

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

**IN RE: FARMERS AND MECHANICS FIRE AND CASUALTY
INSURANCE COMPANY**

Administrative Proceeding No.: 13-AP-FINCON-02026

**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, 2012, of FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY (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 August 1, 2006 and authorized by the Insurance Commissioner to transact the business of insurance in the State of West Virginia as permitted and authorized by 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, 2008 and ending December 31, 2012, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On September 18, 2013, 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 September 26, 2013, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On September 30, 2013, 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 October 8, 2013, 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 letter of October 8, 2013, is attached hereto as Exhibit B.

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 FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY 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 FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY 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 FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY 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 FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY 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. FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY 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.

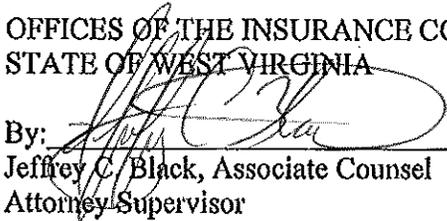
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 5th day of November, 2013.


Michael D Riley
Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By: 
Jeffrey C. Black, Associate Counsel
Attorney Supervisor

11/4/13
Date

FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY

BY: Foster L. Sibbough Jr.
[Print Name]

Signed: Foster L. Sibbough Jr.

Its: President / CEO

Dated: October 30, 2013

REPORT OF EXAMINATION
OF
FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY
MARTINSBURG, WEST VIRGINIA
NAIC #12611
AS OF DECEMBER 31, 2012

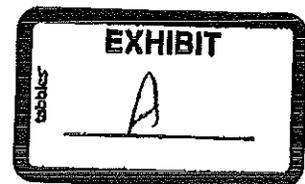
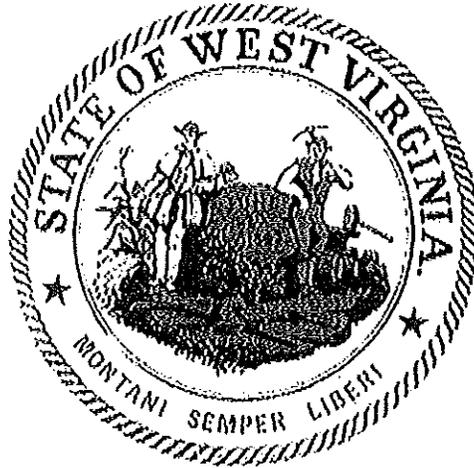


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September 18, 2013

Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street, 4th Floor
Charleston, West Virginia 25301

Honorable Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner (WVOIC), a comprehensive examination has been made of the affairs and financial condition of:

Farmers and Mechanics Fire and Casualty Insurance Company
25 Administrative Drive
Martinsburg, West Virginia 25404

Hereinafter referred to as "the Company".

The interview phase of the examination was conducted at the Company's home office.

The following examination report is respectfully submitted.

SCOPE OF EXAMINATION

Pursuant to WV Insurance Code §33-2-9, a full scope examination of Farmers and Mechanics Fire and Casualty Insurance Company ("FMFC") was conducted. The last examination was completed as of December 31, 2007. This examination covers the period January 1, 2008, through December 31, 2012. The examination included significant transactions and/or events occurring subsequent to December 31, 2012 that were noted during the course of this examination.

The examination was conducted pursuant to the instructions, procedures and guidelines prescribed by the WVOIC and in accordance with the *NAIC Financial Condition Examiners' Handbook* (Handbook). The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination did not result in any reportable findings and recommendations.

SUBSEQUENT EVENTS

There were no subsequent events noted.

COMPANY HISTORY

FMFC is a stock property and casualty insurance company domiciled in and incorporated under the laws of West Virginia. The Company is a wholly owned subsidiary of Farmers and Mechanics Mutual Insurance Company ("FMM"). To initially capitalize FMFC on August 1, 2006, FMM purchased 125,000 shares of FMFC's common stock with an initial \$2,500,000 investment. FMM purchased an additional 25,000 shares of FMFC for \$20 share on June 11, 2010, totaling \$500,000. FMM owns 100% of FMFC's issued and outstanding common stock. The stated par value of the issued and outstanding common stock is \$8.00 per share.

CORPORATE RECORDS

The minutes of meetings of the Board of Directors and committees reflected the elections of directors and officers, approvals of investment transactions and approvals of other pertinent matters requiring corporate review.

The Company's Bylaws and Charter were amended in 2009 to change the election of the Board of Directors from three year terms to annually in compliance with WV Insurance Code §33-5-3 (h).

MANAGEMENT AND CONTROL

Corporate governance is provided by the Company's Board of Directors and is carried out by Company management. FMFC's Officers and Directors serve in the same capacities for FMM.

Board of Directors and Officers

At December 31, 2012, the following individuals served as members of the Board of Directors:

<u>Name & Location</u>	<u>Year First Elected</u>	<u>Year Term Expires</u>	<u>Principle Business Affiliation</u>
James P. Whitacre Martinsburg, WV	2006	2014	Jim Whitacre Excavating
Bernard L. Snyder Charles Town, WV	2006	2015	President of Snyder Environmental
James W. Dailey II Martinsburg, WV	2006	2016	President of W. Harley Contractors
Kenneth L. Banks Martinsburg, WV	2006	2016	Dentist
Martin B. Frye Geraldstown, WV	2006	2004	Self Employed - Orchardist
J. Wayne Lancaster Martinsburg, WV	2006	2016	Retired (Power Company)
E. Dennis McCormick Martinsburg, WV	2006	2014	Retired President and CEO FMM
Foster L. Sirbaugh, Jr. Martinsburg, WV	2012	2015	President and CEO FMM

Charles A. Hensell	2011	2015	Realtor
Vicki J. Shockey Fulk	2011	2016	Self Employed – Finance
Anthony J. Petrucci	2011	2015	Self Employed – Produce & Ice

The Directors receive compensation for attendance at FMM meetings.

Officers of FMFC are elected at the annual Organizational Meeting of the Board of Directors. The principal officers at December 31, 2012, are:

<u>Name</u>	<u>Title</u>
Foster L. Sirbaugh, Jr.	President
Martin B. Frye	Secretary
J. Wayne Lancaster	Treasurer
Daniel R. Otto	Vice President Accounting

Board Committees

The Board Committees are at the parent company level. These Committees also oversee FMFC operations. Individuals serving on FMM's Board Committees as of December 31, 2012, included:

Audit Committee

James Whitacre, Committee Chairman
 J. Wayne Lancaster
 Vicki Shockey Fulk
 Anthony Petrucci
 Martin Frye
 Charles Hensell
 E. Dennis McCormick

Executive Committee

J. Wayne Lancaster
 James Dailey, II
 Foster Sirbaugh, Jr.
 Martin Frye
 Bernard Snyder
 Dr. Kenneth Banks
 James Whitacre
 E. Dennis McCormick

Finance Committee

James Dailey, II
 J. Wayne Lancaster
 Foster Sirbaugh, Jr.
 Bernard Snyder

Dr. Kenneth Banks
Vicki Shockey Fulk
Anthony Petrucci
Charles Hensell
B. Dennis McCormick

Organizational Chart

An organizational chart of the Company at December 31, 2012, follows:



Parent Company

FMM is the parent company. FMM was incorporated on December 18, 1877 and commenced business on March 23, 1878. FMFC was formed on August 1, 2006. FMM funded the company with \$2,500,000 by purchasing 125,000 shares or 100% of FMFC's common stock. FMM purchased an additional 25,000 shares of FMFC for \$20 share on June 11, 2010, totaling \$500,000.

Cost-Sharing Agreements

FMM and FMFC established an Expense Sharing Agreement effective August 1, 2006. FMM provides certain management, underwriting support, accounting and information system services to FMFC.

FIDELITY BOND AND OTHER INSURANCE

FMM is a named insured on a financial institution bond, pursuant to West Virginia Insurance Code §33-31-8. All employees are employed by FMM. The bond exceeds the minimum amount recommended by the NAIC.

FMM maintains various other property and liability coverage which the Company believes are adequate to cover its corporate risks.

EMPLOYEE WELFARE

The Company does not have any employees; all employees are employed by the Company's parent, FMM. Expenses are allocated to FMFC based on the Expense Sharing Agreement effective August 1, 2006.

FMM provides its employees with a package of life and health benefits. FMM offers a 401k Retirement Savings Plan for all eligible employees. FMM matches 50% of the employee's contribution, up to a maximum of 3% of the employee's gross wages.

TERRITORY AND PLAN OF OPERATIONS

FMFC writes private passenger automobile insurance. FMFC was formed for the sole purpose of diversifying the product line and to offer insurance the mutual company is not allowed to write under its charter. FMFC writes personal lines automobile, artisans liability and umbrella coverages exclusively in West Virginia.

Products are offered through independent insurance agencies, none of which represent a significant portion of the Company's business.

GROWTH OF THE COMPANY

The following chart shows the Company's growth over the examination period.

Year	Admitted Assets	Capital and Surplus	Net Written Premiums	Net Income
2012	\$8,134,000	\$2,875,000	\$4,727,000	(\$356,000)
2011	\$7,009,000	\$3,209,000	\$4,034,000	\$355,000
2010	\$5,993,000	\$2,795,000	\$3,291,000	\$2,000
2009	\$4,481,000	\$2,281,000	\$2,063,000	(\$167,000)
2008	\$3,665,000	\$2,413,000	\$1,327,000	(\$53,000)

LOSS AND LOSS ADJUSTMENT EXPERIENCE

The statutory reserves and related items for 2012 were reviewed and certified by the Company's Appointed Actuary, Kay Kufera, FCAS, MAAA, of Kufera Consulting, Inc.

The reserves established by the Company were reviewed for reasonableness by the examination actuary. The actuary determined the Loss and Loss Adjusted Expenses (LAE) reserves presented in the 2012 annual statement did not appear to make reasonable provision for the Company's Loss and LAE reserves. An increase in reserves in the amount of \$232,000 was necessary due to adverse development in the Company's automobile liability line of business. See the Financial Statements for the adjustment.

REINSURANCE

Assumed Reinsurance

FMFC didn't assume any reinsurance during the exam period.

Ceded Reinsurance

FMFC utilizes a 40% quota share reinsurance treaty (50% for loss years prior to 2010) for the automobile line. The largest net amount insured on any one risk is \$125,000. FMFC ceded \$2,936,000 in premiums in 2012.

ACCOUNTS AND RECORDS

General

The Company's internal control structure was discussed with management through questionnaires, interviews and a review of the work performed by the Company's independent public accountants.

The NAIC provides a questionnaire covering the evaluation of the controls in EDP systems. The Company's response was reviewed by computer audit specialists of the examination team who evaluated the adequacy of the EDP controls.

The Company currently uses two systems for policyholder and claims management. FMFC is in the process of moving all of the policyholder data to one system.

Designated Certified Public Accountant

The Company was audited for the years under examination by Buffamante Whipple Buttafaro, P.C., ("BWB") in compliance with West Virginia Code Chapter 33, Article 33, Section 4. The Company received an unqualified statutory opinion in all years under examination.

The applicable work papers of BWB were reviewed and where appropriate, certain procedures performed by the auditors were relied upon in this examination. In those instances, the work papers documenting the work of the auditors were copied for inclusion into the work papers of this examination.

Safekeeping of Assets

Assets are held pursuant to custodial agreements with Citibank and US Bank.

The Company has a written investment policy. A professional investment advisor manages the Company's fixed income portfolio in accordance with the established investment policy. The FMM Finance Committee reviews and authorizes the Company's investment transactions throughout the year.

STATUTORY DEPOSITS

At December 31, 2012, the Company had the following securities held for the benefit of all policyholders:

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
West Virginia	\$ 99,648	\$ 99,773
Totals	<u>\$ 99,648</u>	<u>\$ 99,773</u>

FINANCIAL STATEMENTS

The following pages contain a statement of assets and liabilities and a statement of operations as of December 31, 2012. A reconciliation of surplus of the Company for the years 2008 through 2012 follows. The examination team reviewed and accepted the work of the Designated Certified Public Accountant related to these financial statements. The reserves were adjusted on the financial statements to reflect the adverse development in the automobile line of business.

FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY

Assets
December 31, 2012

<u>ASSETS</u>	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
Bonds	\$3,635,366	-	\$3,635,366
Cash and short-term investments	832,097	-	832,097
Subtotals, cash and invested assets	\$4,467,463	-	\$4,467,463
Investment income due and accrued	22,918	-	22,918
Premiums and considerations:		-	
Uncollected premiums and agents' balance	28,450	-	28,450
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,805,985	-	2,805,985
Reinsurance:		-	
Amounts recoverable from reinsurers	374,251	-	374,251
Current federal and foreign income taxes	255,383	-	255,383
Net deferred tax asset	179,842	-	179,842
Total Assets	\$8,134,292	-	\$8,134,292

FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds
December 31, 2012

	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
Losses	\$1,165,845	\$232,000	\$1,397,845
Loss adjustment expense	223,272	-	223,272
Commissions and contingencies payable	922,825	-	922,825
Other expense	9,967	-	9,967
Taxes, licenses and fees	70,027	-	70,027
Unearned premiums	2,489,677	-	2,489,677
Advance premiums	23,848	-	23,848
Ceded reinsurance premiums payable	270,440	-	270,440
Payable to parent	83,357	-	83,357
Total Liabilities	<u>\$5,259,258</u>	<u>\$232,000</u>	<u>\$5,491,258</u>
Common capital stock	1,200,000	-	1,200,000
Gross paid in and contributed surplus	1,800,000	-	1,800,000
Unassigned funds (surplus)	<u>(124,966)</u>	<u>(232,000)</u>	<u>(356,966)</u>
Total Policyholder Surplus	<u>\$2,875,034</u>	<u>(\$232,000)</u>	<u>\$2,643,034</u>
Total Liabilities, Surplus & Other Funds	<u>\$8,134,292</u>	<u>-</u>	<u>\$8,134,292</u>

FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY
Statement of Income
December 31, 2012

	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
<u>UNDERWRITING INCOME</u>			
Premiums earned	\$4,431,396	-	\$4,431,396
Losses incurred	2,817,487	232,000	3,049,487
Loss expenses incurred	412,462	-	412,462
Other underwriting expenses incurred	1,785,906	-	1,785,906
Total underwriting deductions	<u>\$5,015,855</u>	<u>232,000</u>	<u>\$5,247,855</u>
Net underwriting gain (loss)	(\$584,459)	(232,000)	(\$816,459)
<u>INVESTMENT INCOME</u>			
Net investment income earned	60,931	-	60,931
Net realized capital gains	50,726	-	50,726
Net investment gain	<u>\$111,657</u>	-	<u>\$111,657</u>
<u>OTHER INCOME</u>			
Net gain (loss) from agents balances charged off	(24,765)	-	(24,765)
Finance & service charges	15,272	-	15,272
Total other income	<u>(9,493)</u>	-	<u>(9,493)</u>
Net income before federal tax	(482,295)	-	(482,295)
Federal tax incurred	<u>(126,583)</u>	-	<u>(126,583)</u>
Net income	<u><u>(355,712)</u></u>	<u><u>(232,000)</u></u>	<u><u>(587,712)</u></u>

FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY
Reconciliation of Surplus
December 31, 2012

<u>SURPLUS ACCOUNT</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Surplus, December 31, previous year	\$3,208,742	\$2,795,232	\$2,280,733	\$2,413,112	\$2,452,369
Net income	(355,712)	354,809	1,973	(166,923)	(53,302)
Change in net deferred income tax	27,935	61,308	12,628	38,577	3,669
Change in non-admitted assets & related items	(5,931)	(2,607)	(102)	(4,033)	10,376
Increase in reserves -- exam adjustment	(232,000)	-	-	-	-
Change in paid in capital	-	-	200,000	-	-
Paid in surplus adjustments	-	-	300,000	-	-
Net change in surplus of the year	<u>(565,708)</u>	<u>413,510</u>	<u>514,499</u>	<u>(132,379)</u>	<u>(39,257)</u>
Surplus, December 31, current year	<u>\$2,643,034</u>	<u>\$3,208,742</u>	<u>\$2,795,232</u>	<u>\$2,280,733</u>	<u>\$2,413,112</u>

COMMENTS ON FINANCIAL STATEMENTS

An increase in reserves in the amount of \$232,000 was necessary due to adverse development in the Company's automobile liability line of business. It is the opinion of the actuarial examiners that the Appointed Actuary's actuarial central estimate (ACE) of loss and loss adjustment expense reserves is deficient by approximately \$232,000. As a result, the following adjustment was made:

DR Surplus \$232,000
CR Loss Reserves \$232,000

ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courtesy and cooperation extended by personnel of the Company during the course of the examination.

Respectfully submitted:



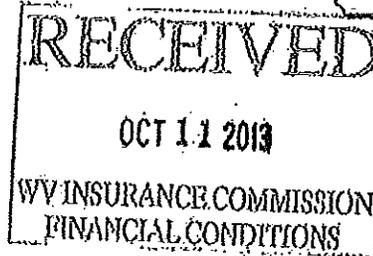
Susan L. Carroll, CFE
Examiner-in-Charge
Representing the State of West Virginia



FARMERS & MECHANICS OF WEST VIRGINIA



October 8, 2013



Honorable Michael D. Riley, Insurance Commissioner
State of West Virginia
Offices of the Insurance Commissioner
PO Box 50540
Charleston, WV 25305-0540

RE: Report of Financial Examination, as of December 31, 2012
NAIC #: 12611 WV File #: D043

Dear Commissioner Riley:

We have received and reviewed your Report of Examination of Farmers and Mechanics Fire and Casualty Insurance Company. We would like to update the director schedule to include three additional directors as follows:

Table with 4 columns: Name, Year First Elected, Year Term Expires, Principle Business. Rows include Charles A. Hensell, Vicki J. Shockey Fulk, and Anthony J. Petrucci.

With respect to the Exam Adjustment of the examiner, the increase in Loss Reserves in the amount of \$232,000 will be reflected in our September 30, 2013 Quarterly Financial Statement.

We would like to thank the Department and Examiners for the examination.

Regards,

Handwritten signature of Foster L. Sirbaugh, Jr.

Foster L. Sirbaugh, Jr.
President/CEO

