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

IN RE: PEOPLES MUTUAL FIRE INSURANCE COMPAY
OF WEST VIRGINIA

Administrative Proceeding No.: 13-AP-FINCON-02015

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, 2011, of PEOPLES MUTUAL FIRE INSURANCE COMPANY 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 March 3, 1900 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, 2007 and ending December 31, 2011, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On May 13, 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 May 17, 2013, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On May 23, 2013, the Company received the certified mail 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 May 21, 2013 and by follow-up email dated May 23, 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 email of May 23, 2013 and letter dated May 21, 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 PEOPLES MUTUAL FIRE INSURANCE COMPANY 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 PEOPLES MUTUAL FIRE INSURANCE COMPANY OF WEST VIRGINIA by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that PEOPLES MUTUAL FIRE INSURANCE COMPANY 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 PEOPLES MUTUAL FIRE INSURANCE COMPANY 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 PEOPLES MUTUAL FIRE INSURANCE COMPANY 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. PEOPLES MUTUAL FIRE INSURANCE COMPANY 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 6th day of June, 2013.

Michael D Riley
Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By: _____
Erin Hunter, Associate Counsel
Associate Counsel

6/6/13
Date

PEOPLES MUTUAL FIRE INSURANCE COMPANY OF WEST VIRGINIA

BY: JAMES R. MICHAEL
[Print Name]

Signed: James R. Michael

Its: President

Dated: June 3, 2013

STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner
EARL RAY TOMBLIN
Governor

MICHAEL D. RILEY
Insurance Commissioner

CERTIFIED MAIL: 7010 2210 0000 4976 3631

May 17, 2013

Mr. James R. Michael, President
Peoples Mutual Fire Insurance Company, Inc.
1680 Valley Road
Berkeley Springs, West Virginia 25411

RE: Report of Financial Examination, as of December 31, 2011
NAIC #: 11055 WV File #: D023

Dear Mr. Michael:

Please find enclosed a copy of the Report of Examination of Peoples Mutual Fire Insurance Company. This examination was performed in accordance with the provisions of Chapter 33, Article 2, Section 9 of the West Virginia Code of 1931, as amended. The Report reflects the financial affairs and condition of Peoples Mutual fire Insurance Company, as of December 31, 2011.

You are hereby notified that you have thirty (30) days from receipt of this letter to make written submission or rebuttals with respect to any matter contained in the Report of Examination. If an exception is taken, it must be filed with this Department during the statutory time period.

Sincerely,

Michael D. Riley
Insurance Commissioner

MDR/bsg

Enclosure: Copy of Report of Financial Examination

EXHIBIT
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A

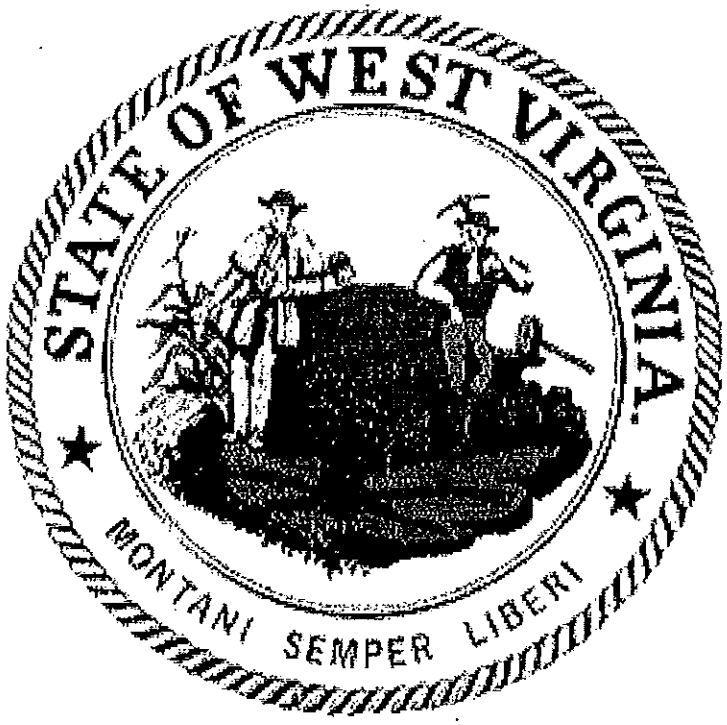
REPORT OF FINANCIAL EXAMINATION

OF

PEOPLES MUTUAL FIRE INSURANCE COMPANY OF WEST VIRGINIA, INC.

AS OF

DECEMBER 31, 2011



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May 2, 2013

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

Dear Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner, an examination has been made of the affairs and financial condition of:

PEOPLES MUTUAL FIRE INSURANCE COMPANYOF WEST VIRGINIA, INC.
1680 Valley Road
Berkeley Springs, West Virginia

Peoples Mutual Fire Insurance Company of West Virginia, Inc., hereinafter referred to as "the Company", is a West Virginia domiciled farmers' mutual fire insurance company. The financial examination was conducted at the Timothy B. Close Insurance Agency, which serves as the Company's home office in Berkeley Springs, West Virginia.

The Report of Financial Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

INTRODUCTION

The Company was last examined as of December 31, 2006, by representatives of the West Virginia Offices of the Insurance Commissioner, hereinafter referred to as "the WVOIC". The present examination was conducted by a representative of the WVOIC and covered the period from January 1, 2007, through December 31, 2011, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

SCOPE OF FINANCIAL EXAMINATION

The Examiner evaluated the Company's internal controls, operations, and procedures during examination planning. Due to the small size of the Company and the lack of segregation of duties, it was determined that those controls would not be relied upon and that a substantive approach to examination would be taken. The Examiner also conducted a limited review of Information Systems controls. Although no material findings were noted, due to the lack of utilizing or installing a sophisticated Information System it was determined that those controls would also not be relied upon.

The examination was conducted pursuant to the instructions, procedures and guidelines prescribed by the WVOIC and in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners Handbook. Examination procedures included the verification and evaluation of assets, a determination of liabilities, and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

UPDATE OF PREVIOUS EXAMINATION FINDINGS

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

1. It was determined that the Company's directors and officers completed conflict of interest statements only once since the prior examination. The Company has not complied with the prior examination recommendation to "obtain these statements each year" and document "in the Company's board minutes that these statements are reviewed." It is again recommended that the Company obtain these statements each year and that there is evidence in the Company's board minutes that these statements are reviewed.

The Company now obtains signed conflict of interest statements each year.

2. The prior examination indicated that reconciliation issues continue unresolved between the amounts reported in the Company's general ledger accounts and the amounts reported in the filed annual financial statements. These issues resulted in the Company's policyholder surplus being overstated by $68,007.00 in its filed 2006 annual financial statement. It is again recommended that the Company properly fill out its annual financial statements in the future.

The filed annual statement still does not agree with the general ledger for all line items.

3. The prior examination determined that the Company continues to establish Unearned Premium reserves in a manner inconsistent with SSAP No. 53, paragraph 7. It is recommended that in the future, the Company establish a reserve for Unearned Premiums in accordance to SSAP No. 53, paragraph 7.

The Company now utilizes the unearned premium as calculated for them by their reinsurance intermediary. This results in a small error as policies that the Company might issue in face amounts below their retention would not be included in the calculation made by the reinsurance intermediary. As long as the Company continues to have low retentions and continues the current reinsurance program, the error is small enough that it is passed for purposes of this examination.

4. The prior examination determined that the Company invested in mutual funds in 2004. It is recommended that the Company implement required procedures of W. Va. Code § 33-8-4 in regard to its mutual fund investments; correctly complete all parts of Section VII of the filed annual financial statements to report and value its mutual fund investments in accordance to W. Va. Code § 33-8-7 and record mutual fund purchases on trade date in accordance to SSAP No. 30, paragraph 5; and negotiate and execute a custodial agreement that complies with W. Va. Code § 33-8A-6.

The Company does not utilize a traditional custodian but holds these investments in a brokerage account that is managed by an investment advisor. The Company did not have an investment advisor agreement with the advisor. The Company has agreed to enter into an investment advisor agreement with their advisor.

COMPANY HISTORY

The Company was incorporated as an assessable farmers' mutual fire insurance company on March 3, 1900, with the home office located in Berkeley Springs, West Virginia. The Company operates under the provisions of Chapter 33, Article 22 of the West Virginia Insurance Laws. Chapter 33, Article 22, Section 17 provides that, upon liquidation, surplus funds belong to the policyholders.

Effective March 1, 2002, the Board of Directors appointed Timothy Close to be the new Secretary/Treasurer and the Company's office and records were relocated to the offices of the Timothy B. Close Insurance Agency, LLC. On October 10, 2003, the Board of Directors elected Timothy Close as a director retroactively effective to March 1, 2002.

On April 5, 2004, the Company submitted to the WVOIC an Operational Service Agreement to be entered into with the Timothy B. Close Insurance Agency, LLC ("Agency"). Pursuant to the agreement, the Agency is to "manage and conduct" the Company's affairs including "underwriting, rating, policy issue and cancellation, claims administration, marketing, billing, settlement of account and such other functions" that the Company deems necessary and reasonable.

SURPLUS

Pursuant to W. Va. Code § 33-22-8 (d) the Company is not subject to the minimum capital and surplus requirements specified in W. Va. Code § 33-3-5b unless it insures property located outside of this State. W. Va. Code § 33-22-11 (a) provides that the Company may accumulate a surplus or emergency fund in an amount determined advisable by its board of directors. It was noted that the Company reports a surplus amount in its annual financial statements filed with the WVOIC. It was noted that the Company's Board of Directors has not established a stated amount for a surplus or emergency fund pursuant to W. Va. Code § 33-22-11 (a).

No policyholder dividends were returned to the policyholders during the period under examination as is authorized under W. Va. Code § 33-22-9(d).

MANAGEMENT AND CONTROL

Board of Directors

The Company's Bylaws provide that the governing body of the Company shall be the Board of Directors consisting of not less than six or more than fifteen members of the Company. The Board meets quarterly with special meetings called whenever deemed necessary. A review of the Board minutes indicated meetings were well attended. Members serving on the Board of Directors at December 31, 2011, were as follows:

Name and Address	Principal Occupation
James R. Michael Berkeley Springs, WV	Retired, President of the Company
Aaron T. Close Berkeley Springs, WV	Insurance Agent Vice President of the Company
Timothy B. Close Berkeley Springs, WV	Insurance Agent Secretary/Treasurer of the Company
William L. Ditto Berkeley Springs, WV	Retired
Raymond Luttrel Berkeley Springs, WV	Retired
Roger Michael Berkeley Springs, WV	Retired
Nancy E. Schilling Berkeley Springs, WV	Retired

Members of the Board are compensated at a rate of $250.00 for each meeting attended.

Officers

Officers of the Company are elected at the annual membership meeting. The Company's Bylaws state that the President, Vice President and Treasurer must all be board members. The Secretary position may be filled with someone who may or may not be a board member. Individuals serving as officers at December 31, 2011, were as follows:

President	James R. Michael
Vice President	Aaron T. Close
Secretary/Treasurer	Timothy B. Close

RELATED PARTIES

The Company is a producer controlled insurer pursuant to W. VA. Code §33-36. It is recommended that the Company update the agency agreement with Timothy B. Close Insurance Agency, LLC.

CONFLICT OF INTEREST STATEMENTS

The examination determined that the Company's Board of Directors and officers completed conflict of interest statements each year. This complies with the prior examination recommendation.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments to the Bylaws during the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains a fidelity bond that is in accordance to the guidelines established by the National Association of Insurance Commissioners. The Company carries a fidelity bond in the minimally prescribed amount of $25,000 for protection against loss from fraudulent or dishonest acts.

Additionally, the Company has insurance policies in force as of December 31, 2011, providing Directors and Officers, and Business Owners Property & Liability insurance that appear to provide adequate levels of protection for the hazards to which the Company is exposed.

TERRITORY AND PLAN OF OPERATIONS

The Company operates in a three county area with an emphasis in Morgan County, West Virginia. The Company insures its members against loss from fire, extended and homeowners' coverage. The Company operates on a direct bill basis.

The Company was represented exclusively by the Timothy B. Close Insurance Agency at the examination date.

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

EMPLOYEE WELFARE

The President and Vice President are part time employees and their salaries are paid on a quarterly basis. All salaries and salary increases are at the discretion of the Board of Directors and are voted on by the Board of Directors. The directors, officers and agents receive reimbursement for use of a private vehicle in disposition of Company business at the current Federal rate.

The Company does not provide pension, stock ownership or insurance plans to employees.

REINSURANCE AND RETENTION

Effective January 1, 2011, the Company entered a Property First Surplus Reinsurance Contract providing coverage equal to 12.5 times the Company's net retention, subject to a minimum net retention of $7,500 and to a maximum cession of $250,000 on any one risk. The Company receives a 27.5% ceding commission on net premiums ceded and this contract also provides for a contingent commission equal to 30% of the reinsurer's earned premium less expenses including a reinsurer's expense allowance equal to 12.5 % of income.

Effective January 1, 2011, the Company entered a Property Facultative Pro Rata Reinsurance Contract that allows it to insure and cede property risks in excess of the $250,000 maximum cession under the

Property First Surplus Reinsurance Contract. The Company receives a 22.5% ceding commission on net premiums ceded under the facultative contract.

Throughout the exam period the Company maintained a casualty excess of loss program providing casualty coverage on an occurrence basis.

Effective January 1, 2011, the Casualty Excess of Loss Reinsurance contract provided $550,000 of casualty coverage for Ultimate Net Loss over and above the Company's net retention of $10,000 each casualty loss.

Effective January 1, 2011, the Special Casualty Excess of Loss Reinsurance contract provided an additional $500,000 casualty reinsurance coverage over and above any initial Ultimate Net Loss of $500,000.

Throughout the exam period the Company maintained an aggregate excess of loss program reinsuring all risks classified as either Property and/or Casualty.

Effective January 1, 2011, the maximum reinsurance coverage under the Aggregate Excess of Loss Reinsurance contract was 90% of 200% of gross net earned premium income, or 90% of $168,000, whichever is the lesser, in excess of an amount equal to 90% of gross net earned premium income, or $50,400, whichever is the greater.

Effective January 1, 2011, the maximum reinsurance coverage under the Supplemental Aggregate Excess of Loss Reinsurance contract was 100% of 1,000% of gross net earned premium income as respects losses and loss adjustment expenses in excess of an amount equal to the sum of the Company's net retention plus coverage provided by the underlying aggregate of excess of loss reinsurance.

All of the reinsurance contracts properly transferred risk in accordance with guidelines prescribed by the NAIC Financial Condition Examiners Handbook. All of the reinsurance contracts contained the customary and required clauses. The Company met the statutory limit of risk provisions of W. Va. Code § 33-22-12.

The Company did not assume any reinsurance premium during the exam period.

GROWTH OF COMPANY

The following exhibit depicts the growth of the Company throughout the examination period. The amounts are as reported by the Company in its filed annual statements.

Year Ended December 31	Admitted Assets	Liabilities	Surplus to Policyholders	Total Income Receipts	Total Funds Disbursed	Change in Ledger Assets
2007	928,707	109,552	819,155	150,517	108,180	42,339
2008	982,391	111,121	871,271	142,350	85,289	57,061
2009	1,091,663	118,179	973,485	208,645	99,873	109,272
2010	1,146,405	108,192	1,038,214	166,557	111,815	54,742
2011	1,160,757	109,313	1,051,444	145,224	128,749	16,475

ACCOUNTS AND RECORDS

The Company utilizes QuickBooks software to maintain its general ledger. The Company utilizes Microsoft Access software to record policyholder records and claims.

It was noted that the current Microsoft Access program utilized by the company does not maintain historical policyholder data for each policy year. When policy renewal information is entered into the database the prior policy year information is overwritten and eliminated from the database.

Failure of the program to maintain historical policyholder data for each policy year resulted in the examiner being unable to rely upon the policyholder premium data to verify that the balance reported as written premium in the filed annual financial statements were complete and/or accurate.

It is recommended that the Company implement procedures to assure that the Microsoft Access policyholder database maintains historical policyholder data for each policy year.

The Company requested and was granted exemption from filing audited financial statements pursuant to the provisions of W. Va. Code § 33-33-16 for the years under examination.

The prior two examination reports indicated that the Company's annual financial statements for the period under examination did not reconcile from one year to the next and recommended that the Company properly fill out its annual financial statements in the future. The reconciliation issues continue

unresolved between the amounts reported in the Company's general ledger accounts and the amounts reported in the filed annual financial statements.

It is recommended that the Company properly fill out its annual financial statements in the future.

Investments

As of the date of this examination, the Board of Directors has not adopted a written plan for acquiring and holding investments and for engaging in investment practices in accordance to W. Va. Code § 33-8-4;

The Board of Directors does not evidence by formal resolution, at least annually, that it has determined whether all investments have been made in accordance with delegations, standards, limitations and investment objectives prescribed by the board in accordance to W. Va. Code § 33-8-4;

The Board of Directors does not on at least a quarterly basis receive and review a summary report on the insurer's investment portfolio, its investment activities and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan and review and revise, as appropriate, the written plan, in accordance to W. Va. Code § 33-8-4.

FINANCIAL STATEMENTS

The following Statement of Income and Disbursements and Statement of Assets, Liabilities and Policyholder Surplus follow the format of the first two pages of the annual financial statement permitted to be filed by the WVOIC.

The statements reflect the financial condition of the Company at December 31, 2011 and its transactions during the year 2011, as determined through this examination.

Amounts are shown in whole dollars and columns may not foot due to rounding.

STATEMENT OF INCOME AND DISBURSEMENTS

	Per Company	Examination Adjustments	Per Examination	Notes
Ledger Assets, December 31, 2010	$ 1,147,905	$ -	$ 1,147,905	
Premiums collected during the year	$ 242,152	(6,495)	$ 235,657	2
Premiums for reinsurance ceded	180,944		180,944	
Net income on writings	$ 61,208	$ (6,495)	$ 54,713	
Interest	17,439		17,439	
Reinsurance commissions	70,112		70,112	
Service fees	323		323	
Loss on investments	(3,858)		(3,858)	
Total income receipts	$ 145,224	$ (6,495)	$ 138,729	2
Total available funds	$ 1,293,129	$ (6,495)	$ 1,286,634	
Gross losses paid during the year	$ 169,319	$ -	$ 169,319	
Reinsurance recovered	135,201		135,201	
Net losses paid	$ 34,118	$ -	$ 34,118	
Claims adjustment expenses	379		379	
Commissions to agents	26,233		26,233	
Salaries to officers	2,924		2,924	
Other compensation to officers	10,250		10,250	
Rent	3,960		3,960	
Office expenses	8,614		8,614	
Licenses and insurance department fees	5,044		5,044	
Legal and professional fees	4,389		4,389	
Administrator fees	24,000		24,000	
Returned Premium	6,495	(6,495)	-	2
General expenses	2,288		2,288	
Advertising	56		56	
Total funds disbursed	$ 128,750	$ (6,495)	122,255	
Balance	$ 1,164,379	$ -	1,164,379	

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS TO POLICYHOLDERS

	Per Company	Examination Adjustments	Per Examination	Notes
Cash on hand and deposit	$ 1,112,051	$ -	$ 1,112,051	
Total qualified assets	$ 1,112,051	$ -	$ 1,112,051	
Other assets				
NAMIC stock/mutual funds	$ 52,329	$ (3,623)	$ 48,706	1
Total ledger assets	$ 1,164,380	$ (3,623)	$ 1,160,757	
Market value of stocks over book value	$ 2,235	$ (2,235)	$ -	1
Reinsurance Recoverable	-	190,082	190,082	6
Total non-ledger assets	$ 2,235	$ 187,847	$ 190,082	
Gross assets	$ 1,166,615	$ 184,224	$ 1,350,839	
Book value of ledger assets over market value	$ 5,858	$ (5,858)	$ -	1
Total assets not admitted	$ 5,858	$ (5,858)	$ -	
Total net assets admitted	$ 1,160,757	$ 190,082	$ 1,350,839	
Gross claims for losses in process of adjustment	$ -	$ 194,623	$ 194,623	6
Unearned premium reserve	93,401	(121)	93,280	3
Reinsurance premium payable	9,912	-	9,912	
IBNR loss reserve	6,000	(1,000)	5,000	4
Total liabilities	$ 109,313	$ 193,502	$ 302,815	
Surplus to policyholders	$ 1,051,444	$ (3,420)	$ 1,048,024	5
Total liabilities and surplus	$ 1,160,757	$ 190,082	$ 1,350,839	

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

In their filed 2011 annual statement, the Company reported surplus to policyholders to be $1,051,444. Per this examination, surplus to policyholders is $1,048,024. This difference in surplus to policyholders in the amount of $3,420 is immaterial. However, adjustments in excess of ten percent (10%) of surplus to policyholders were made to loss reserves and reinsurance recoverable.

Additionally, minor adjustments were made to individual line items to bring them into agreement with the general ledger.

The combination of significant adjustments to record financial facts and discrepancies between the annual statement and the general ledger are indicative of potentially serious systemic problems.

NOTES TO FINANCIAL STATEMENTS

Note 1

To adjust book values of stock and mutual fund investments to market values at year end.

Note 2

The Company historically has reported refunded premium as a separate expense. SSAP No. 70 does not reference refunded premium as an allocable expense. Written premium is reported net of refunded premium. This adjustment reduces net written premium by the refunded premium amount.

Note 3

To adjust the unearned premium reserve on the filed annual statement to agree with the general ledger.

Note 4

To adjust the IBNR loss reserve on the filed annual statement to agree with the general ledger.

Note 5

To record the impact upon surplus as regards policyholders of the adjustments made to the filed annual statement.

Note 6

To record a loss reserve for a fire loss that occurred in November 2011 that remained open at December 31, 2011 and the related reinsurance recoverable on that loss.

SUMMARY OF EXAMINATION FINDINGS AND RECOMMENDATIONS

The filed annual statement did not agree to the general ledger. It is strongly recommended that the Company properly prepare the annual statement and agree it to the general ledger prior to filing the annual statement.

The Company is utilizing an investment advisor, but as of the date of this examination had not entered into a formal agreement with the investment advisor.

The Company is a producer controlled insurer and has not as of the date of this examination entered into an agency agreement with the producer that meets the requirements of W. VA. Code § 33-36.

It is recommended the Board of Directors adopt a written plan for acquiring and holding investments and for engaging in investment practices in accordance to W. Va. Code § 33-8-4; and they further evidence by formal resolution, at least annually, that the Board has determined whether all investments have been made in accordance with delegations, standards, limitations and investment objectives prescribed by the in the plan.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

EXAMINERS ACKNOWLEDGMENT AND SIGNATURE

The cooperation and assistance extended by the Secretary/Treasurer and the staff of the Company during the course of the financial examination is hereby acknowledged.

State of West Virginia
County of Kanawha

EXAMINERS AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

Norman C. Koefoed, being duly sworn, states as follows:

1. I have authority to represent the West Virginia Offices of the Insurance Commissioner in the examination of Peoples Mutual Fire Insurance Company of West Virginia.
2. The West Virginia Offices of the Insurance Commissioner are accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Peoples Mutual Fire Insurance Company of West Virginia was performed per instruction of the Chief Examiner and in a manner consistent with the standards and procedures required by the West Virginia Offices of the Insurance Commissioner.

The affiant says nothing further

Norman C. Koefoed, CFE

Subscribed and sworn before me by Norman C. Koefoed on this 13th day of May 2013.

Dean E. Hastings
Notary Public

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
DEAN E. HASTINGS
P.O. BOX 124
CREEK, WV 25035-0124
My Commission Expires June 26, 2016

My Commission expires June 26, 2016 (Date)

Justin Parr

From: Aaron Close <aaron@closeinsurance.biz>
Sent: Thursday, May 23, 2013 11:09 AM
To: Justin Parr
Subject: RE: Report of Exam and Management Letter
Attachments: img011.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Please find our letter/response attached.

A signed copy will be mailed to your office ASAP, but I wanted to get you a copy so you could begin the closing of our examination file.

May I mail to?

Justin Parr
Insurance Financial Specialist
WV Offices of the Insurance Commissioner
P.O. Box 50540
Charleston, WV 25305-0540

Thanks

Aaron CLose

From: Justin Parr [mailto:Justin.Parr@wvinsurance.gov]
Sent: Monday, May 20, 2013 4:12 PM
To: tim@closeinsurance.biz; aaron@closeinsurance.biz
Cc: Jamie.Taylor@wvinsurance.gov; Leah.Cooper@wvinsurance.gov
Subject: Report of Exam and Management Letter
Importance: High

Tim and Aaron,

Attached you will find one (1) attachment, containing three (3) separate documents, concerning the most recent financial examination that was recently completed:

- Notification Letter from the Commissioner
- Management Letter
- Report of Financial Examination

All of these documents were placed in the mail today and should arrive at your location later in the week. The letter and the envelope were address to Mr. Michael (because he is the president of the company). If you see the envelope please open immediately.

I draw your attention to the first page (the notification letter from the Commissioner). People's has **30 days from receipt** to file their official **written** response letter to make any submission or rebuttals with respect to any matter contained in the Report of Examination. I believe that for the last examination People's did not submit a written

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response but acknowledge receipt and concurrence in an email. Technically, we need a written response per the Commissioner's Letter. I'm sending these documents via email to save some time and facilitate a quicker turnaround. I do not want to rush your response letter, but due to the length of time it took the division to complete the exam due to our loss of personnel I would love to have the response letter filed as soon as possible in order to close out this examination.

Once People's response letter has been received the department will review and respond if necessary. If no response is required, then the department will begin preparation of the Agreed Order Adopting the Report of Financial Examination.

Please let me know if you have any questions or need any assistance from me.

Very Respectfully,

Justin Parr, APIR
Insurance Financial Specialist
WV Offices of the Insurance Commissioner
1124 Smith Street
P.O. Box 50540
Charleston, WV 25305-0540

Phone: (304) 558-6279 Ext. 1173
Fax: (304) 558-1365
Email: justin.parr@wvinsurance.gov

PEOPLES MUTUAL FIRE INSURANCE CO OF WV
PO BOX 618, BERKELEY SPRINGS, WV 25411
(304) 258-1466
(304) 258-3933 (FAX)

Peoples Mutual Fire Insurance Company of West Virginia, Inc
1680 Valley Road
Berkeley Springs, WV 25411
May 21, 2013

Offices of the Insurance Commissioner
Michael D Riley
Insurance Commissioner
PO Box 50540
Charleston, WV 25305

Dear Commissioner:

Thank you for your letter of May 17th 2013 concerning the Report of Financial Examination of Peoples Mutual Fire Insurance Company of WV, Inc.

This letter of will serve as our response to your Financial Examination Report and will explain some pro-active steps the board is implementing in order to come in to full compliance with the state code and to establish procedures for productive oversight of the company.

Thank you for your assistance in directing and aiding in the creation of several policies and procedures, which we will be adopting, in order to fix the current inadequacy you see in our governance and oversight. The board will be issued a full report of your findings and suggestions, then proceeding to discuss a plan of implementing the most effective internal controls in order to properly manage our financials. Some of those internal controls being deliberated will consist of the following:

- Confirmations by two board members that the reinsurance contracts are ratified yearly
- A review of the "Red Book" by the President and Vice-President of the board before submission
- Signature page for confirmation of the facultative risk submission and acceptance by a board member

After updating the internal controls and systems, we are looking forward to implementing a Producer Controlled Agreement and Managing General Agent agreement, which will solidify and define the relationship we have with Timothy B Close Insurance Agency, LLC.

In the prior year's examinations there was a communication breakdown between the Offices of the Insurance Commissioner and People's Mutual Fire Insurance Company of WV, Inc. Our intention has never been to overlook or reject the importance of compliance with the state statutes and regulations. Moving forward we see this communication breakdown being resolved in a manner that should lead Peoples Mutual Fire Insurance Company of WV, INC to state regulation compliance and proper governance in the eyes of the Insurance Commissioner's Office.

The board of directors' governance has relied heavily on the yearly and quarterly meetings reports which include the financial statements, new and canceled business spreadsheets, claim reports, and investment review. The size of our company has always made it difficult to properly prepare the information in the format required by the State of WV due to a large portion of the requested information is not-applicable or productive to the boards' governance of People's Mutual Fire Insurance Company of WV, Inc. The lack of instruction's and non-applicable requested information requested in the annual statement has led to the misrepresentations you have seen over the prior years. It has never been our intent to give false information on any of these reports, and our staff work's diligently on the annual statement in order to give you the most accurate information possible. By re-opening the line of communication with the Offices of the Insurance Commissioner's staff we are confident that future annual statements will be clean of errors and discrepancies. In the future, before submitting the annual statement we will review with two board members, staff, contracted accounting firm, and the Offices of the Insurance Commissioner to discuss any specific questions or difficulties we may be experiencing in completing the report correctly.

People's Mutual Fire Insurance Company of WV, Inc. has been serving the residents of WV for over 110 years, and the board's mission is to solidify the future existence and financial solvency in order to continue this insurance carrier on to years of prosperity. With the help of our staff and the Offices of the Insurance Commissioner we have the tools needed to see that goal come to fruition.

Sincerely

James Micheal
President of People's Mutual Fire Insurance Company of WV, Inc