ACKNOWLEDGMENTS

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

In addition to the undersigned, Benjamin B. MacKercher, CFE, and Danielle T. Ellis, of the Bureau participated in the examination.

Respectfully submitted,

Mario A Cuellar

Mario A. Cuellar, CFE
Senior Insurance Examiner



Highland Mutual Fire Insurance Company

Protecting properties in Bath and Highland since 1916.

highlandmutual.blogspot.com

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(540) 499-2700

highlandmutual@yahoo.com

16 June 2023

Mr. David Smith, Chief Examiner
Virginia Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith,

Highland Mutual Fire Insurance Company hereby acknowledges receipt of the Examination Report as of December 31, 2022. The company does not take issue with the contents of this report.

In regard to the number of copies of the report needed for our records, three (3) copies will be sufficient.

Sincerely,

Nancy M. Vance
President