

**EXAMINATION REPORT**  
**on**  
**VIRGINIA FARM BUREAU**  
**FIRE AND CASUALTY INSURANCE COMPANY**  
**Richmond, Virginia**  
**as of**  
**December 31, 2017**

# 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 Virginia Farm Bureau Fire and Casualty Insurance Company as of December 31, 2017, 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 22<sup>nd</sup> day of January 2019

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Scott A. White  
Commissioner of Insurance

(SEAL)

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October 15, 2018  
Richmond, Virginia

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

Dear Sir:

Pursuant to your instructions and in accordance with the requirements of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of

**VIRGINIA FARM BUREAU  
FIRE AND CASUALTY INSURANCE COMPANY**

Richmond, Virginia,

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

**SCOPE OF THE EXAMINATION**

The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2017. This examination covers the period from January 1, 2015 through December 31, 2017.

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 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.

The examination was conducted by the Bureau on a coordinated basis, with the Commonwealth of Virginia as the NAIC lead state. The examination of the Corporation was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
Virginia Farm Bureau Mutual Insurance Company	Virginia
Virginia Farm Bureau Town and Country Insurance Company	Virginia
Countryway Insurance Company	New York

The services of Merlino & Associates, Inc. were employed to provide an actuarial analysis as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2017.

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 was granted a charter by the Virginia State Corporation Commission (Commission) on December 7, 1961 and commenced business on January 28, 1962. The purposes, in part, for which the Company was organized, according to the articles of incorporation, are as follows:

- (1) To make, issue and effect contracts or policies of insurance providing coverage for any and all classes of insurance, excluding life insurance, annuities and title insurance, ...
- (2) To assume reinsurance from other insurance companies and to cede reinsurance to other insurance companies, with or without contingent liability or participation.
- (3) To have and to exercise all powers necessary or convenient to carry into effect any or all of the purposes for which the corporation is organized, including the doing of any and all acts incidental to carrying into effect the purposes aforesaid.

The Company amended its Articles of Incorporation on April 6, 1993, to change its name from Early Settlers Insurance Company to its current name. Additionally, the

Company amended its bylaws on May 26, 1993, to reflect its new name and the move of its Registered Office from the City of Richmond to the County of Goochland.

On June 30, 1994, the Company issued an additional 10,000 shares of common stock to Virginia Farm Bureau Mutual Insurance Company (VFBMIC), its parent and sole stockholder. On July 1, 1994, the Commission issued a Certificate of Amendment to the Company, which provided for the Company's common stock to have no par value. The transaction increased the Company's common capital stock account balance to \$1,000,000, thereby bringing the Company into compliance with the minimum capital and surplus requirements of Code of Virginia § 38.2-1028.

On October, 31, 1994, VFBMIC transferred 100% of the common capital stock of the Company, along with \$953,620 in cash and 100% of the common capital stock of Virginia Farm Bureau Town and Country Insurance Company (VFBTCIC), to Farm Bureau Holdings of Virginia, Inc. (Holdings) in exchange for 100% of the common capital stock of Holdings. At the conclusion of the exchange, Holdings contributed an additional \$5,000,000 of paid in capital to the Company. In 1998, Holdings contributed another \$5,000,000 to paid-in capital.

## MANAGEMENT AND CONTROL

The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need be a member or policyholder of the Company, but all must be members of the Board of Directors of the Federation. A majority of the members of the board shall constitute a quorum for the transaction of business.

The bylaws also provide that the officers of the Company shall be a president, a first vice president, an executive vice president, a secretary and a treasurer, and such other officers and positions as the board may deem necessary.

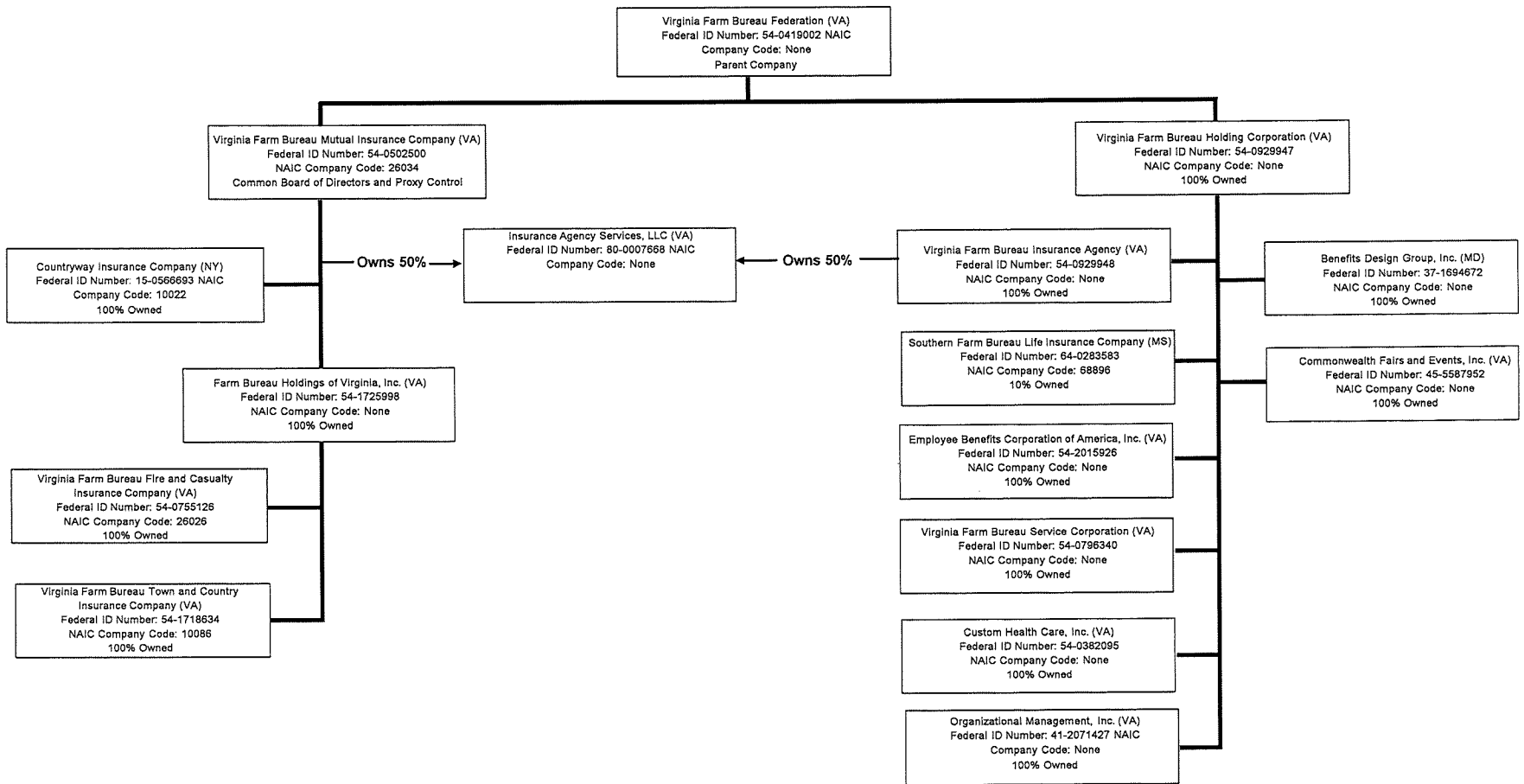
At December 31, 2017, directors and officers were as follows:

<u>Directors</u>	<u>Business or Affiliation</u>	<u>County of Residence</u>
Wayne F. Pryor	Farmer/President of the Company	Goochland
Emily F. Edmondson	Farmer	Tazewell
Marvin L. Everett	Farmer	Southampton
Thomas E. Graves, Jr.	Farmer	Orange
David L. Hickman	Farmer	Accomack
Alice F. Hundley Jr.	Secretary	Essex
Jordan M. Jenkins, Jr.	Farmer	Lunenburg
Mindy L. McCroskey	Teacher	Washington
Gordon R. Metz, Jr.	Farmer	Henry
Robert J. Mills, Jr.	Farmer	Pittsylvania
William F. Osl, Jr.	Farmer	Cumberland
Chapman L. H. Pemberton	Farmer	Hanover
Stephen L. Saufley	Farmer	Rockingham
Scott E. Sink	Farmer	Montgomery
Bruce N. Stanger	Farmer	Montgomery
Richard L. Sutherland	Farmer	Grayson
Peter A. Truban	Farmer	Shenandoah
William E. Walton	Farmer	Middlesex
Russell L. Williams, II	Farmer	Rockbridge

<u>Officers</u>	<u>Title</u>
Wayne F. Pryor	President, Administrative Officer and Chief Executive Officer
Darlene P. Wells	Executive Vice President and General Manager
Scott E. Sink	First Vice President
Jonathan S. Shouse	Secretary
Robert F. Brown	Senior Vice President of Product Development and Actuarial
Diane Hudobenko	Senior Vice President of Human Resources
David A. Priddy	Senior Vice President of Accounting and Business Services and Treasurer
G. Christopher Kern	Assistant Treasurer

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is a wholly owned subsidiary of Holdings. Holdings is 100% owned by VFBMIC, which is controlled by the Federation by means of a common board of directors and through proxy control. The following organizational chart illustrates this relationship at December 31, 2017:





## **RELATED PARTY TRANSACTIONS**

### **Administrative Services Agreement**

The Company entered into an Administrative Services Agreement with VFBMIC effective January 1, 1995. Under the terms of the Agreement, VFBMIC will perform and provide accounting, financial, investment, actuarial, underwriting, claims and computer services for the Company. In consideration of the services provided, the Company will pay VFBMIC a monthly fee equal to the actual cost of labor and expenses incurred in providing the services. The Company incurred expenses of \$9,635,889, \$12,482,947 and \$15,756,944 for 2015, 2016 and 2017, respectively.

### **Federal Income Tax Allocation Agreement**

Effective January 1, 2007, the Company entered into a federal income tax allocation agreement with VFBMIC and VFBTCIC. This agreement was amended in 2011 to include Countryway Insurance Company, a New York domestic insurer that was purchased by VFBMIC in 2011. The purpose of this agreement is to provide for the filing of consolidated federal income tax returns for the allocation of federal income tax liability and savings among the companies. The method of allocation between the companies is made primarily on a separate return basis. The intercompany tax balances are settled quarterly. The final settlement shall be made within 30 days after the filing of the consolidated income tax return.

## **DIVIDENDS TO SHAREHOLDER**

The Company paid no dividends to its sole shareholder during the period covered by this examination.

## **TERRITORY AND PLAN OF OPERATION**

The Company confines its operations to Virginia where it is licensed to transact the business of accident and sickness, fire, miscellaneous property, farm owners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery, animal and water damage insurance.

Business is produced by 193 agents, who are compensated based on the amount of premiums written plus bonuses which are dependent upon a combination of the growth and profitability of the agent's book of business plus the Company's net income before taxes. Office space and clerical help are furnished to the agents in their territories by county Farm Bureaus under a Memorandum of Agreement with the Federation, which are compensated by the Company based upon a percentage of premium income, or under a Joint Operations Agreement whereby the Company incurs all operational costs of the office.

Risks are bound by the agents when applications are accepted in the field from qualified applicants, after which policies are issued from the Richmond office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that coverage will be canceled.

Losses are reported to the county Farm Bureau through which the application was taken. Claims are confirmed and adjusted by the Company's salaried personnel where practicable, otherwise independent professional adjusters or Farm Bureau insurance companies in other states are used.

### GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2017:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid in and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2008	\$43,386,363	\$28,281,296	\$1,000,000	\$10,000,000	\$4,105,067
2009	43,429,854	26,749,688	1,000,000	10,000,000	5,680,166
2010	43,764,073	26,207,419	1,000,000	10,000,000	6,556,654
2011	48,761,574	32,132,769	1,000,000	10,000,000	5,628,805
2012	44,938,595	30,001,455	1,000,000	10,000,000	3,937,140
2013	50,901,305	33,101,671	1,000,000	10,000,000	6,799,634
2014	51,144,367	31,602,596	1,000,000	10,000,000	8,541,771
2015	54,992,682	34,382,378	1,000,000	10,000,000	9,610,304
2016	60,506,211	39,390,931	1,000,000	10,000,000	10,115,280
2017	66,383,129	45,080,590	1,000,000	10,000,000	10,302,539

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2008	\$23,527,686	\$14,749,518	\$8,100,855	\$677,313
2009	22,994,470	15,151,380	8,276,050	(432,960)
2010	22,945,444	14,390,908	9,364,721	(810,185)
2011	25,450,118	20,006,011	7,813,366	(2,369,259)
2012	26,823,648	20,162,825	8,406,086	(1,745,263)
2013	26,826,897	18,427,774	8,079,862	319,261
2014	26,768,848	17,466,320	7,922,608	1,379,920
2015	26,816,068	18,385,543	7,759,078	671,447
2016	27,037,753	19,550,916	8,246,886	(760,049)
2017	28,414,045	19,629,918	8,784,268	(141)

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2017:

Ceded:

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Surplus Share	Property (except auto physical damage)	\$300,000 each risk	\$4,700,000
Facultative	Property	\$5,000,000	\$10,000,000
Excess of Loss	Property (Catastrophe)	\$5,000,000	\$220,000,000 per occurrence; \$440,000,000 all occurrences
Excess of Loss	Property (Catastrophe -Terrorism)	\$5,357,350	\$10,714,700
Aggregate	Catastrophe and Auto Physical Damage	\$11,000,000	\$9,000,000
Excess of Loss	Liability	\$650,000	\$30,000,000; occurrence cap of \$1,200,000
	Workers' Compensation	\$500,000	\$30,000,000 (\$1,200,000 maximum employers' liability limit)
Quota Share	Casualty (Umbrella Liability)	15% of first \$10,000,000	85% of first \$1,000,000; 100% up to \$15,000,000

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Farm Pollution Liability (Claims Made)	\$500 each incident	\$1,000,000
Pro Rata	Workers' Compensation		Proportionate share of losses incurred by the National Workers' Compensation Pool; based on participation percentage

Assumed:

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Pro Rata	Automobile		Proportionate share of losses incurred by the Virginia Commercial Auto Insurance Procedure; based on participation percentage

Affiliate Agreement

On December 19, 1997, the Company entered into a Net Premiums Reinsurance Agreement with VFBMIC, which became effective beginning with accident year 1998. This agreement provides for the reinsurance of 100% of the Company's net losses and underwriting expenses incurred for all lines of business except automobile, for which VFBMIC receives 100% of earned premiums less a commission of ½% of premiums ceded. The Bureau approved this agreement.

Reinsurance Pooling Agreement

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBMIC and VFBTCIC for automobile policies. Each of the companies is an insured as well as a participant in the agreement. Pursuant to this agreement, each of the companies will cede 100% of their direct automobile business earned and assumed, after deduction for any reinsurance ceded to all other companies, after the effective date of

this agreement. Each participant will assume their proportionate share of the net premiums earned, net losses and loss adjustment expenses incurred, and underwriting expenses incurred that are ceded to the Pool, but shall not be liable for any amounts beyond said proportionate share, irrespective of the inability of other Participants or Reinsureds to meet their respective obligations. For the 1998 accident year, each participant assumed an initial retrocession from the Pool in the percentage as indicated below:

Virginia Farm Bureau Mutual Insurance Company	60%
Virginia Farm Bureau Fire and Casualty Insurance Company	20%
Virginia Farm Bureau Town and Country Insurance Company	20%

For the 1999 accident year and for each subsequent accident year, each participant will assume a retrocession from the Pool in a percentage that will be determined by the Board of Directors of the participating companies in January of the applicable year. For accident years 2015 through 2017, the respective Boards elected to retain the percentages as indicated above.

All agreements have an insolvency clause.

**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the Company for the period December 31, 2017. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2017.



**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$46,396,431		\$46,396,431
Cash and cash equivalents	4,791,446		4,791,446
Investment income due and accrued	450,683		450,683
Uncollected premiums and agents' balances in course of collection	2,737,535	314,149	2,423,386
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,065,427	800	8,064,627
Amounts recoverable from reinsurers	2,995,438		2,995,438
Funds held by or deposited with reinsured companies	17,391		17,391
Net deferred tax asset	1,179,268	18,664	1,160,604
Guaranty funds receivable or on deposit	71,578		71,578
Aggregate write-ins for other than invested assets	11,545		11,545
Totals	<u>\$66,716,742</u>	<u>\$333,613</u>	<u>\$66,383,129</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$13,369,203
Reinsurance payable on paid losses and loss adjustment expenses		1,683,176
Loss adjustment expenses		1,339,046
Taxes, licenses and fees		481,553
Current federal income taxes		674,625
Unearned premiums		23,208,982
Advance premium		1,062,756
Ceded reinsurance premiums payable		2,492,969
Payable to parent, subsidiaries and affiliates		764,690
Aggregate write-ins for liabilities		<u>3,590</u>
 Total liabilities		 \$45,080,590
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	10,000,000	
Unassigned funds	<u>10,302,539</u>	
 Surplus as regards policyholders		 <u>21,302,539</u>
 Totals		 <u><u>\$66,383,129</u></u>

**STATEMENT OF INCOME****UNDERWRITING INCOME**

Premiums earned	<u>\$28,414,045</u>
Deductions:	
Losses incurred	\$16,959,517
Loss adjustment expenses incurred	2,670,401
Other underwriting expenses incurred	<u>8,784,268</u>
Total underwriting deductions	<u>\$28,414,186</u>
Net underwriting loss	<u>(\$141)</u>

**INVESTMENT INCOME**

Net investment income earned	\$1,191,166
Net realized capital losses	<u>(77,383)</u>
Net investment gain	<u>\$1,113,783</u>

**OTHER INCOME**

Net loss from agents' or premium balances charged off	(\$65,694)
Finance and service charges not included in premiums	<u>332,701</u>
Total other income	<u>\$267,007</u>
Net income before federal income taxes	\$1,380,649
Federal income taxes incurred	<u>660,659</u>
Net income	<u><u>\$719,990</u></u>

**CAPITAL AND SURPLUS**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31, previous year	<u>\$19,541,771</u>	<u>\$20,610,304</u>	<u>\$21,115,280</u>
Net income	\$1,036,191	\$280,175	\$719,990
Change in net deferred income tax	(92,676)	250,970	(402,643)
Change in nonadmitted assets	125,018	(22,169)	(134,088)
Change in provision for reinsurance	<u>                    </u>	<u>(4,000)</u>	<u>4,000</u>
Change in surplus as regards policyholders for the year	<u>\$1,068,533</u>	<u>\$504,976</u>	<u>\$187,259</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$20,610,304</u></u>	<u><u>\$21,115,280</u></u>	<u><u>\$21,302,539</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$30,940,962
Net investment income	1,728,897
Miscellaneous income	267,007
Total	<u>\$32,936,866</u>
Benefit and loss related payments	\$17,103,410
Commissions, expenses paid and aggregate write-ins for deductions	11,334,625
Federal income taxes paid	356,928
Total	<u>\$28,794,963</u>
Net cash from operations	<u>\$4,141,903</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$4,489,902
Stocks	5,451,735
Total investment proceeds	<u>\$9,941,637</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$9,973,856</u>
Total investments acquired	<u>\$9,973,856</u>
Net cash from investments	<u>(\$32,219)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash applied	<u>(\$431,428)</u>
Net cash from financing and miscellaneous sources	<u>(\$431,428)</u>
Net change in cash and short-term investments	<u>\$3,678,256</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

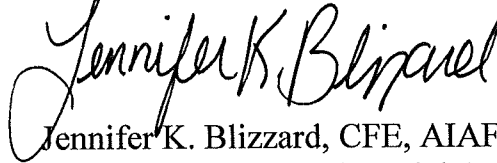
Cash and short-term investments:	
Beginning of year	\$1,113,190
End of year	4,791,446
Net change in cash and short-term investments	<u>\$3,678,256</u>

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Christopher J. Collins, CFE, Mario A. Cuellar, CFE and T. Bradford Earley, Jr., CFE, CPCU, AIAF of the Bureau participated in the work of the examination.

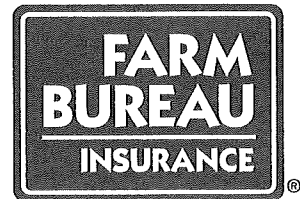
Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE, AIAF, AIM  
Insurance Principal Financial Analyst

STATE CORP COMMISSION  
BUREAU OF INSURANCE

19 JAN -9 AM 9:20



January 7, 2019

David H. Smith, Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Dear Mr. Smith,

Virginia Farm Bureau Fire & Casualty Insurance Company received and has reviewed the draft examination report as of December 31, 2014, which was dated December 15, 2018.

Please provide 5 copies of the final report for our office. If possible, also send an electronic copy of the report to our Treasurer, David Priddy, at [david.priddy@vafb.com](mailto:david.priddy@vafb.com).

Regards,

A handwritten signature in black ink, appearing to read "Wayne F. Pryor".

Wayne F. Pryor, President  
Virginia Farm Bureau Fire & Casualty Insurance Company