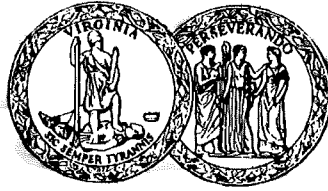


**ASSOCIATION EXAMINATION REPORT**  
**on**  
**ROCKINGHAM CASUALTY COMPANY**  
**Harrisonburg, Virginia**  
**as of**  
**December 31, 2018**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA



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

**P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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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 Rockingham Casualty 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 12<sup>th</sup> day of November 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  
August 6, 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, an examination of the affairs and financial condition of

**ROCKINGHAM CASUALTY COMPANY**

Harrisonburg, Virginia,

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

**SCOPE OF THE EXAMINATION**

The last examination made by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) was as of December 31, 2015. This 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 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 services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2018.

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 stock property and casualty insurer. The Company was granted a charter by the Commission on November 30, 1982, and licensed by the Bureau on December 1, 1983.

Effective January 1, 2010, the Company and Rockingham Mutual Insurance Company formed an Alliance with the Norfolk & Dedham Group to share resources while still maintaining independent boards, company autonomy and identity. The Alliance was dissolved as of December 31, 2010.

Effective November 1, 2013, a Mutual Holding Company system was formed under a Plan of Conversion approved by policyholders and the Bureau. Pursuant to the plan, Rockingham Mutual Group, Inc. (RMG) was formed as a mutual holding company, and Rockingham Group Inc. (RGI) was formed as a stock holding company subsidiary of RMG. Rockingham Mutual Insurance Company, the Company's direct parent, was converted to a stock company and its name was changed to Rockingham Insurance Company (RIC).

According to the charter, the purpose for which the Company was organized is to carry on and conduct the business of an insurance company, and undertake the issuance of coverage in the following classes of insurance:

Accident and sickness, fire, miscellaneous property, water damage, burglary and theft, glass insurance, boiler and machinery, animal, personal injury liability, workers compensation and employers' liability, fidelity, surety, credit, motor vehicle, aircraft, marine, legal services insurance, homeowners insurance, farmowners insurance, commercial multi-peril insurance, and contingent and consequential losses.

The Company is authorized by its charter, as amended on July 25, 2001, to issue 5,000 shares of common stock with a par value of \$200 per share.

## MANAGEMENT AND CONTROL

According to the bylaws, management of the Company shall be vested in a board of directors (board) of not less than 5 nor more than 13 persons who shall be elected at the annual meeting of the stockholders. The directors shall be elected for a term of one year and shall serve until their successors are elected and qualified.

The bylaws provide that the directors shall elect the officers of the Company. The officers shall be a chairman of the board, a vice chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, and a chief financial officer. The board may, if it desires, elect additional officers. The president, chairman, and vice-chairman must be directors but the other officers need not be directors. Any two or more offices may be held by the same persons except the offices of president and secretary and the offices of chairman and vice chairman of the board. At December 31, 2018, the board and officers of the Company were as follows:

### Directors

### Principal Business Affiliation

Gene Patrick Berry

Vice President and Chief Information Officer  
One America Financial Partners  
Indianapolis, Indiana

Michelle Suzanne Cox

Consultant  
Cross Junction, VA

Douglas Gene Driver

Chairman of the Board  
Lantz Construction Company  
Broadway, Virginia

Horace Rogers Higgins, III

Principal  
OneDigital Health & Benefits  
Charlottesville, Virginia

Anne Burns Keeler

Chief Financial Officer  
Bridgewater College  
Staunton, Virginia

Robert Lehman Lyon

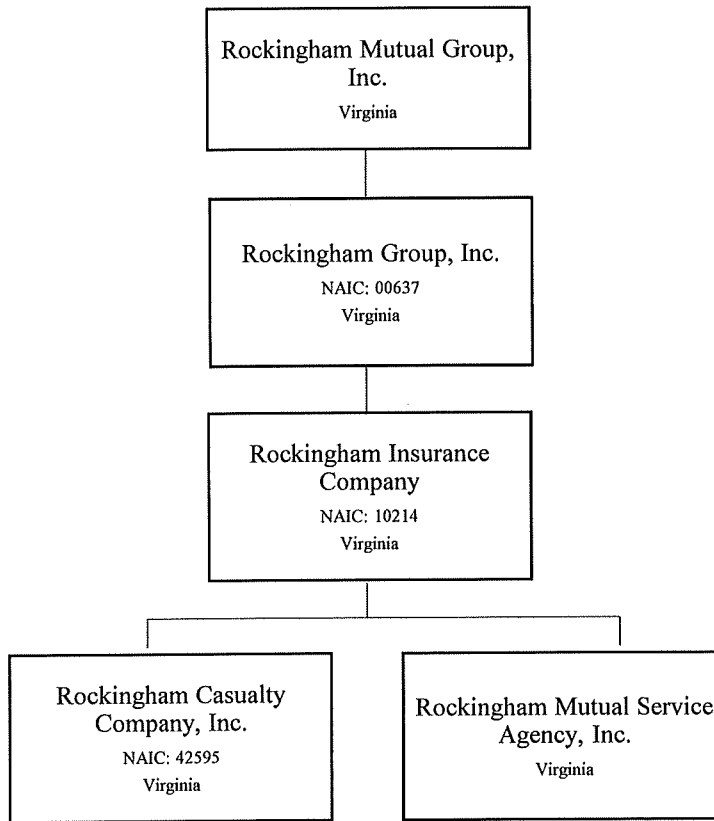
President and Chief Executive  
Officer of the Company  
Harrisonburg, Virginia

Timothy Gerald O'Shea	Chief Operating Officer Clearview Logix, LLC Richmond, Virginia
Todd Andrew Putney	Vice President, Human Resources Medical Facilities of America Roanoke, VA
Christopher Scott Runion	President Eddie Edwards Signs Harrisonburg, Virginia
Pamela Lynette Turner	Retired, Chief Financial Officer University of Virginia Credit Union Charlottesville, Virginia

#### Officers

Gene P. Berry	Chairman of the Board
Timothy G. O'Shea	Vice Chairman of the Board
Robert L. Lyon	President and Chief Executive Officer
John K. Schwertfuehrer	Chief Financial Officer and Treasurer
William E. Bayer	Vice President – Marketing
Deborah L. Van Horn	Vice President – Specialty Lines and Secretary
Steven E. Kemp	Vice President – Underwriting
Lou S. Pugh	Vice President – Claims
Chad J. Covelli	Vice President – Insurance Analytics
Eugene Vatnik	Chief Information Officer

The Company is a wholly owned subsidiary of RIC. The following organizational chart illustrates this relationship as of December 31, 2018.





## **RELATED PARTY TRANSACTIONS**

### **Services Agreement:**

The Company has a services agreement in effect with its parent, RIC, and an affiliate, Rockingham Mutual Service Agency, Inc. (RMSA). Under the terms of the agreement, RIC will provide facilities and services to the Company and RMSA including, but not limited to, management, administration, claims operations, accounting, and personnel. RIC will also execute the payment of agent commissions and fees, and administer all reinsurance agreements.

In consideration for these services, RMSA and the Company will reimburse RIC for the actual cost of agent commissions and fees paid by RIC. The Company will also reimburse RIC for the Company's net cost of reinsurance premiums paid by RIC. Settlement of all services and expenses will be on an actual or allocated percentage basis with payments made to RIC within approximately 90 days after the end of the month to which they are applicable. During the period under review, the Company paid RIC \$4,248,507, \$2,141,423 and \$4,773,115 in 2016, 2017, and 2018, respectively.

### **Tax Sharing Agreement:**

The Company is a party to a tax sharing agreement with RIC and RMSA, which provides for the filing of a consolidated federal income tax return. The income tax expense is allocated using the separate return method with current credit for net losses. Intercompany tax balances are settled annually in the fourth quarter.

### **Capital Contributions:**

The Company did not receive any capital contributions, nor did it pay any dividends to RIC during the period covered by this examination.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact business in Virginia and Pennsylvania and is eligible to write surplus lines in 49 states and the District of Columbia. In Virginia, the Company is licensed to transact the business of auto liability, auto physical damage, fire, miscellaneous property and casualty, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, liability other than auto, fidelity, surety, glass, burglary and theft, boiler and machinery, animal, credit property, and ocean marine. In Pennsylvania, the Company is licensed to transact the business of auto liability, burglary and theft, inland marine, auto physical damage, personal property floater, boiler and machinery, glass, other liability, and property and allied lines.

The Company utilizes RIC's personnel and facilities. Business is marketed by exclusive and independent agents. The agents bind risks when applications are accepted in the field from qualified applicants. Policies are then issued from the home office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that his coverage will be cancelled in accordance with policy language and state laws.

Claims in Virginia are adjusted by RIC's personnel, where practical, otherwise they are adjusted by independent adjusters. Claims in Pennsylvania are assigned to an independent adjuster near the insured's location. All claims are processed at the home office.

The Company pays expenses that can be directly attributed to it. Expenses applicable to more than one company in the group are pro-rated using the most appropriate methodology for the subject expense.

### **REINSURANCE**

The Company entered into a quota share reinsurance agreement with RIC effective January 1, 2010. This agreement provides for the Company to cede 100% of its ultimate net loss, net loss adjustment expense, net underwriting expense, and finance and service charges to RIC.

### 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, 2018:

<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>
2009	\$42,781,325	\$19,687,482	\$1,000,000	\$7,000,000	\$15,093,843
2010	45,102,148	20,581,579	1,000,000	7,000,000	16,520,569
2011	46,959,927	21,058,789	1,000,000	7,000,000	17,901,138
2012	29,600,002	2,643,811	1,000,000	7,000,000	18,956,191
2013	31,707,242	4,153,861	1,000,000	7,000,000	19,553,381
2014	34,981,825	6,896,922	1,000,000	7,000,000	20,084,903
2015	32,791,342	4,073,647	1,000,000	7,000,000	20,717,695
2016	30,724,994	1,577,874	1,000,000	7,000,000	21,147,120
2017	30,384,768	967,777	1,000,000	7,000,000	21,416,991
2018	36,062,712	6,273,312	1,000,000	7,000,000	21,789,400

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2009	\$13,984,090	\$9,740,068	\$4,400,770	(\$156,748)
2010	0	0	0	0
2011	0	0	0	0
2012	0	0	0	0
2013	0	0	0	0
2014	0	0	0	0
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	0	0

**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	\$16,889,659		16,889,659
Cash and short-term investments	3,923,652		3,923,652
Investment income due and accrued	128,233		128,233
Uncollected premiums and agents' balances in the course of collection	2,313,183		2,313,183
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,268,252		6,268,252
Amounts recoverable from reinsurers	6,411,391		6,411,391
Net deferred tax asset	27,313		27,313
Guaranty funds receivable or on deposit	42		42
Electronic data processing equipment and software	1,463		1,463
Receivables from parent, subsidiaries, and affiliates	500		500
Aggregate write-ins	99,024		99,024
Totals	<u>\$36,062,712</u>	<u>\$0</u>	<u>\$36,062,712</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Commissions payable, contingent commissions and other similar charges		(\$7,448,016)
Other expenses		(979,813)
Taxes, licenses and fees		191,248
Current federal income taxes		168,823
Advance premium		287,262
Ceded reinsurance premiums payable		13,710,442
Payable to parent, subsidiaries, and affiliates		<u>343,366</u>
 Total liabilities		 \$6,273,312
 Common capital stock	 \$1,000,000	
Gross paid in and contributed surplus	7,000,000	
Unassigned funds (surplus)	<u>21,789,400</u>	
 Surplus as regards policyholders		 <u>29,789,400</u>
 Totals		 <u><u>\$36,062,712</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$0
Deductions:	
Losses incurred	\$0
Loss expenses incurred	0
Other underwriting expenses incurred	0
Total underwriting deductions	\$0
Net underwriting gain	\$0

INVESTMENT INCOME

Net investment income earned	\$441,193
Net realized capital gains	20,580
Net investment gain	\$461,773

OTHER INCOME

Finance and service charges not included in premiums	\$0
Aggregate write ins for miscellaneous income	0
Total other income	\$0
Net income before federal income taxes	\$461,773
Federal income tax incurred	80,764
Net income	\$381,009

**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>\$28,717,695</u>	<u>\$29,147,120</u>	<u>\$29,416,991</u>
Net income	\$414,313	\$276,331	\$381,009
Change in net unrealized capital gains or losses			(21,625)
Change in net deferred income tax	13,000	(6,460)	13,025
Change in nonadmitted assets	<u>2,112</u>		
Change in surplus as regards policyholders for the year	<u>\$429,425</u>	<u>\$269,871</u>	<u>\$372,409</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$29,147,120</u></u>	<u><u>\$29,416,991</u></u>	<u><u>\$29,789,400</u></u>



## STATEMENT OF CASH FLOW

### Cash From Operations

Premiums collected net of reinsurance	\$9,088,677
Net investment income	511,874
Total	\$9,600,551
Benefits and loss related payments	\$1,905,747
Commissions, expenses paid and aggregate write-ins for for deductions	3,770,438
Total	\$5,676,185
Net cash from operations	\$3,924,366

### Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,991,477
Total investment proceeds	\$2,991,477
Cost of investments acquired (long-term only):	
Bonds	\$3,705,056
Total investments acquired	\$3,705,056
Net cash from investments	(\$713,579)

### Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	(230,438)
Total	(\$230,438)
Net cash from financing and miscellaneous sources	(\$230,438)
Net change in cash and short-term investments	\$2,980,349

### RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$943,303
End of year	3,923,652
Net change in cash and short-term investments	\$2,980,349

**SUBSEQUENT EVENT**

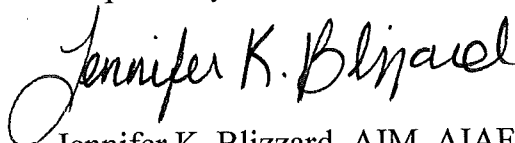
On April 16, 2019, Rockingham Mutual Group, Inc. received tentative approval for Rockingham Specialty, Inc. Rockingham Specialty will serve as a domestic surplus lines insurer in Virginia and will be a subsidiary of Rockingham Group, Inc.

**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, T. Bradford Earley, Jr., AIAF, CFE, CPCU and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jennifer K. Blizzard". The signature is written in black ink and is positioned above the printed name.

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



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November 1, 2019

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

Re: Rockingham Casualty Company  
Examination Report as of December 31, 2018

Dear Mr. Smith:

This is in response to your letter dated October 8, 2019, regarding the Rockingham Casualty Company Examination Report as of December 31, 2018 that was recently completed by the Virginia Bureau of Insurance.

We have reviewed the draft copy of the examination report and since we do not take issue with any item contained in it, we do not wish to request a hearing before the State Corporation Commission.

I would like to express my thanks to the examination team for the efficient and professional manner in which they handled themselves while they were on-site completing the examination fieldwork.

In terms of the final report, five copies should be sufficient for our needs.

Sincerely,

Robert L. Lyon  
President and Chief Executive Officer

cc: Mr. Gene Berry, Chairman of the Board of Directors  
Ms. Anne B. Keeler, Chair of the Audit Committee  
Mr. John K. Schwertfuehrer, Chief Financial Officer & Treasurer

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Wherever you are, we're *here*.