

EXAMINATION REPORT
on
LOUDOUN MUTUAL INSURANCE COMPANY
WATERFORD, VIRGINIA
as of
DECEMBER 31, 2018

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF VIRGINIA

COMMONWEALTH OF VIRGINIA



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

**P.O. BOX 1157
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RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
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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 Loudoun Mutual 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 1st day of July 2019

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

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 10, 2019

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, we have performed an examination of the financial condition, records and affairs of

LOUDOUN MUTUAL INSURANCE COMPANY
Waterford, Virginia

hereinafter referred to as the Company. 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 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. The Company was chartered by an Act of the General Assembly of Virginia on March 12, 1849. The Company's business was originally limited to fire, lightning and extended coverage until it began issuing homeowners coverage subsequent to an amendment to its charter on November 13, 1961. According to its charter, the Company shall engage in and transact fire insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, issue, engage in and transact miscellaneous property insurance, water damage insurance, burglary and theft insurance, glass insurance, personal injury liability insurance, property damage liability insurance, marine insurance and contingent and consequential losses insurance.

MANAGEMENT AND CONTROL

The articles of incorporation provide that the business of the Company shall be managed by a board of not more than thirteen directors divided into three classes. Two classes shall consist of not more than four directors and one class of not more than five. Directors shall be elected to three year terms by the members at the annual meeting. Only one class of directors shall be up for election at each annual meeting. Vacancies are filled by the board with such directors serving until the end of the unexpired term. Only members of the Company may be elected to the board. No person who has reached the age of 75 years shall be elected a director. Any director who reaches age 75 shall immediately resign as a Director.

The bylaws stipulate that the Company shall have a chairman of the board who shall be elected at the annual meetings and who shall preside over the board and the executive committee. There shall be a vice chairman of the board who shall be elected at the annual meeting and who shall carry out the duties and functions of the chairman in his or her absence. The officers of the Company shall be elected by the board at each annual board meeting. The officers shall be a president, a secretary, a treasurer and such other officers as the board of directors may deem necessary. The president shall be a member of the board of directors. The treasurer and secretary may or may not be members of the board. Directors, officers and committees of the Company at December 31, 2018, were as follows:

Directors**Principal Occupation**

Donald A. Butler

Owner
Virginia Property Group, Inc.
Winchester, Virginia

C. William Orndoff, Jr.

Treasurer
Frederick County Virginia
Clearbrook, Virginia

Mary M. Finnell

Retired Adjunct Professor/Lord Fairfax
Community College
Retired Co-Manager/Edward Jones Brokerage
Charlottesville, Virginia

M. Byrd Inskeep

Partner
Battle Park Farms
Culpepper, Virginia

Marilyn M. Adams

Branch Manager
Farm Credit of Virginia
Purcellville, Virginia

Brian S. Montgomery

President
Warrenton Foreign Car, Inc.
Warrenton, Virginia

Richard C. Shickle

Retired VP Administration and Finance
Shenandoah University
Winchester, Virginia

Christopher G. Shipe

President
Loudoun Mutual Insurance Company
Waterford, Virginia

Robert W. Smalley, Jr.

President
Smalley Packaging Co., Inc.
Berryville, Virginia

John R. Riley, Jr.

Retired – Administrator Frederick County, VA
Stephenson, Virginia

Officers

Richard C. Shickle	Chairman of the Board
Robert W. Smalley, Jr.	Vice Chairman of the Board
Christopher G. Shipe	President
Dorothea C. Rohde	Corporate Secretary
Kimberly A. Fry	Vice President and Treasurer
Timothy J. Koppenhaver	Executive Vice President and Underwriting Manager
J. David King	Senior Vice President and Marketing Manager
Todd E. Robertson	Vice President and Chief Information Officer

Executive Committee

Donald A. Butler	Richard C. Shickle, Chairman
Christopher G. Shipe	
Mary M. Finnell	

Investment Committee

C. William Orndoff, Jr., Chairman	Kimberly A. Fry
Mary M. Finnell	Richard C. Shickle
Christopher G. Shipe	Robert W. Smalley, Jr.

Audit Committee

Donald A Butler, Chairman	Marilyn M. Adams
M. Byrd Inskeep	C. William Orndoff
Richard C. Shickle	

HR/Compensation Committee

Marilyn M. Adams, Chairwoman	Donald A. Butler
M. Byrd Inskeep	Richard C. Shickle
Brian S. Montgomery	John R. Riley, Jr.

Technology Committee

Brian S. Montgomery, Chairman	Richard C. Shickle
Marilyn M. Adams	John R. Riley, Jr.
Todd E. Robertson	Christopher G. Shipe

Reinsurance Committee

Robert W. Smalley, Jr., Chairman
 Mary M. Finnell
 Richard C. Shickle

Kimberly A. Fry
 Christopher G. Shipe
 John R. Riley, Jr.

Nominating and Governance Committee

Richard C. Shickle, Chairman
 Brian S. Montgomery
 M. Byrd Inskeep

Robert W. Smalley, Jr.
 C. William Orndoff, Jr.

Building Committee

Richard C. Shickle, Chairman
 Mary M. Finnell
 Robert W. Smalley, Jr.

Donald A. Butler
 John R. Riley, Jr.
 Christopher G. Shipe

TERRITORY AND PLAN OF OPERATION

The Company is licensed to operate as a mutual assessment property and casualty insurer throughout the Commonwealth of Virginia.

Policies are marketed through 131 independent agencies with 161 locations throughout Virginia which accept applications for fire insurance with optional standard coverages, homeowners insurance, farmowners, or small commercial lines. The agent inspects the property and applies rates from a schedule provided by the Company. Final approval and authority for all policy issues rests with the underwriting staff. Agents have the authority to pay claims up to \$2,500, however, the adjudication of all claims is done by the home office and final approval rests with the claims department.

REINSURANCE

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

Ceded:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss First Excess Cover	Property	\$400,000	\$600,000 per risk; liability of reinsurer shall not exceed a total payment of net loss and adjustment expense of \$1,800,000 per occurrence
Excess of Loss Second Excess Cover	Property	\$1,000,000	\$3,000,000 per risk; liability of reinsurer shall not exceed \$3,000,000 with respect to all net loss and adjustment expenses per occurrence
Excess of Loss First Excess Cover	Liability	\$200,000	\$800,000 per occurrence
Excess of Loss Second Excess Cover	Liability	\$1,000,000	\$1,000,000 per occurrence, subject to a limit of liability to the reinsurer of \$3,000,000 each loss occurrence
Excess of Loss	Property (Facultative)	\$0	First dollar coverage on a pro rata basis, subject to a maximum session of \$3,000,000 any risk. Additional \$2,000,000 of coverage is available on a special acceptance basis

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss First Excess Cover	Property (Catastrophe)	\$2,500,000	\$2,500,000 of ultimate net loss in excess of company retention of \$2,500,000 any one loss occurrence
Excess of Loss Second Excess Cover	Property (Catastrophe)	\$5,000,000	\$5,000,000 of ultimate net loss in excess of company retention of \$5,000,000 any one loss occurrence
Excess of Loss Third Excess Cover	Property (Catastrophe)	\$10,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$10,000,000 any one loss occurrence
Fourth Property Catastrophe Excess	Property (Catastrophe)	\$20,000,000	\$45,000,000 of ultimate net loss in excess of company retention of \$20,000,000 any one loss occurrence
Fifth Property Catastrophe Excess	Property (Catastrophe)	\$65,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$65,000,000 any one loss occurrence
Aggregate Excess of Loss	Property	Property Losses up to 70% of net earned premium	\$25,000,000 of property losses in excess of 70% of net earned premium
Quota Share and Excess of Loss (Umbrella Facultative)	Liability	5% of first \$1,000,000 each loss occurrence	95% of first \$1,000,000 each loss occurrence and up to 100% of the next \$4,000,000 each loss occurrence

The Company also offers optional identity theft coverage on all its homeowners, mobile homeowners, and farmowners policies through The Hartford Steam Boiler Inspection and Insurance Company (Hartford). The Company cedes 100% of the premium and 100% of the liability under the identity theft coverage to Hartford.

In addition, the Company offers Equipment Breakdown Coverage on farmowners and homeowners through Hartford. The Company cedes 100% of the premium and 100% of all losses under the equipment breakdown program to Hartford.

All reinsurance agreements contain an insolvency clause.

Assumed:

The Company assumes a small amount of reinsurance from the Regional Reciprocal Catastrophe Pool (RRCP), a pool of reinsurers, all who are a party to this agreement and all are licensed or qualified in Virginia.

The Company assumes a small amount of reinsurance from the National Association of Mutual Insurance Companies (NAMIC) as part of a retrocessional pool. The Company's participation allows it to have access to NAMIC's directors and officers and professional liability coverage.

GROWTH OF THE COMPANY

The following data, taken from annual statements filed with the Bureau of Insurance and the financial statements contained in examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2018:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2009	49,333,625	20,554,115	28,779,510
2010	50,638,214	19,604,411	31,033,803
2011	51,977,708	20,033,711	31,943,997
2012	55,438,126	22,476,146	32,961,980
2013	64,989,917	26,197,928	38,791,989
2014	73,999,821	30,916,331	43,083,490
2015	79,807,006	34,492,842	45,314,164
2016	86,742,136	39,585,240	47,156,896
2017	95,357,426	45,314,901	50,042,525
2018	94,133,832	47,686,087	46,447,745

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss</u>		<u>Other</u>	<u>Gain or (Loss)</u>
		<u>Adjustment Expenses</u>	<u>Underwriting Expenses</u>		
2009	23,263,837	13,515,145	8,493,690	1,255,002	
2010	23,778,081	14,413,410	8,617,168	747,503	
2011	24,530,341	14,464,546	8,843,634	1,222,161	
2012	26,295,920	18,044,931	9,547,411	(1,296,422)	
2013	30,433,616	13,440,796	11,664,056	5,328,764	
2014	35,496,032	18,124,288	13,111,191	4,260,553	
2015	40,102,989	20,673,596	15,029,979	4,399,414	
2016	44,667,530	26,511,400	16,250,307	1,905,823	
2017	48,190,950	31,633,507	17,985,270	(1,427,827)	
2018	50,955,042	37,493,026	18,390,345	(4,928,329)	

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$52,750,713		\$52,750,713
Preferred stocks	953,617		953,617
Common stocks	22,935,479		22,935,479
Properties occupied by the company	1,196,023		1,196,023
Cash and short-term investments	4,422,813		4,422,813
Other invested assets	120		120
Investment income due and accrued	365,285		365,285
Uncollected premiums and agents' balances in course of collection	1,329,676	19,046	1,310,630
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,888,966		5,888,966
Amounts recoverable from reinsurers	1,468,451		1,468,451
Federal income tax recoverable	1,226,049		1,226,049
Net deferred tax asset	1,476,186	72,904	1,403,282
Guaranty funds receivable or on deposit	404		404
Electronic data processing equipment and software	28,841	22,377	6,464
Furniture and equipment	189,415	189,415	
Aggregate write-ins for other than invested assets	453,756	248,220	205,536
Totals	<u>\$94,685,794</u>	<u>\$551,962</u>	<u>\$94,133,832</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$8,178,026
Loss adjustment expenses		722,494
Commissions payable, contingent commissions and other similar charges		2,799,678
Other expenses		304,312
Taxes, licenses and fees		397,128
Unearned premiums		31,048,322
Advance premiums		1,713,393
Ceded reinsurance premiums payable		298,896
Funds held by company under reinsurance treaties		33,119
Aggregate write-ins for liabilities		<u>2,190,719</u>
Total liabilities		\$47,686,087
Unassigned funds (surplus)	<u>\$46,447,745</u>	
Surplus as regards policyholders		<u>46,447,745</u>
Totals		<u><u>\$94,133,832</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$50,955,042
Deductions:	
Losses incurred	\$33,181,276
Loss adjustment expenses incurred	4,311,750
Other underwriting expenses incurred	18,390,345
Total underwriting deductions	\$55,883,371
Net underwriting gain	(\$4,928,329)

INVESTMENT INCOME

Net investment income earned	\$1,699,472
Net realized capital gains	1,434,274
Net investment gain	\$3,133,746

OTHER INCOME

Net loss from agents or premium balances charged off	(\$57,726)
Finance and service charges not included in premiums	182,862
Aggregate write ins for miscellaneous income	1,216
Total other income	\$126,352
Net income before federal income taxes	(\$1,668,231)
Federal income taxes incurred	(892,322)
Net income	(\$775,909)

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus as regards policyholders, December 31, previous year	<u>\$45,314,164</u>	<u>\$47,156,896</u>	<u>\$50,042,525</u>
Net income	\$3,146,973	\$2,276,035	(\$775,909)
Change in net unrealized capital gains or (losses)	909,486	2,248,914	(2,449,240)
Change in net deferred income tax	1,016,172	(1,022,927)	(134,468)
Change in nonadmitted assets	1,705,397	241,811	(349,549)
Aggregate write-ins for gains and losses in surplus	<u>(4,935,296)</u>	<u>(858,204)</u>	<u>114,386</u>
Change in surplus as regards policyholders for the year	<u>\$1,842,732</u>	<u>\$2,885,629</u>	<u>(\$3,594,780)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$47,156,896</u></u>	<u><u>\$50,042,525</u></u>	<u><u>\$46,447,745</u></u>

CASH FLOW
Cash From Operations

Premiums collected net of reinsurance	\$53,237,093
Net investment income	2,299,736
Miscellaneous income	126,352
Total	<u>\$55,663,181</u>
Benefit and loss related payments	\$33,243,590
Commissions, expenses paid and aggregate write-ins for deductions	22,970,112
Federal income taxes paid	(325,935)
Total	<u>\$55,887,767</u>
Net cash from operations	<u>(\$224,586)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$12,989,709
Stocks	5,637,118
Other invested assets	2,813
Total investment proceeds	<u>\$18,629,640</u>
Cost of investments acquired (long-term only):	
Bonds	\$14,737,179
Stocks	3,437,601
Real estate	463,184
Miscellaneous applications	414,133
Total investments acquired	<u>\$19,052,097</u>
Net cash from investments	<u>(\$422,457)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>(\$980,329)</u>
Net cash from financing and miscellaneous sources	<u>(\$980,329)</u>
Net change in cash and short-term investments	<u>(\$1,627,372)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

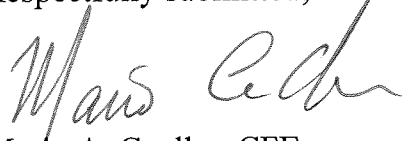
Cash and short-term investments:	
Beginning of year	\$6,050,186
End of year	4,422,813
Net change in cash and short-term investments	<u>(\$1,627,372)</u>

ACKNOWLEDGEMENT

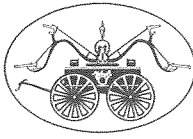
The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, T. Bradford Earley, CFE and Jennifer K. Blizzard, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Mario A. Cuellar".

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



LOUDOUN MUTUAL

INSURANCE COMPANY

May 31, 2019

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
State Corporation Commission, Insurance Division
PO Box 1157
Richmond, VA 23218

RE: Loudoun Mutual Insurance Company
Examination Report as of December 31, 2018

Dear Mr. Smith:

This letter is acknowledge the receipt of the draft of the Loudoun Mutual Insurance Company Examination Report as of December 31, 2018.

The Draft Examination Report will be distributed to the Loudoun Mutual Board of Directors at the Board's June 4, 2019 meeting and will be reviewed in detail at the July 23, 2019 meeting of the Loudoun Mutual Audit Committee.

We certainly don't take issue with any matter contained in the Examination Report and we greatly appreciate the professionalism demonstrated by the examiners.

Please contact me if you require any further information.

Sincerely,

Christopher G. Shipe, AIT, CPCU
President/CEO