

EXAMINATION REPORT
on
NORTHERN NECK INSURANCE COMPANY
Irvington, Virginia
as of
December 31, 2017

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
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi**

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Northern Neck 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 2nd day of April 2019

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
January 31, 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

NORTHERN NECK INSURANCE COMPANY

Irvington, 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 Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2014. The current examination covers the three year 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 representation 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 originally chartered by a special Act of the Legislature of Virginia on March 4, 1896. The original charter provided that the Company's capital should not be more than \$10,000, divided into shares of \$100 each. The charter also provided that the Company should have the power to insure, on the mutual plan, properties against loss by fire and lightning.

On March 13, 1954, a meeting of the board of directors was held for the purpose of considering the advisability of qualifying the Company as a mutual assessment fire association. Pursuant to action taken by the board and holders of the outstanding capital shares, the Company took the necessary steps to qualify under current Chapter 25, Title 38.2 of the Code of Virginia.

The charter was amended effective June 19, 1987, to change the Company's name from The Northern Neck Mutual Fire Association of Virginia to Northern Neck Insurance Company. This amendment also restated the purpose of the Company as follows:

The corporation shall be a Mutual Assessment Property and Casualty insurer as defined in § 38.2-2501 of the Code of Virginia, as the same may be amended from time to time. It may write all the classifications of insurance specified in § 38.2-2503 of the Code of Virginia as amended from time to time, and may further engage in any other incidental or related business. The corporation shall have all powers as set forth in § 13.1-826 of the Code of Virginia as amended from time to time.

The Company amended its Articles of Incorporation May 23, 1997, to provide for the indemnification of directors and officers against all claims, liabilities, judgments, settlements, costs, and expenses, including all attorney's fees, imposed upon or reasonably incurred by him or her in connection with or resulting from any action, suit, proceeding or claim to which he or she may be a party by reason of being or having been an officer or director of the Company, except an indemnity against his or her willful misconduct or a knowing violation of the criminal law.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of at least eight but not more than ten voting directors, each of whom shall be a member of the Company, and shall include the chairman, vice chairman, chief executive officer, and president. A quorum at any meeting shall consist of a majority of the members of the board. A majority of such quorum shall decide any question that may come before the meeting.

The bylaws state that the officers of the Company shall be a chairman, a vice chairman, a chief executive officer, a president, a secretary, and a treasurer, and may include one or more vice presidents, assistant vice presidents, assistant secretaries and assistant treasurers as may be elected by the board. Directors and officers of the Company at December 31, 2017 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Peter J. Cammarata	President and Chief Executive Officer Northern Neck Insurance Company Irvington, Virginia
William H. Chapman	Executive Director The Richmond Forum Richmond, Virginia
Elizabeth H. Crowther	President Rappahannock Community College Glenns, Virginia
Thomas A. Gosse	Former President and Chief Executive Officer Northern Neck Insurance Company Irvington, Virginia
Susan B. Horne	President and Chief Executive Officer Lead Virginia Richmond, Virginia
Jeffrey Branflick	Retired HSBC White Stone, Virginia
John H. Hunt, II	Retired Chesapeake Bank Kilmarnock, Virginia

Julien G. Patterson	Retired Omniplex World Services Corporation Chantilly, Virginia
Otis S. Jones	Director, Banking IBM US, Financial Services Market Chesterfield, Virginia
Douglas G. Stewart	Managing Director Cary Street Partners, LLC, Investment Managers Fredericksburg, Virginia

Officers

John H. Hunt, II	Chair
Thomas A. Gosse	Vice Chair
Peter J. Cammarata	President and Chief Executive Officer
Pamela L. Walker	Vice President – Information Technology, Secretary
Donna P. Tibbs	Treasurer
Bruce E. Brizzi	Executive Vice President – Insurance Operations
John D. Naum	Vice President – Finance
Elizabeth D. McKinney	Vice President – Marketing
Robert W. Spears	Assistant Vice President
Kathy M. Allison	Assistant Vice President – Policyholder Services
Wendy C. Boyle	Assistant Vice President – Information Technology
Camille K. Bragg	Assistant Vice President – HR
Terri H. Schmeck	Assistant Vice President – Underwriting

An Audit Committee consisting of the following members was elected by the board of directors and held office as of December 31, 2017:

Susan B. Horne, Chair
William H. Chapman
Otis S. Jones
Douglas G. Stewart
John H. Hunt, II, *ex officio*
John D. Naum, staff liason
Donna P. Tibbs, staff liason

The following committees were appointed by the chairman of the board of directors as of December 31, 2017:

Risk Committee

Thomas A. Gosse, Chair
 Peter J. Cammarata
 William H. Chapman
 Elizabeth H. Crowther

Julien G. Patterson
 John H. Hunt, II, *ex officio*
 John D. Naum, staff liaison

Compensation Committee

Elizabeth H. Crowther, Chair
 William H. Chapman
 Thomas A. Gosse
 Susan B. Horne

Julien G. Patterson
 Douglas G. Stewart
 John H. Hunt, II, *ex officio*

Nominating/Governance Committee

William H. Chapman, Chair
 Peter J. Cammarata
 Elizabeth H. Crowther

Susan B. Horne
 Julien G. Patterson
 John H. Hunt, II, *ex officio*

Investment Committee

Douglas G. Stewart, Chair
 Peter J. Cammarata
 Thomas A. Gosse
 Susan B. Horne

Otis S. Jones
 John H. Hunt, II, *ex officio*
 John D. Naum, staff liaison

TERRITORY AND PLAN OF OPERATION

The Company confines its operations to the cities and counties of the Commonwealth of Virginia where it is licensed to transact the business of a mutual assessment property and casualty insurance company.

Applications for insurance are submitted through approximately 161 agents who inspect the risks and make written applications to the Company. Commissions are paid at various rates dependent upon the line of insurance written. Additionally, agents participate in a profit sharing plan based on their annual production volume of premiums and their loss ratios.

The Company writes policies for dwelling fire, lightning, extended coverage, broad forms special coverage, homeowners, including mobile homeowners and rural estate, umbrella, automobile physical damage, and automobile liability on an annual basis only. Assessment rates are charged based upon classification and location of the risks and are levied annually in advance. These assessments are not collected for periods in excess of one year.

All perils contain a deductible clause with the exception of liability coverages.

REINSURANCE

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

Ceded:

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Excess of Loss	Property First Excess Cover	\$300,000 of ultimate net loss any one risk, each loss occurrence	\$200,000 of ultimate net loss any one risk, each loss occurrence; \$600,000 of ultimate net loss any one loss occurrence
	Property Second Excess Cover	\$500,000 of ultimate net loss any one risk, each loss occurrence	\$500,000 of ultimate net loss any one risk, each loss occurrence; \$1,000,000 of ultimate net loss any one loss occurrence
	Property Third Excess Cover	\$1,000,000 of ultimate net loss any one risk, each loss occurrence	\$1,500,000 of ultimate net loss any one risk, each loss occurrence; \$3,000,000 of ultimate net loss any one loss occurrence; \$4,500,000 all occurrences
Casualty Excess of Loss	Automobile and Other Liability First Excess Cover	\$300,000 any one loss occurrence	\$200,000 any one loss occurrence

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
	Automobile and Other Liability Second Excess Cover	\$500,000 any one loss occurrence	\$500,000 any one loss occurrence
	Automobile and Other Liability Third Excess Cover	\$1,000,000 any one loss occurrence	\$500,000 any one loss occurrence

If an occurrence takes place which involves one property risk reinsured and also the automobile and other liability risks reinsured, the reinsurer shall pay to the Company the amount of net loss in excess of a Company retention of \$300,000 with respect to such occurrence, but not exceeding a limit of liability of the reinsurer of \$300,000. The limit of liability of the reinsurer shall be in addition to the limits of liability of the reinsurer set forth in the agreement.

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
First Catastrophe Excess of Loss	Property	\$2,500,000 any one loss occurrence	100% of \$17,500,000 in excess of \$2,500,000 loss per occurrence; \$35,000,000 with respect to all loss occurrences
Second Catastrophe Excess of Loss	Property	\$20,000,000	100% of \$40,000,000 in excess of \$20,000,000 loss per occurrence; \$80,000,000 with respect to all loss occurrences
Third Catastrophe Excess of Loss	Property	\$60,000,000	100% of \$10,000,000 in excess of \$60,000,000 loss per occurrence; \$20,000,000 with respect to all loss occurrences

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Fourth Catastrophe Excess of Loss	Property	\$70,000,000	100% of \$10,000,000 in excess of \$70,000,000 loss per occurrence; \$20,000,000 with respect to all loss occurrences
Quota Share and Excess of Loss	Personal Umbrella and Farm Personal Umbrella Liability	10% of the first \$1,000,000 each occurrence	90% of first \$1,000,000 each occurrence; 100% of the difference between the policy limit and the first \$1,000,000 each occurrence, not to exceed \$5,000,000 each occurrence

All agreements contain an insolvency clause and, where applicable, a reinsurers' guarantee of the intermediaries credit. At the request of the Company, any portion of the reinsurance credits for outstanding losses and loss adjustment expenses recoverable provided by the aforementioned agreements that is placed with unauthorized reinsurers shall be funded by the unauthorized reinsurer by a letter of credit or a cash advance.

Assumed:

The Company participates in a reciprocal catastrophe pool administered by the Mutual Reinsurance Bureau (MRB). Rights and obligations associated with participation in this pool are set forth in a contract between MRB and insurers specified in the interests and liabilities agreements. Pool participants agree to reinsure MRB for losses under any of its aggregate and catastrophic excess contracts, known as "original agreements." The Company has assumed a 2.85% share of the interests and liabilities of the pool contract. MRB cedes to the Company its proportionate share of premiums received on each original agreement subject to the pool contract.

The Company is liable for its pro rata share of each and every loss occurring on the business covered by the pool agreement, not to exceed a maximum of \$52,500,000 on any one original agreement. The pool contract warrants that all original agreements are the top layers of each respective program. MRB's net liability on any one original agreement will not exceed \$52,500,000 any one occurrence when the original agreement is written on an occurrence basis or \$105,000,000 with respect to all loss occurrences during the term of this agreement.

GROWTH OF THE COMPANY

The following data, taken from annual statements filed with the Bureau and the financial statement contained in examination reports, reflects 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>Unassigned Funds</u>
2008	\$55,150,871	\$30,883,471	\$24,267,400
2009	63,349,861	30,712,496	32,637,365
2010	70,076,450	32,654,392	37,422,058
2011	68,868,275	34,668,450	34,199,825
2012	74,576,122	39,570,918	35,005,204
2013	90,156,764	44,668,397	45,488,367
2014	96,899,720	45,617,915	51,281,805
2015	101,219,021	44,250,163	56,968,858
2016	108,915,267	46,282,855	62,632,412
2017	118,952,362	49,744,996	69,207,366

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Loss and Loss Adjustment Expenses</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Losses)</u>
2008	\$32,177,392	\$19,223,324	\$13,708,061	\$(753,993)
2009	34,331,889	18,719,848	13,469,116	2,142,925
2010	35,005,095	21,510,180	12,907,112	587,803
2011	36,239,825	28,610,582	13,085,492	(5,456,249)
2012	39,552,420	29,107,993	14,032,370	(3,587,943)
2013	43,971,819	25,882,923	15,172,993	2,915,903
2014	47,128,454	25,642,357	15,951,651	5,534,446
2015	48,748,228	23,162,671	17,234,142	8,351,415
2016	50,741,096	28,855,150	17,645,304	4,240,642
2017	52,392,177	32,212,834	18,612,709	1,566,634

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending 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	\$47,259,505		\$47,259,505
Common stocks	54,472,627		54,472,627
Real estate properties occupied by the company	1,970,057		1,970,057
Cash and short-term investments	4,684,601		4,684,601
Investment income due and accrued	400,706		400,706
Uncollected premiums and agents' balances in the course of collection	6,503,685		6,503,685
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,524,172		3,524,172
Amounts recoverable from reinsurers	57,558		57,558
Guaranty funds receivable or on deposit	791		791
Electronic data processing equipment	5,668,368	5,589,708	78,660
Furniture and equipment	99,001	99,001	
Aggregate write-ins for other than invested assets	<u>1,179,001</u>	<u>1,179,001</u>	
Totals	<u>\$125,820,072</u>	<u>\$6,867,710</u>	<u>\$118,952,362</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$13,022,260
Loss adjustment expenses		919,329
Commissions payable, contingent commissions and other similar charges		2,109,483
Other expenses		785,348
Taxes, licenses and fees		370,491
Current federal income taxes		112,388
Net deferred tax liability		1,158,660
Unearned premiums		29,303,535
Advance premium		1,034,864
Ceded reinsurance premiums payable		384,082
Amounts withheld or retained by company for account of others		6,053
Aggregate write-ins for liabilities		<u>538,503</u>
Total liabilities		\$49,744,996
Unassigned funds	<u>\$69,207,366</u>	
Surplus as regards policyholders		<u>69,207,366</u>
Totals		<u><u>\$118,952,362</u></u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$52,392,177</u>
Deductions:	
Losses incurred	\$28,597,696
Loss adjustment expenses incurred	3,615,138
Other underwriting expenses incurred	<u>18,612,709</u>
Total underwriting deductions	<u>\$50,825,543</u>
Net underwriting gain	<u>\$1,566,634</u>

INVESTMENT INCOME

Net investment income earned	\$1,491,092
Net realized capital gains	<u>396,467</u>
Net investment gain	<u>\$1,887,559</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>(\$1,355)</u>
Total other income	<u>(\$1,355)</u>
Net income before federal income taxes	\$3,452,838
Federal income taxes incurred	<u>821,253</u>
Net income	<u><u>\$2,631,585</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS FOR
PERIOD UNDER REVIEW

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31, previous year	<u>\$51,281,805</u>	<u>\$56,968,858</u>	<u>\$62,632,412</u>
Net income	\$7,129,072	\$4,510,301	\$2,631,585
Change in net unrealized capital gains or (losses)	(1,371,541)	2,537,377	5,766,006
Change in net deferred income tax	23,359	741,021	1,523,930
Change in nonadmitted assets	<u>(93,837)</u>	<u>(2,125,145)</u>	<u>(3,346,567)</u>
Change in surplus as regards policyholders for the year	<u>\$5,687,053</u>	<u>\$5,663,554</u>	<u>\$6,574,954</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$56,968,858</u></u>	<u><u>\$62,632,412</u></u>	<u><u>\$69,207,366</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$53,058,834
Net investment income	1,798,375
Miscellaneous income	(1,353)
Total	<u>\$54,855,856</u>
Benefit and loss related payments	\$27,376,863
Commissions, expenses paid and aggregate write-ins for deductions	21,877,190
Federal income taxes paid	1,177,108
Total	<u>\$50,431,161</u>
Net cash from operations	<u>\$4,424,695</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$7,108,895
Stocks	6,868,785
Total investment proceeds	<u>\$13,977,680</u>
Cost of investments acquired (long-term only):	
Bonds	\$8,766,737
Stocks	10,654,544
Miscellaneous applications	6,776
Total investments acquired	<u>\$19,428,057</u>
Net cash from investments	<u>(\$5,450,377)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	<u>(\$3,241,810)</u>
Net change from financing and miscellaneous sources	<u>(\$3,241,810)</u>
Net change in cash and short-term investments	<u><u>(\$4,267,492)</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

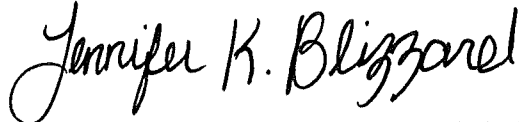
Cash and short-term investments:	
Beginning of year	\$8,952,093
End of year	<u>4,684,601</u>
Net change in cash and short-term investments	<u><u>(\$4,267,492)</u></u>

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, 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, flowing style.

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



STATE CORP COMMISSION
BUREAU OF INSURANCE
19 MAR 27 AM 9:26

March 26, 2019

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

Re: Examination Report as of December 31, 2017

Dear Mr. Smith:

We have received and reviewed the referenced examination report. Please extend to Jennifer Blizzard, Principal Insurance Financial Analyst, our appreciation for the manner in which the examination was conducted and the professionalism extended by your entire staff.

Please consider this acknowledgement of receipt of the examination report. We are pleased that there were no recommendations for corrective action.

Thank you for forwarding the final report for review by our Board. We would appreciate fifteen copies.

Very truly yours,

Peter J. Cammarata
President & Chief Executive Officer

NORTHERN NECK INSURANCE COMPANY