

Examination Report
on
MUTUAL ASSURANCE SOCIETY OF VIRGINIA
Richmond, Virginia
as of
December 31, 2018

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 Mutual Assurance Society of Virginia, 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 5th day of June 2020

A handwritten signature in black ink, appearing to read "Scott A. White".

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 30, 2020

Honorable Scott A. White
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

MUTUAL ASSURANCE SOCIETY OF VIRGINIA
Richmond, Virginia

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

SCOPE OF THE EXAMINATION

The Society was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2015. The examination covers the 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 Society's financial condition, assess corporate 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 Society 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 Society.

HISTORY

The Society is a mutual assessment property and casualty insurer licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. It conducts its business under one or more of the following assumed names that have been recorded pursuant to Chapter 5 of Title 59.1 of the Code:

Mutual Assurance Society
The Old Mutual
Mutual Assurance

The Society was chartered on December 22, 1794, by a special act of the General Assembly of Virginia by which the Society was authorized to insure citizens of Virginia against losses by fire. Operations were confined to fire insurance until May 17, 1955, when the charter was amended to permit the issuance of miscellaneous property and water damage coverages. On June 3, 1965, the charter was further amended to permit the Society:

...to transact Fire Insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, to issue, to engage in, and to transact Miscellaneous Property Insurance, Water Damage Insurance, Burglary and Theft Insurance, Glass Insurance, Boiler and Machinery Insurance, Elevator Insurance, Animal Insurance, Collision Insurance, Personal Injury Liability Insurance, Property Damage Liability Insurance, Motor Vehicle and Aircraft Insurance, Marine Insurance and Contingent and Consequential Losses Insurance as classified and defined in Article 2 of Chapter 1 of Title 38.1 of the Code of Virginia, and such other classes of insurance which an insurance company other than life insurance companies and title insurance companies may transact under the insurance laws of the Commonwealth of Virginia,...

MANAGEMENT AND CONTROL

The management of the Society is vested in a board of directors consisting of eight individuals, all of whom shall be members of the Society. As provided in the Society's bylaws, directors are elected by the members at their annual meeting to serve for a period of three years. A majority of the directors constitutes a quorum for any meeting of the board. The board of directors shall elect a President, who shall be a director of the Society, a Secretary and a Treasurer, each to hold office for one year or until their successors have been elected and have qualified.

At December 31, 2018, the directors and officers of the Society were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Farhad Aghdami	Managing Partner, Richmond Office Williams Mullen Richmond, Virginia
Mary C. Doswell	Former Senior Vice President, Dominion Energy Solutions Dominion Resources, Inc. Richmond, Virginia
George C. Freeman III	Chairman, President and Chief Executive Officer Universal Corporation Richmond, Virginia
William E. Hardy	Founding Partner Harris, Hardy & Johnstone, P.C. Richmond, Virginia
Richard T. Wheeler, Jr.	Former Chairman, President and Chief Executive Officer Franklin Financial Corporation and Franklin Federal Savings Bank Richmond, Virginia
R. Gregory Williams	Vice Chairman CCA Financial, LLC Richmond, Virginia
Coleman Wortham III	Chairman Davenport & Company, LLC Richmond, Virginia
Jeffrey S. Wrobel, Sr.	President Mutual Assurance Society of Virginia Richmond, Virginia

Officers

Jeffrey S. Wrobel, Sr.	President
Theresa C. Lewis	Secretary and Treasurer
C. Lewis Marsh	Vice President – Investments
Paul R. Davis	Vice President – Claims
Jonathan D. Sisk	Vice President – Information Systems

TERRITORY AND PLAN OF OPERATION

The Society is authorized to transact the business of a mutual assessment property and casualty insurance company in the Commonwealth of Virginia. Insurance is generally written only within the corporate limits of certain independent cities, protected areas of the counties of Henrico and Chesterfield, and other areas contiguous to certain independent cities rated ISO 7 or better. However, primary and secondary residences can be written as an accommodation to existing members located in the Commonwealth provided the Society can adequately service the insurance needs of its members.

Business is produced by salaried employees and independent agents who take applications. If the home office approves the application, a perpetual dwelling property, homeowners or personal umbrella liability policy is issued with the usual endorsement forms available. Independent agents are paid a commission of 20% of the policy premiums for new business and 15% for continuing business. No commissions are paid on premiums written directly by the home office.

Property is classified by type of construction and location of risk. Only dwellings that meet the Society's underwriting and eligibility requirements and which are in areas having adequate fire protection are insured as new risks. However, unprotected primary and secondary residences are written as an accommodation to homeowner policyholders. Dwelling property policy premium rates, adopted by the board of directors effective January 1, 2004, do not vary because of location of risk but differ between masonry and frame construction, with frame construction carrying a higher rate. Homeowner policy premium rates are determined by the Society's independent research. Current homeowner rates were adopted effective January 1, 2018.

Historically, the Society charged premiums and assessments on a calendar year basis; however, all policyholders now pay a full twelve-month premium on the inception date of a policy and pay the annual assessment on a policy's billing anniversary date. An additional assessment is leveled annually on secondary residences and coastal property.

GROWTH OF THE SOCIETY

The following data, obtained from annual statements and examination reports, indicates the growth of the Society for the ten-year period ending December 31, 2018:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2009	\$193,360,002	\$15,727,496	\$177,632,506
2010	205,791,429	19,941,508	185,849,921
2011	196,270,020	16,685,229	179,584,791
2012	211,153,479	21,744,021	189,409,458
2013	252,719,381	34,002,866	218,716,515
2014	268,635,756	39,553,625	229,082,131
2015	262,236,408	35,507,449	226,728,959
2016	270,422,043	40,104,442	230,317,601
2017	293,881,655	35,853,753	258,027,902
2018	271,322,909	29,258,271	242,064,638

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
2009	\$3,344,222	\$8,185,225	\$4,425,640	(\$9,266,643)
2010	3,809,888	8,422,466	4,770,187	(9,382,765)
2011	3,125,613	13,734,239	4,798,077	(15,406,703)
2012	4,975,682	10,882,587	5,412,582	(11,319,487)
2013	6,060,686	6,316,800	5,519,053	(5,775,167)
2014	5,926,381	9,145,519	5,777,632	(8,996,770)
2015	5,813,970	11,250,766	6,367,704	(11,804,500)
2016	6,289,636	15,270,022	7,303,583	(16,283,969)
2017	6,744,917	18,493,699	6,623,847	(18,372,629)
2018	7,641,355	16,607,025	7,768,531	(16,734,201)

REINSURANCE

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

Ceded:

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Property	\$500,000	<u>First Excess Cover:</u> \$500,000 in excess of \$500,000 <u>Second Excess Cover:</u> \$2,000,000 in excess of \$1,000,000 <u>Third Excess Cover:</u> \$2,000,000 in excess of \$3,000,000
Excess of Loss	Liability	\$500,000	<u>First Excess Cover:</u> \$100,000 in excess of \$500,000
Excess of Loss	Property Catastrophe	\$6,000,000	<u>First Excess Cover:</u> 100% of \$4,000,000 net loss each and every loss occurrence in excess of \$6,000,000 of initial net loss each and every loss occurrence
		\$10,000,000	<u>Second Excess Cover:</u> 100% of \$10,000,000 net loss each and every loss occurrence in excess of \$10,000,000 of initial net loss each and every loss occurrence
		\$20,000,000	<u>Third Excess Cover:</u> 100% of \$45,000,000 net loss each and every loss occurrence in excess of \$20,000,000 initial net loss each and every loss occurrence

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Property Catastrophe	\$65,000,000	<u>Fourth Excess Cover:</u> \$10,000,000 of net loss each occurrence in excess of \$65,000,000; subject to a limit of \$20,000,000 with respect to all loss occurrences
Aggregate	Property	\$5,000,000	\$10,000,000 of net loss in the aggregate excess of \$5,000,000 in the aggregate
Quota Share	Umbrella	5% of \$1,000,000, each occurrence, each policy	95% of \$1,000,000, each occurrence, each policy
Excess of Loss	Umbrella	\$1,000,000, each occurrence, each policy	\$4,000,000 in excess of \$1,000,000, each occurrence, each policy
Facultative Excess of Loss	Property	\$3,000,000	\$5,000,000
Quota Share	Equipment Breakdown		100% of \$50,000 each occurrence

Reinsurance is placed directly by the Society and through the reinsurance intermediaries of Guy Carpenter & Company, LLC and General Re Intermediaries, Corp. All reinsurance agreements in force contain an insolvency clause.

Assumed:

MRB

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 1.0% 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 \$95,000,000 in the aggregate during any one agreement year when written on an aggregate basis.

NAMIC

The Society is part of a reinsurance pool with NAMIC Insurance Company, Inc., under a quota share/retrocessional reinsurance agreement. Pursuant to the agreement, the Society, as retrocessionaire, assumes a small percentage of the ceding insurer's liabilities associated with directors and officers liability, insurance company professional liability, agents errors and omissions, insurance company trustees and fiduciaries liability and professional liability for insurance company associations.

FINANCIAL STATEMENTS

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

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$81,094,054		\$81,094,054
Common stocks	185,179,289		185,179,289
Real estate	814,206		814,206
Cash and cash equivalents	1,648,980		1,648,980
Investment income due and accrued	971,452		971,452
Uncollected premiums and agents' balances in course of collection	76,528		76,528
Current federal income tax recoverable	1,239,417		1,239,417
Guaranty funds receivable or on deposit	182		182
Electronic data processing equipment	57,882	1,273	56,609
Furniture and equipment	85,695	85,695	
Aggregate write-ins for other than invested assets	631,510	389,318	242,192
Totals	<u>\$271,799,195</u>	<u>\$476,286</u>	<u>\$271,322,909</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,160,964
Loss adjustment expenses		744,907
Commissions payable, contingent commissions and other similar charges		394,038
Other expenses		302,806
Taxes, licenses and fees		145,402
Net deferred tax liability		13,937,207
Unearned premiums		6,563,230
Advance premium		443,420
Ceded reinsurance premiums payable		165,676
Payable for securities		303,346
Aggregate write-ins for liabilities		<u>3,097,275</u>
 Total liabilities		 \$29,258,271
 Unassigned funds	 <u>242,064,638</u>	
 Surplus as regards policyholders		 <u>242,064,638</u>
 Totals		 <u><u>\$271,322,909</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$7,641,355</u>
Deductions:	
Losses incurred	\$14,275,985
Loss adjustment expenses incurred	2,331,040
Other underwriting expenses incurred	<u>7,768,531</u>
Total underwriting deductions	<u>\$24,375,556</u>
Net underwriting gain	<u>(\$16,734,201)</u>

INVESTMENT INCOME

Net investment income earned	\$6,594,566
Net realized capital gains	<u>6,449,440</u>
Net investment gain	<u>\$13,044,006</u>

OTHER INCOME

Finance and service charges not included in premiums	\$60
Aggregate write-ins for miscellaneous income	<u>17,816</u>
Total other income	<u>\$17,876</u>
Net income before federal income taxes	(\$3,672,319)
Federal income taxes incurred	<u>(3,044,558)</u>
Net income	<u><u>(\$627,761)</u></u>

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>\$226,728,959</u>	<u>\$230,317,601</u>	<u>\$258,027,902</u>
Net income	(\$3,467,208)	(\$7,258,272)	(\$627,761)
Change in net unrealized capital gains	5,386,139	35,949,244	(16,726,032)
Change in net deferred income tax	1,663,937	(417,540)	674,230
Change in nonadmitted assets	7,023	(207,520)	10,182
Cumulative effect of changes in accounting principles			222,194
Aggregate write-ins for gains and losses in surplus	<u>(1,249)</u>	<u>(355,611)</u>	<u>483,923</u>
Change in surplus as regards policyholders for the year	<u>\$3,588,642</u>	<u>\$27,710,301</u>	<u>(\$15,963,264)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$230,317,601</u></u>	<u><u>\$258,027,902</u></u>	<u><u>\$242,064,638</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$8,127,929
Net investment income	7,116,250
Miscellaneous income	17,877
Total	<u>\$15,262,056</u>
Benefit and loss related payments	\$15,369,657
Commissions, expenses paid and aggregate write-ins for deductions	10,694,918
	<u>\$26,064,575</u>
Total	<u>(\$10,802,519)</u>
Net cash from operations	

Cash From Investments

Proceeds from investments sold, matured or repaid:	\$19,675,324
Other invested assets	15,775,321
Miscellaneous proceeds	448,251
Total investment proceeds	<u>\$35,898,896</u>
Cost of investments acquired (long-term only):	
Bonds	\$19,228,330
Stocks	8,191,922
Real estate	49,857
Total investments acquired	<u>\$27,470,109</u>
Net cash from investments	<u>\$8,428,787</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	264,612
Net cash from financing and miscellaneous sources	<u>\$264,612</u>
Net change in cash and short-term investments	<u>(\$2,109,120)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

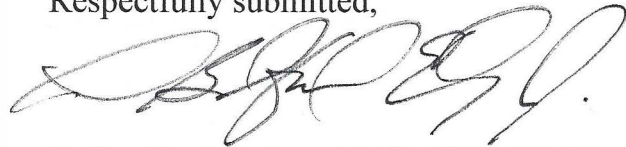
Cash and short-term investments:	
Beginning of year	\$3,758,100
End of year	1,648,980
Net change in cash and short-term investments	<u>(\$2,109,120)</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley', written in a cursive style.

T. Bradford Earley, AIAF, CFE, CPCU
BOI – Manager



Mutual Assurance Society of Virginia

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www.mutual-assurance.com

June 2, 2020

David H. Smith
Chief Examiner
P.O. Box 1157
Richmond, Virginia 21218

Dear Mr. Smith:

Please consider this letter an acknowledgement that we have received and reviewed the draft examination report for the year ending December 31, 2018. Once the report has been filed, we will need a final electronic copy for our files.

Thank you.

Sincerely,

A handwritten signature in black ink that reads "Theresa C. Lewis".

Theresa C. Lewis, CPA, CFE , AIAF, CGMA
Secretary-Treasurer