

**EXAMINATION REPORT**  
**on**  
**PULASKI AND GILES MUTUAL INSURANCE COMPANY**  
**Rich Creek, Virginia**  
**as of**  
**December 31, 2017**

**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 Pulaski and Giles Mutual 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 4<sup>th</sup> day of April 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  
January 15, 2019

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

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, a financial examination of the records and affairs of the

**PULASKI AND GILES MUTUAL INSURANCE COMPANY**  
Rich Creek, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is 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, 2014. This 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 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 insurance company licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. The Company was organized on March 28, 1896, under the authority of a charter granted to the Mutual Association, which had the power to create divisions for the purpose of mutual insurance against loss by fire, wind, and lightning. The Company obtained a separate charter, which was approved by an Act of the General Assembly of Virginia on February 28, 1900. This charter was subsequently amended by an Act approved on March 2, 1900. According to the Restatement of its Articles of Incorporation, the purpose of the Company is as follows:

... to engage in the business of a mutual assessment property and casualty insurance company as defined in Va. Code Ann. § 38.2-2501 (2007) with the full authority to transact mutual assessment insurance as defined in Va. Code Ann. § 38.2-2501 (2007) and to insure perils and property to the full extent permitted by Chapter 25 of Title 38.2 of the Code of Virginia, titled "*Mutual Assessment Property and Casualty Insurers.*"

On September 29, 2016, the Company entered into an affiliation agreement with Farmers and Mechanics Mutual Insurance Company of West Virginia (Farmers and Mechanics). As part of the agreement Farmers and Mechanics performs all management, administrative, underwriting, claims and policyholder servicing duties on behalf of the Company in exchange for a management fee.

On December 31, 2017, the Company completed a merger with Dan River Mutual Fire Insurance Company (Dan River). Dan River was also a mutual assessment property and casualty insurance company licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. The Company remained as the surviving entity after the merger.

### **MANAGEMENT AND CONTROL**

According to the bylaws, management of the Company is vested in a board of five directors. At each annual meeting, the members elect up to two-fifths of the board. The directors are elected for a term of three years. The Company officers are the president, vice president, secretary, and treasurer. The president and vice president must be separate individuals, must be members, and are part of the board. However, the secretary and treasurer may be the same individual and need not be members or part of the Board. If the

secretary or treasurer are elected and are not board members, they will be considered non-voting, ex-officio member of the board. A board of directors meeting is held yearly following the conclusion of the members meeting. Additional meetings may be called by the president, secretary, or two or more members of the board. At least three directors must be present at a meeting in order to constitute a quorum for the transaction of business. The bylaws were last revised in 2016.

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

<u>Director</u>	<u>Principal Occupation</u>
Foster L. Sirbaugh, Jr	President/Chief Executive Officer Farmers and Mechanics
Daniel R. Otto	Senior Vice President/Chief Financial Officer Farmers and Mechanics
James W. Dailey, II	Self-Employed Contractor and Chairman of the Board Farmers and Mechanics
Michelle W. Delung	Executive Manager of Rich Creek Development
J.B. Buckland	Farmer
<u>Officers</u>	<u>Title</u>
Foster L. Sirbaugh, Jr	President
Dan R. Otto	Vice President
J.B. Buckland	Secretary
Dan R. Otto	Treasurer

**TERRITORY AND PLAN OF OPERATION**

The Company writes insurance throughout Virginia and currently writes Homeowners, Mobile Homeowners, Farm Owners, Farm Fire, and Dwelling Fire policy forms.

New business is primarily solicited by independent agents who quote the insurance and submit applications to the Company for approval. A significant portion of the Company's older policies are still serviced by the Company directly. The Company cedes all property exposure over \$30,000 per risk and it cedes 100% of liability exposures. The Company also maintains reinsurance that cedes up to \$500,000 in losses in excess of a 65% loss ratio.

Claims adjudication is handled by Farmers and Mechanics through the affiliation agreement.

### GROWTH OF THE COMPANY

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

<u>Year</u>	Net <u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	Unassigned <u>Surplus</u>
2008	\$1,143,053	\$98,480	\$1,044,573
2009	1,199,165	97,394	1,101,771
2010	1,245,981	95,298	1,150,683
2011	1,183,286	96,376	1,086,910
2012	1,194,671	93,444	1,101,227
2013	1,208,999	93,199	1,115,800
2014	1,174,410	92,812	1,081,598
2015	1,147,718	92,234	1,055,484
2016	1,146,110	99,091	1,047,019
2017 *	1,968,258	332,137	1,636,121

<u>Year</u>	Net <u>Assessments</u>	Investment <u>Income</u>	Net Losses <u>Paid</u>	Number of <u>Policies</u>	Insurance <u>in Force</u>
2008	\$101,928	\$47,718	\$75,544	769	\$26,227,950
2009	101,415	37,407	19,580	753	26,288,400
2010	97,441	23,298	13,463	734	25,720,100
2011	98,350	17,341	117,975	721	26,007,800
2012	96,027	13,638	39,513	696	25,407,800
2013	96,350	12,279	38,508	681	25,264,500
2014	95,661	10,010	770	668	25,441,700
2015	95,024	9,935	70,875	657	25,442,550
2016	90,989	11,121	23,598	621	24,434,450
2017 *	117,476	10,789	29,443	705	36,755,237

\*- Includes the results of the merger of Dan River into Company.



**REINSURANCE**

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

<u>Lines Covered</u>	<u>Type of Contract</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Property	Property Per Risk Excess of Loss	\$30,000	\$270,000 per risk, \$810,000 per occurrence
Casualty	Casualty Quota Share of Loss	\$0	\$1,000,000 max for line
Property	Aggregate Excess of Loss	100% of Ultimate Net Loss amount equal to less than 65% of Gross Net Earned Premium Income	100% of 500,000 in Ultimate Net Loss in excess of 65% of Gross Net Earned Premium Income
Property (Facultative)	Property Facultative Per Risk Excess of Loss	100% of Ultimate Net Loss equal to less than \$300,000 each risk, each loss	100% of Ultimate Net Loss in excess of \$300,000 each loss, each risk, subject to a limit of \$1,000,000 each loss, each risk

All reinsurance is placed through Guy Carpenter & Company, LLC, a reinsurance intermediary.

**FINANCIAL STATEMENTS**

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

**INCOME FOR THE PERIOD UNDER REVIEW**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net assessments received	\$95,024	\$90,989	\$117,476
Interest on investments	9,935	11,121	10,789
Amounts withheld from employees	2,902	2,845	
Other income	170		810
	<u>          </u>	<u>          </u>	<u>          </u>
Total income	\$108,031	\$104,955	\$129,075
	<u>          </u>	<u>          </u>	<u>          </u>
Deduct total disbursements	136,097	107,631	1,000,024
	<u>          </u>	<u>          </u>	<u>          </u>
Net income	(\$28,066)	(\$2,676)	(\$870,949)
	<u>          </u>	<u>          </u>	<u>          </u>
Add ledger assets December 31, previous year	1,178,908	1,150,842	2,837,900
	<u>          </u>	<u>          </u>	<u>          </u>
Ledger assets December 31, current year	<u>\$1,150,842</u>	<u>\$1,148,166</u>	<u>\$1,966,951</u> *

\* - 2017 results reflect completion of merger with Dan River

**DISBURSEMENTS FOR THE PERIOD UNDER REVIEW**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net losses paid	\$70,875	\$23,598	\$29,443
Loss adjustment expense	600	525	1,763
Commission and brokerage	18,000	4,575	9,436
Gross salaries	18,800	18,065	139,463
Directors' fees	4,275	22,464	25,075
Travel and travel items	1,091	180	2,627
Boards, bureaus and associations	1,705	1,761	2,363
Legal and auditing	3,985	3,985	31,679
Outside inspection, loss prevention and survey services			2,964
Furniture, fixtures and equipment	1,140		
Rent, office and equipment maintenance	4,800	4,800	4,800
Advertising	97		
Printing and stationery		2,222	604
Postage, telephone and express	2,109	2,185	1,429
Insurance and fidelity bonds	326		
Data processing		17,188	91,609
Taxes, licenses and fees	1,542	1,613	5,250
Payroll items	4,433	4,272	10
Bank fees			27
Dan River merger adjustments	2,319	198	651,482
Total disbursements for the year	<u>\$136,097</u>	<u>\$107,631</u>	<u>\$1,000,024</u> *

\* - 2017 results reflect completion of merger with Dan River

**ASSETS**

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$910,000			\$910,000
Cash on deposit	1,046,443			1,046,443
Interest due and accrued		1,307		1,307
Assessments due	<u>10,508</u>			<u>10,508</u>
 Total assets	 <u><u>\$1,966,951</u></u>	 <u><u>\$1,307</u></u>	 <u><u>\$0</u></u>	 <u><u>\$1,968,258</u></u> *

**LIABILITIES, SURPLUS AND OTHER FUNDS**

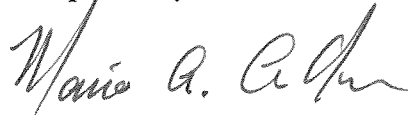
Net unpaid losses	\$201,000
Fees or commissions payable	607
Other expenses due or accrued	22,042
Taxes, licenses and fees	3,651
Ceded reinsurance balances payable	(5,462)
Assessments unearned	<u>110,299</u>
 Total liabilities	 \$332,137
 Excess of admitted assets over liabilities (surplus)	 <u>1,636,121</u>
 Total	 <u><u>\$1,968,258</u></u> *

\* - 2017 results reflect completion of merger with Dan River

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the Secretary-Treasurer during the examination is gratefully acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is written in a cursive style with a large initial "M".

Mario A. Cuellar, CFE  
Senior Insurance Examiner



**FARMERS &  
MECHANICS**  
INSURANCE COMPANIES

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March 29, 2019

David Smith, Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
PO Box 1157  
Richmond, VA 23218

RE: Acknowledgement of receipt of Pulaski and Giles Mutual Insurance Company Examination Report

Dear Mr. Smith:

Pulaski and Giles Mutual Insurance Company acknowledge receipt of the Pulaski and Giles Mutual Insurance Company Examination report.

Thank you for your assistance in this matter.

Regards

Foster L. Sirbaugh, Jr.  
President  
Pulaski and Giles Mutual Insurance Company