

EXAMINATION REPORT
on
VIRGINIA FARM BUREAU
TOWN AND COUNTRY 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 Town and Country 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 22nd day of January 2019

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 by authority of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of

**VIRGINIA FARM BUREAU
TOWN AND COUNTRY INSURANCE COMPANY**

Richmond, 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, 2017. This examination covers the period from January 1, 2015 through December 31, 2017.

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 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 Fire and Casualty Insurance Company	Virginia
Countryway Insurance Company	New York

The services of Merlinos & 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 issued a certificate of incorporation on April 5, 1993, by the Virginia State Corporation Commission (Commission). According to the Articles of Incorporation, the purposes for which the Company was organized are as follows:

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, ...

To cede to or accept from any insurer reinsurance upon the whole or any part of any risk, with or without contingent liability or participation.

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 conduct of any and all acts incidental to carrying into effect the purposes as aforesaid.

The Company's authorized capital is 10,000,000 shares of common stock with a par value of \$2 per share. Initial capitalization consisted of 500,000 shares issued and outstanding, with paid in surplus in the amount of \$3,500,000. At initial licensing, Virginia

Farm Bureau Mutual Insurance Company (VFBMIC) was the sole owner of the Company and held all of the issued and outstanding stock. 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 Fire and Casualty Insurance Company (VFBFCIC) 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 in surplus to the Company. In 1998, the Company received \$5,000,000 in additional paid in capital from the parent.

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 to be a stockholder of the Company, but all must be members of the Board of Directors of the Federation. The bylaws further provide that the directors be elected at the regular annual meeting of the Company by the stockholders for the term of one year. A majority of the members of the Board of Directors constitutes a quorum for the transaction of business.

The bylaws do not require any committees to be established; however, three standing committees, a budget and audit committee, a compensation committee, and an investment and finance committee, have been established to date. 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 of Directors may deem necessary. At December 31, 2017, the directors and officers of the Company were as follows:

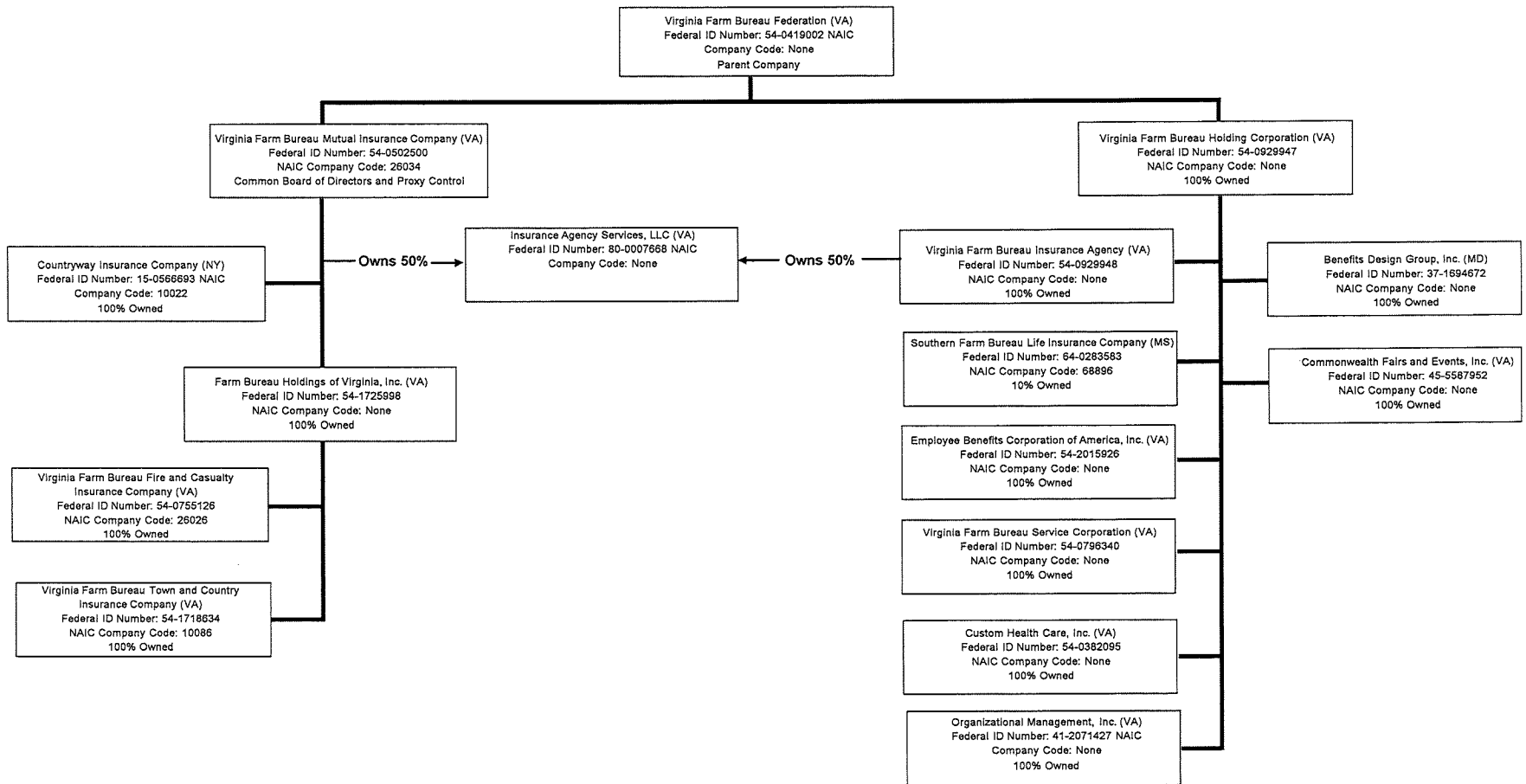
<u>Director</u>	<u>Business or Affiliation</u>	<u>County of Residence</u>
Wayne F. Pryor	Farmer/President of the Company	Goochland
Emily F. Edmondson	Farmer	Tazewell
Marvin L. Everett	Farmer	Southampton
Thomas E. Graves, Jr.	Farmer	Orange
David L. Hickman	Farmer	Accomack
Alice F. Hundley	Secretary	Essex
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

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

OfficersTitle

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 September 14, 1994. Under the terms of the Agreement, VFBMIC is responsible for performing and providing accounting, financial, investment, actuarial, underwriting, claims and computer services for the Company. As compensation for these services, the Company will pay VFBMIC a monthly fee equal to the actual cost of the labor and expenses incurred in the performance of the services. The service fee shall be paid within 10 days of the receipt of the Company's accounting of the incurred expenses. The Company incurred expenses of \$19,604,691, \$19,705,544 and \$19,446,619 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 VFBFCIC. 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, farmowners' 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 his 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	\$49,997,493	\$34,404,948	\$1,000,000	\$13,500,000	\$1,092,545
2009	51,755,847	34,518,948	1,000,000	13,500,000	2,736,899
2010	53,551,326	35,193,955	1,000,000	13,500,000	3,857,371
2011	60,293,668	42,340,353	1,000,000	13,500,000	3,453,315
2012	62,107,618	44,264,430	1,000,000	13,500,000	3,343,188
2013	71,252,148	51,414,652	1,000,000	13,500,000	5,337,496
2014	65,748,686	44,402,544	1,000,000	13,500,000	6,846,142
2015	66,929,080	43,580,918	1,000,000	13,500,000	8,848,162
2016	66,691,884	42,631,061	1,000,000	13,500,000	9,560,823
2017	68,101,723	43,426,070	1,000,000	13,500,000	10,175,653

<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	\$14,750,988	\$8,167,918	\$608,780
2009	22,994,470	15,149,570	8,341,094	(496,194)
2010	22,945,444	14,388,481	9,428,574	(871,611)
2011	25,450,116	20,000,497	7,891,724	(2,442,105)
2012	26,823,649	20,161,466	8,485,183	(1,823,000)
2013	26,826,897	18,422,931	8,160,557	243,409
2014	26,768,848	17,462,901	8,005,380	1,300,567
2015	26,816,068	18,384,620	7,846,515	584,933
2016	27,037,753	19,549,297	8,330,782	(842,326)
2017	28,414,042	19,629,868	8,866,918	(82,744)

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>
Property Per Risk Excess of Loss	Property (except auto physical damage)	\$300,000 each risk	\$4,700,000
Facultative Excess of Loss	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 Excess of Loss	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)

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Quota Share	Casualty (Umbrella Liability)	15% of first \$1,000,000	85% of first \$1,000,000; 100% up to \$15,000,000
Excess of Loss	Farm Pollution Liability (Claims Made)	\$500 each incident	\$1,000,000

Affiliate Agreements:

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 one half of one percent of premiums ceded business. The Bureau approved this agreement.

Reinsurance Pooling Agreement:

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBMIC and VFBFCIC 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 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 the accident years 2015 through 2017, the respective Boards elected to retain the above percentages.

All agreements have an insolvency clause.

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	\$50,747,243		\$50,747,243
Cash and cash equivalents	3,640,546		3,640,546
Investment income due and accrued	496,264		496,264
Uncollected premiums and agents' balances in course of collection	2,651,457	9,022	2,642,435
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,002,076		6,002,076
Amounts recoverable from reinsurers	3,591,636		3,591,636
Net deferred tax asset	999,490	18,176	981,314
Guaranty funds receivable or on deposit	209		209
Totals	<u>\$68,128,921</u>	<u>\$27,198</u>	<u>\$68,101,723</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$13,343,853
Reinsurance payable on paid losses and loss adjustment expenses		1,683,176
Loss adjustment expenses		1,339,046
Taxes, licenses and fees		246,603
Current federal income taxes		282,394
Unearned premiums		20,866,769
Advance premium		681,155
Ceded reinsurance premiums payable		3,193,238
Payable to parent, subsidiaries and affiliates		<u>1,789,836</u>
Total liabilities		\$43,426,070
Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	13,500,000	
Unassigned funds	<u>10,175,653</u>	
Surplus as regards policyholders		<u>24,675,653</u>
Totals		<u><u>\$68,101,723</u></u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$28,414,042</u>
Deductions:	
Losses incurred	\$16,959,540
Loss adjustment expenses incurred	2,670,328
Other underwriting expenses incurred	<u>8,866,918</u>
Total underwriting deductions	<u>\$28,496,786</u>
Net underwriting loss	<u>(\$82,744)</u>

INVESTMENT INCOME

Net investment income earned	\$1,314,654
Net realized capital losses	<u>(80,515)</u>
Net investment gain	<u>\$1,234,139</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$15,977)
Finance and service charges not included in premiums	<u>431,594</u>
Total other income	<u>\$415,617</u>
Net income before federal income taxes	\$1,567,012
Federal income taxes incurred	<u>273,390</u>
Net income	<u><u>\$1,293,622</u></u>

CAPITAL AND SURPLUS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31, previous year	<u>\$21,346,142</u>	<u>\$23,348,162</u>	<u>\$24,060,823</u>
Net income	\$2,031,691	\$766,677	\$1,293,622
Change in net deferred income tax	(42,895)	(52,947)	(669,702)
Change in nonadmitted assets	13,224	931	(11,090)
Change in provision for reinsurance	<u> </u>	<u>(2,000)</u>	<u>2,000</u>
Change in surplus as regards policyholders for the year	<u>\$2,002,020</u>	<u>\$712,661</u>	<u>\$614,830</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$23,348,162</u></u>	<u><u>\$24,060,823</u></u>	<u><u>\$24,675,653</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$28,358,856
Net investment income	1,947,136
Miscellaneous income	415,617
Total	<u>\$30,721,609</u>
Benefit and loss related payments	\$16,914,271
Commissions, expenses paid and aggregate write-ins for deductions	11,506,964
Federal income taxes paid	158,394
Total	<u>\$28,579,629</u>
Net cash from operations	<u>\$2,141,980</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$7,027,902
Stocks	4,697,883
Total investment proceeds	<u>\$11,725,785</u>
Cost of investments acquired (long-term only):	
Bonds	\$10,393,882
Total investments acquired	<u>\$10,393,882</u>
Net cash from investments	<u>\$1,331,903</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$165,682
Net cash from financing and miscellaneous sources	<u>\$165,682</u>
Net change in cash and short-term investments	<u>\$3,639,565</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

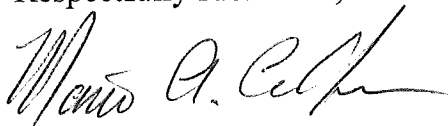
Cash and short-term investments:	
Beginning of year	\$981
End of year	3,640,546
Net change in cash and short-term investments	<u>\$3,639,565</u>

ACKNOWLEDGMENT

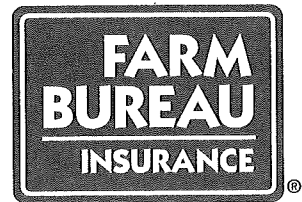
The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Christopher J. Collins, CFE, and T. Bradford Earley, Jr., CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping tail.

Mario A. Cuellar, CFE
Insurance Principal Financial Analyst



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 Town & Country 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.

Regards,

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

Wayne F. Pryor, President
Virginia Farm Bureau Town & Country Insurance Company