

PROCEEDINGS BEFORE MICHAEL D. RIELY  
INSURANCE COMMISSIONER  
OF THE STATE OF WEST VIRGINIA

FILED

2012 MAY 31 AM 10: 28

OFFICE WEST VIRGINIA  
STATE

IN RE: MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA

Administrative Proceeding No.: 12-AP-FINCON-02006

AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND  
DIRECTING ACTION

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2010, of MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA (hereinafter referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
2. The Company was incorporated on May 20, 1911 and authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 22 of the West Virginia Code.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2006 and ending December 31, 2010, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On April 4, 2012, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about April 4, 2012, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On April 10, 2012, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated April 30, 2012, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and concurred with the findings of the examination. A copy of the Company's response letter of April 30, 2012, is attached hereto as Exhibit B. By the letter dated April 30, 2012, the Company concurs with the findings.

#### CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

**ORDER**

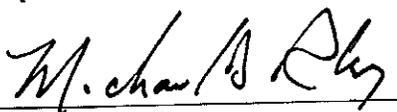
It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the REPORT OF FINANCIAL EXAMINATION of MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.
2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.
3. It is **ORDERED** that MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).
4. It is **ORDERED** that MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.
5. That MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and

Directing Action. MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

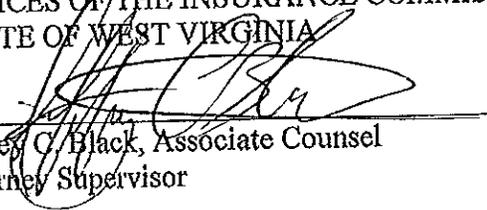
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 22<sup>nd</sup> day of May, 2012.

  
Michael D Riley  
~~Acting~~ Insurance Commissioner

THE PARTIES DO SO AGREE:

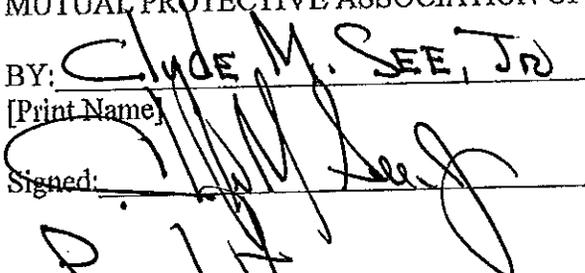
OFFICES OF THE INSURANCE COMMISSIONER  
STATE OF WEST VIRGINIA

By:   
Jeffrey C. Black, Associate Counsel  
Attorney Supervisor

5/22/12  
Date

MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA

BY: CLYDE M. SEE, JR  
[Print Name]

Signed: 

Its: PRESIDENT

Dated: 5/17/2012

Report of Examination  
as to the Financial Condition

of the

The Mutual Protective Association of West Virginia  
Post Office Box 5  
Baker, West Virginia 26801

as of

December 31, 2010

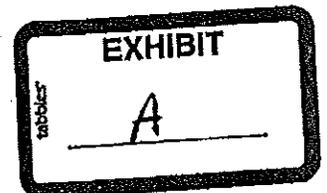


TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE #</u>
SCOPE OF EXAMINATION	3
Period Covered by Examination	3
Examination Procedure Employed	3
Update of Previous Examination Findings	3
HISTORY	6
General	6
Management	6
Conflict of Interest Procedure	6
Corporate Records (Charter, Bylaws, and Minutes)	7
FIDELITY BOND AND OTHER INSURANCE	8
Fidelity Coverage	8
Other Insurance Coverage	8
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	8
REINSURANCE	9
ACCOUNTS AND RECORDS	10
FINANCIAL STATEMENTS	11
Statement of Assets, Liabilities and Surplus to Policyholders	12
Statement of Income and Disbursements	13
NOTES TO FINANCIAL STATEMENTS	15
SUMMARY OF EXAMINATION FINDINGS-PREVIOUS AND CURRENT	16
SURPLUS	16
CONCLUSION	16

Baker, West Virginia  
April 3, 2012

Honorable Michael Riley  
WV Offices of the Insurance Commissioner  
1124 Smith Street  
Charleston, West Virginia 25301

Dear Commissioner Riley:

Pursuant to your instructions, an examination has been made as of December 31, 2010 of the financial condition and operational affairs of the

**THE MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA**  
Baker, West Virginia

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered by Examination**

The Company was last examined as of December 31, 2005. The current examination is made as of December 31, 2010 and covered the five-year period from January 1, 2006 through December 31, 2010.

**Examination Procedures Employed**

This examination was conducted in accordance with procedures, rules and regulations established by the state of West Virginia as well as guidelines and procedures set forth in the Examiner's Handbook adopted by the National Association of Insurance Commissioners. In addition the work papers and reports of the Company's independent public accounting firm were reviewed and utilized where appropriate.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations were made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible Company officials during the course of the examination.

**Update of Previous Examination Findings**

As a result of the prior examination, the following recommendations were made.

1. It was recommended that a specified dollar amount be established and voted on by the Board to require original signatures on checks issued on or above the stated amount and all agent commission checks require original signatures of two officers.

Recommendation was not implemented.

2. Access to Company's safe deposit box currently requires only one signature. It is recommended that this provision be changed to require the signatures of two officers or responsible employees for entry.

Recommendation was not implemented.

3. A review of paid losses and loss adjustment expense showed losses incurred in one year and not paid until the following year yet a liability was not recorded on the financial statements the year of the loss. It was recommended that the Company comply with WV Code 33-7-5(b) by establishing a reserve in the amount estimated to be necessary to pay all of its unpaid losses and associated unpaid adjusting expenses incurred during the reporting year.

It appears the Company is complying with recommendation, but is not consistent in reporting every year.

4. It is recommended that the Company undertake actions to comply with its By-Laws, and the WV Code 33-22-5(a) and (b), concerning directors, and election.

The Company has complied with this recommendation.

5. It is recommended that amendments to the charter or bylaws be executed in accordance with the WV Code 33-22-5(e).

The Company has complied with this recommendation.

6. It is recommended that those who have access to cash and investments be bonded as in accordance with the National Association of Insurance Commissioners' Examiners Handbook. This includes the people who have the ability to authorize wire transfers, write checks and those who can buy, sell or transfer investments.

The Company has complied with this recommendation.

7. As in accordance with West Virginia Code 33-38-6(c), it is recommended that the Company annually obtain a copy of statements of the financial condition of the reinsurance intermediary-broker with which it transacts business.

Review of the records and discussion with Company personnel revealed that the annual financial condition of the broker/intermediary was not requested.

8. It is recommended that the Company record depreciation in accordance with SSAP No. 40, paragraph B, and include in its reporting of expenses.

The Company has complied with this recommendation.

9. It is recommended that the Company report advance premiums in accordance to SSAP No. 53 paragraph 13.

The Company has complied with this recommendation.

## HISTORY

### General

The Company was incorporated as an assessable farmers' mutual fire Insurance company on May 20, 1911 with the home office located in Romney, West Virginia. The Company is a not-for-profit insurance company as described in section 501(c) (15) of the Internal Revenue Code.

The location of the home office was moved to Moorefield, West Virginia through a Charter amendment on January 26, 1963 and to Baker, West Virginia (its present location) through a Charter amendment on April 18, 1992. The Company is licensed only in the state of West Virginia and operates in an eight county area. The Company insures its members against loss from fire, lightning and extended coverage.

The Company is a member of the American Association of Insurance Services (AAIS). All forms used by the Company are filed by reference with AAIS. The Company develops rates independently of AAIS.

The Company markets all of its business through independent agents. The Company does not sell business directly, and seldom has "walk-in" business. A list of active agents was obtained from the WVOIC's Division of Agent and Licensing. As of December 31, 2010, there were 25 independent agents appointed to sell the Company's products.

### Management

The Company's Bylaws provide that the governing body of the Company shall be the Board of Directors consisting of six members. Directors serving at December 31, 2010 were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
James M. Cookman 2 Alt Ave., PO Box 550 Petersburg, WV 26847	Insurance Agent
Donald J. Baker, Jr. 109 Washington Street Moorefield, WV 26836	Insurance Agent
Carole H. Hartman PO Box 865 Franklin, WV 26807	Insurance Agent
Brenda K. Peer 216 Whispering Pines Way Lost City, WV 26810	Chief Operating Officer Mutual Protective Association of West Virginia
Keith E. Potter HC 78, Box 156 Augusta, WV 26704	Insurance Agent
Clyde M. See, Jr. PO Box 700 Moorefield, WV 26836	Attorney

Officers of the Company are to be elected by the Board of Directors at a meeting immediately following the Annual Meeting of Policyholders. The officers serve for a term of one year. The appointed officers of the Company as of December 31, 2010 were as follows:

<u>Name</u>	<u>Title</u>
Clyde M. See, Jr.	President
Carole H. Hartman	Vice President
Brenda K. Peer	Secretary/Treasurer

#### Conflict of Interest Procedure

The Company's Independent CPA has each director complete a Related Party Questionnaire every year. Questionnaires were circulated to directors for each year under examination, requesting the disclosure of any material transactions or indebtedness to the Company that may be a conflict of interest to the Director or related party. The review of these questionnaires disclosed that no conflicts of interest were disclosed for the years that were completed. The procedure for disclosing conflicts of interest appears to be effective.

#### Corporate Records

##### Charter

There were no amendments to the Company's Charter during the period covered by this examination.

##### Bylaws

There was an amendment to the Company's By-Laws during the period covered by this examination. For the period covered by this examination, the Company was not in compliance with its proposed amended By-Laws. See page 15 for exception findings.

##### Minutes

The recorded minutes of the meetings for the Board of Directors and the Policyholders' annual meeting were reviewed; and, excluding the exceptions noted in regards to the Company's Charter and By-Laws, were found to be in order. See page 16 for exception findings.

## FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverage involved a review of the adequacy of limits and retentions, and the solvency of the insurers providing the coverage.

### Fidelity Coverage

The Company has a policy in the amount of \$25,000 each, for coverage of officers and employees whose duties and responsibilities require the carrying of such coverage. The coverage is for the President, Chief Operating Officer and Bookkeeper, which are the three employees that perform all the accounting and financial duties for the Company. The amount of the policy is not within the suggested range which is established by the National Association of Insurance Commissioners' Examiner Handbook. See page 15 for specific finding.

### Other Insurance Coverage

In addition to fidelity coverage, the Company had coverage for professional liability, and a commercial package policy that consists of commercial property, commercial general liability, and terrorism insurance. All coverages were determined to be in force and adequate as of December 31, 2010.

The Company obtained workers' compensation insurance for its employees through a private carrier.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provides a SIMPLE IRA for the employees of the company. A matching contribution equal to the employee's salary contribution up to a limit of three percent of the employee's compensation for the year is paid by the Company. In addition, the employees are provided health care. There are no other pension or stock ownership plans.

## REINSURANCE

At December 31, 2010, the Company had in effect a Property Per Risk Excess of Loss and an Aggregate Excess of Loss reinsurance agreements placed through Guy Carpenter & Company, Inc. of Pennsylvania (Guy Carpenter), a reinsurance intermediary that is licensed to engage in the business of insurance in the Commonwealth of Pennsylvania. Guy Carpenter is authorized to do business in West Virginia under West Virginia Code 33-38-3(a) (2) as a reinsurance intermediary-broker.

The Contract is to indemnify the Company in respect of the liability that may accrue to the Company as a result of loss or losses under Policies classified by the Company as Property, in force at the inception of the Contract, or written renewed during the term of the Contract by or on behalf of the Company, which authority will continue until terminated. The terms of the contract and the participating reinsurers are outlined below:

### Property Per Risk Excess of Loss Reinsurance

Coverage: 100% of \$100,000 in excess of \$40,000, net loss per risk  
Occurrence Limitation: \$200,000  
Rate: 7.90% of gross net written premium income  
Deposit Premium: \$28,000, payable \$7,000 quarterly  
Minimum Premium: \$22,400  
Ultimate Net Loss: Includes 90% ECO, 90% XPL  
Loss Adjustment Expense: Pro Rata in addition to loss  
Brokerage Paid by Reinsurers: 10%

### Aggregate Excess of Loss Reinsurance

Coverage: 100% of \$160,000 of gross net earned premium income excess of 60% of gross net earned premium income  
Rate: 3.16% of gross net earned premium income  
Deposit Premium: \$10,100, payable \$2,525 quarterly  
Minimum Premium: \$8,100  
ECO/XPL: 90%-10% subject to a maximum of \$36,000 per Property claim  
Loss Adjustment Expense: Part of Loss  
Brokerage Paid by Reinsurer: 15%

The reinsurers for the contract listed above are as follows:

<u>Reinsurers</u>	<u>Signed Line</u>	<u>AM Best Rating</u>	<u>NAIC Number</u>
Allied World Reinsurance Company	5.00%	A	22730
Arch Reinsurance Company	20.00%	A	10348
Employers Mutual Casualty Co	19.00%	A-	21415
Hannover Ruckversicherung AG	5.00%	A	N/A
Lloyd's Underwriting Syndicate No. 2987 BRT*	14.00%	A	N/A
QBE Reinsurance Corporation	25.00%	A	10219
The Toa Reinsurance Company Of America	12.00%	A	42439

\*Guy Carpenter has arranged for a retrocession of 100% of Lloyd's Underwriting Syndicate # 2987-BRT's 14% participation to Farm Mutual Reinsurance Plan.

The contract made between Guy Carpenter and the Company appears to be in accordance with the required provisions of West Virginia Code 33-38-4.

Guy Carpenter is to provide the Company with an audited statement of Guy Carpenter's financial condition prepared by a certified public accountant. The Company has not requested an audited statement for the years under examination. As in accordance with West Virginia Code 33-38-6(c), it is recommended that the Company annually obtain a copy of statements of the financial condition of the reinsurance intermediary-broker with which it transacts business. See page 15 for finding.

### ACCOUNTS AND RECORDS

The Company maintains its books and records at its home office in Baker, West Virginia. Almost all of the business transactions are by mail. Cash receipts and cash disbursements are maintained through QuickBooks accounting software and a general ledger is generated from this. The Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable.

The annual statements filed with the West Virginia Insurance Commissioner during the period under review of this examination were not filed on the NAIC annual statement blank as required by WV Code 33-4-14(a), and such statements were not prepared in accordance with the NAIC's instructions, or follow the accounting practices and procedures prescribed by the NAIC accounting practices and procedures manual. However, the Company is licensed only in West Virginia and because of the small size of the Company, the annual statements were permitted by the WVOIC.

## FINANCIAL STATEMENTS

The statements on the following pages present the financial condition and operations of the Company for the period under examination. The amounts shown on the balance sheet are those determined by this examination. The following financial statements and schedules reflect the financial condition of the Company and the results of operations for the years indicated as determined by examination. No adjustments were made as a result of this examination.

THE MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA  
 STATEMENT OF ASSETS, LIABILITIES AND SURPLUS TO POLICYHOLDERS  
AS OF DECEMBER 31, 2010

<u>Section IV-Qualified Assets</u>	Per Company	Adjustments	Per Examination
Cash on hand, Deposited in bank	\$1,792,863		\$1,792,863
Book value of real estate less encumbrances	33,057		33,057
Furniture, Fixtures, and automobiles	528		528
Other Assets	<u>9,620</u>		<u>9,620</u>
Total Ledger Assets (As per balance line on Statement of Income and Disbursements)	<u>\$1,836,068</u>		<u>\$1,836,068</u>
 <u>Deduct Assets Not Admitted</u>			
Furniture, Fixtures and Automobiles	528		528
Total Net Assets Admitted	<u>\$1,835,540</u>		<u>\$1,835,540</u>
 <u>Section V-Liabilities</u>			
Unearned premium reserve	\$133,376		\$133,376
Accounts Payable	1,042		1,042
Accrued Salaries, rent and other expenses due and accrued	1,659		1,659
Losses Payable	376		376
Premium Refund Liability	2,000		2,000
Advance Premium	8,358		8,358
Ceded Insurance Payable			
Total Liabilities	<u>\$146,811</u>	\$(0)	<u>\$146,811</u>
Surplus to Policyholders	1,688,729		<u>1,688,729</u>
Total Liabilities and Surplus to Policyholders	<u>\$1,835,540</u>		<u>\$1,835,540</u>

THE MUTUAL PROTECTIVE ASSOCIATION OF WEST VIRGINIA  
STATEMENT OF INCOME AND DISBURSEMENTS  
AS OF DECEMBER 31, 2010

	<u>Per Company</u>	<u>Adjustments</u>	<u>Per Examination</u>
Ledger Assets, December 31, 2009	\$1,718,740		\$1,718,740
Premiums collected during current year	352,070		352,070
Less: Refund on Premiums			<u>(89,645)</u>
Premiums for reinsurance ceded to other Companies	<u>(89,645)</u>		262,425
Net Premium Income	262,425		9519
Losses Paid	9519		282
Less: Reinsurance Recovered		<u>282</u>	<u>9,237</u>
Net Losses Paid	<u>9,237</u>		<u>253,188</u>
Net Underwriting Gain	<u>253,188</u>		<u>253,188</u>
<b><u>Expenses</u></b>			
Commissions paid to agents	\$53,010		\$53,010
Salaries	95,562		95,562
Director Fees	17,441		17,441
Payroll Taxes	6,838		6,838
Rents, including company's own occupancy	8,400		8,400
Professional Fees	8,975		8,975
Advertising	2,588		2,588
Licenses, Dues, and Subscriptions	8,315		8,315
Insurance	15,542		15,542
Office Expense	9,200		9,200
Repairs and Maintenance	2,391		2,391
Depreciation	4,231		4,231
Telephone & Utilities	7,559		7,559
Other Operating Expenses	<u>2,898</u>		<u>2,898</u>
Total Funds Disbursed	<u>242,950</u>		<u>242,950</u>

Other Income	25,787	25,787
Interest Income	8,400	8,400
Rental Income on Company Building	<u>70,179</u>	<u>70,179</u>
Other Income	104,366	104,366
Total other Income	114,604	114,604

**CHANGES IN UNRESTRICTED NET ASSETS**

NET ASSETS, DECEMBER 31, 2009  
NET ASSETS, DECEMBER 31, 2010

1,574,125  
1,688,729

1,574,125  
\$1,688,729

**SUMMARY OF EXAMINATION FINDINGS**  
**PREVIOUS EXAMINATION AS OF DECEMBER 31, 2006**

1. It was recommended that a specified dollar amount be established and voted on by the Board to require original signatures on checks issued on or above the stated amount and all agent commission checks require original signatures of two officers. Recommendation was not implemented.
2. A review of paid losses and loss adjustment expense showed losses incurred in one year and not paid until the following year, yet a liability was not recorded on the financial statements the year of the loss. It was recommended that the Company comply with WV Code 33-7-5(b) by establishing a reserve in the amount estimated to be necessary to pay all of its unpaid losses and associated unpaid adjusting expenses incurred during the reporting year.

It appears the Company is complying with recommendation, but is not consistent in reporting every year.

3. As in accordance with West Virginia Code 33-38-6(c), it is recommended that the Company annually obtain a copy of statements of the financial condition of the reinsurance intermediary-broker with which it transacts business.

Review of the records and discussion with Company personnel revealed that the annual financial condition of the broker/intermediary were not requested.

**CURRENT EXAMINATION AS OF DECEMBER 31, 2010**

The following is a summary of the findings and recommendations made as a result of this examination.

1. As in accordance with West Virginia Code 33-38-6(c), it is recommended that the Company annually obtain a copy of statements of the financial condition of the reinsurance intermediary-broker with which it transacts business.
  - A. There was no evidence in the files that these statements were requested each year for the period under examination or a discussion of such statements in the minutes. When the report is received by the Company, the Board of Directors should discuss the report and document the discussion in the board minutes.
2. As in accordance with West Virginia Code 33-22-5(a) and (b), concerning directors, and their election, the Company did not comply with its By-Laws.
  - A. During the examination and in discussion with personnel there is no record in the board minutes of the election of officers for the years 2009, 2010, and 2011.
  - B. During the examination and in discussion with personnel there is one director who is not a policyholder of the Company.
  - C. During the examination and in discussion with personnel there is no record in the board minutes of the appointment of an Adjuster for the years 2006 through 2010.

**3. Paid Losses**

- A. The examination of paid losses discovered not all claims were adjusted for depreciation when computing actual cash value of the loss for payment. Also, the company's established deductible amounts were not applied in all loss payments. It is recommended the Company develop a formal policy for the procedures to handle losses. This Claims Administration Policy also will need to be approved by the Board of Directors. This policy should state the treatment of depreciated cost of the property insured and the application of established deductible amounts.

**4. Fidelity Bond**

- A. In reviewing the coverage amount it was noted the Company currently has \$25,000 in coverage. The suggest range which is established by the National Association of Insurance Commissioners' Examiner Handbook is a minimum amount of \$50,000. It is recommended the Company increase coverage of the fidelity bond to \$50,000.

**5. Specific Dollar Amount**

- A. It was recommended that a specified dollar amount be established and voted on by the Board to require original signatures on checks issued on or above the stated amount and all agent commission checks require original signatures of two officers. It is recommended the Company implement these changes to improve their internal control procedures.

**SURPLUS**

The surplus to policyholders at December 31, 2010, as determined by this examination is \$1,688,729, which compares to \$1,688,200 reported by the Company on the annual statement. The adjustment made to surplus is immaterial and does not require amendment of the Company's prior filings.

**CONCLUSION**

The Examiner wishes to express his appreciation for the courteous cooperation and assistance extended to him by the Chief Operating Officer and Bookkeeper of the Company during the course of this examination.

Respectfully submitted,

Walter P. Anderson  
WV Offices of the Insurance Commissioner

State of West Virginia  
County of Kanawha

EXAMINERS AFFIDAVIT AS TO STANDARDS AND PROCEDURES  
USED IN AN EXAMINATION

Walter P. Anderson, being duly sworn, states as follows:

1. I have authority to represent West Virginia in the examination of The Mutual Protective Association of West Virginia.
2. West Virginia is accredited under the National Association of Insurance Commissioner Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of The Mutual Protective Association of West Virginia was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.

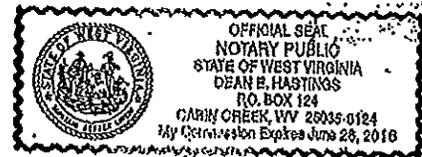
Walter P. Anderson  
Walter P. Anderson

Subscribed and sworn before me by Walter P. Anderson on

this 4<sup>th</sup> day of April 2012.

Dean E. Hastings  
Notary Public

My commission expires June 26, 2016 (Date)



Clyde M. See, Jr., President

Brenda K. Peer, Secretary/Treasurer

SCANNED  
John H. Hartman, Vice-President

# The Mutual Protective Association of West Virginia

P. O. Box 5  
Baker, West Virginia 26801  
(304) 897-6566  
FAX (304) 897-5002

April 30, 2012

Honorable Michael D. Riley, Commissioner  
Office of the Insurance Commissioner  
Financial Conditions Division  
P.O. Box 50540  
Charleston, WV 25305-0540

Re: Mutual Protective Association of West Virginia  
Report of Examination as of December 31, 2010

Dear Commissioner Riley:

At the outset, I wish to express the appreciation of our board members and employees for the courteous and helpful assistance of the representatives of your office who conducted the statutory audit.

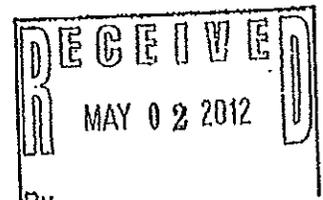
At a regular meeting of our Board of Directors on Friday, April 20, 2012, the board reviewed the audit including the findings and recommendations. This letter is intended to respond to those matters within the thirty (30) days time limit as set forth in your transmittal letter dated April 4, 2012.

The responses provided herein correspond numerically to the findings and recommendations as they appear on pages 15 and 16.

## SUMMARY OF EXAMINATION FINDINGS PREVIOUS EXAMINATIONS AS OF DECEMBER 31, 2005

1. At our next regular meeting, the board will establish a specified dollar amount to require original signatures of two officers on checks issued on or above the stated amount. As for agent commission checks requiring original signatures of two officers, we are considering direct deposit payment to eliminate the two original signatures requirement. If direct deposits are not utilized, we will strive to comply by having two original signatures.

2. As for losses incurred in one year and not paid until the following year, we were under the impression that since we utilize "cash" accounting our method of payments were correct. We



Honorable Michael D. Riley, Commissioner  
Office of the Insurance Commissioner  
April 30, 2012  
Page 2

now realize that pending losses at the end of a year should be addressed by establishing a reserve in an amount sufficient to pay unpaid losses during the following year. Since we have more than adequate reserves correction of the problem and compliance with the referenced statute will be followed in future years.

3. To comply with West Virginia Code §33-38-6(c), we will request statements of financial condition of our reinsurance carrier annually upon renewal of our reinsurance policy.

CURRENT EXAMINATION AS OF DECEMBER 31, 2010

1. As stated in 3 above, we will request statements of financial condition of our reinsurance carrier annually upon renewal of our reinsurance policy and upon receipt of such statements our board will review and note our discussions in the board minutes.

2. A. All board members specifically remember that officers were elected in 2009, 2010 and 2011 who were the exact same officers who prior to 2009 and remain the exact same officers to date. At the meeting of Board of Directors on April 20, 2012, the minutes were reviewed and the secretary was directed to correct the minutes to reflect the actions of the board.

B. The member of the board who did not have a policy with the company at the time of the examination has since acquired a policy correcting the previous situation.

C. All board members specifically remember that an adjustor was appointed for the years 2006 through 2010. At the meeting of Board of Directors on April 20, 2012, the minutes were reviewed and the secretary was directed to correct the minutes to reflect the actions of the board.

3. The failure of the company to correctly apply depreciation and deductibles to losses paid has been inadvertent. The company will develop a formal policy for the procedures to handle losses that will be approved by the Board of Directors. The policy shall state the correct application of depreciation and deductibles to losses paid by the company.

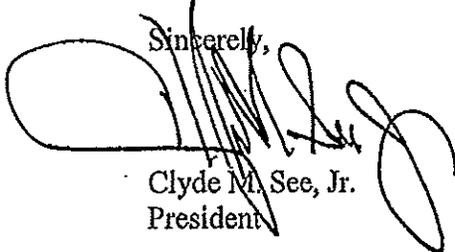
4. The fidelity bond has been increased from \$25,000 to \$50,000 as recommended by the audit.

5. The response to this recommendation is the same as the response to 1 above (Previous Examination as of December 31, 2005) addressing the same subject matter.

Again, we are grateful to WVOIC for its review of our company and the recommendations that we believe will assist us in correcting past problems and improve overall operations.

Honorable Michael D. Riley, Commissioner  
Office of the Insurance Commissioner  
April 30, 2012  
Page 3

Should you feel we have not been responsive to any matter contained within the audit report or other communications or should you desire any further explanations on any of the matters contained herein, please contact us.

Sincerely,  
  
Clyde M. See, Jr.  
President

cc: Board of Directors