

**PROCEEDINGS BEFORE ALLAN L. McVEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

IN RE: PEOPLES MUTUAL FIRE INSURANCE COMPANY OF WEST VIRGINIA, INC.

Administrative Proceeding No.: 17-AP-FINCON-02024

**AGREED ORDER ADOPTING REPORT OF FINANCIAL
EXAMINATION AND DIRECTING ACTION**

COMES NOW Allan L. McVey, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Financial Examination as of December 31, 2016, of Peoples Mutual Fire Insurance Company of West Virginia, Inc. (hereinafter "Company") based upon the following findings, to wit:

JURISDICTION

1. Allan L. McVey is the Insurance Commissioner of the State of West Virginia (hereinafter "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code.

2. 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 Code. On April 5, 2004, the Company submitted to the Insurance Commissioner an Operational Service Agreement to be entered into the Timothy B. Close Insurance Agency, LLC, pursuant to which the Agency would manage and conduct the Company's affairs.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for the period beginning January 1, 2012, and ending December 31, 2016, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On November 28, 2017, 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 November 29, 2017, a true and accurate copy of the Report of Financial Examination was forwarded to the Company via email and certified mail.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was 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.

5. By letter dated December 15, 2017, the Company indicated that it had reviewed the Report of Financial Examination and concurred with the findings set forth therein. A copy of the Company's response letter is attached hereto as Exhibit B.

CONCLUSIONS OF LAW

1. W.Va. Code § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity of not more than thirty (30) days to make a written submission or rebuttal.

2. W.Va. Code § 33-2-9(j)(3) provides that within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals, and shall enter an ORDER adopting the Report of Financial Examination as filed or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination, or call for an investigatory hearing.

ORDER

Accordingly, it is therefore AGREED by the parties and ORDERED as follows:

1. That the Report of Financial Examination of the Company, attached hereto as Exhibit A, is ADOPTED and APPROVED by the Insurance Commissioner.
2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action and the Report of Financial Examination shall be mailed to the Company, via certified mail, return receipt, upon entry by the Insurance Commissioner.
3. That the Company shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this Agreed Order, affidavits executed by each of its directors stating under oath that he/she has received a copy of the 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. That the 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 the Company waives any right to notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein. The Company reserves 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. That this matter be dismissed from the administrative docket of the Insurance Commissioner.

Entered this 10th day of January, 2018.


Allan L. McVey
Insurance Commissioner

THE PARTIES DO SO AGREE:

State of West Virginia, Offices of the Insurance Commissioner

By:

Erin K. Hunter
Erin K. Hunter

Associate Counsel Regulatory Compliance

1-8-18
Date

Peoples Mutual Fire Insurance Company of West Virginia, Inc.

By:

Aaron T. Close
[Print Name]

Signed:

[Signature]
Its: Vice president

Dated: 1-5-18

REPORT OF FINANCIAL EXAMINATION
OF
PEOPLES MUTUAL FIRE INSURANCE COMPANY
OF WEST VIRGINIA, INC.

AS OF

DECEMBER 31, 2016



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SALUTATION

November 28, 2017

Charleston, West Virginia

The Honorable Allan L. McVey
Insurance Commissioner of the State of West Virginia
900 Pennsylvania Ave.
Charleston, West Virginia 25302

Dear Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner ("WVOIC"), as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the administrative affairs, books, records and financial condition of:

Peoples Mutual Fire Insurance Company of West Virginia, Inc.
1680 Valley Road
Berkeley Springs, West Virginia

hereinafter referred to as "the Company" or "Peoples". The following Report of Examination, is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our single-state examination of Peoples Mutual Fire Insurance Company of West Virginia, Inc. The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period from January 1, 2012 through December 31, 2016.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process with modifications applicable to the size of the Company. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the company's financial statements.

The examination report includes significant findings of fact, as mentioned in W. Va. Code §33-2-9, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

For this period of examination and review of the subsequent events, there were no significant findings.

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.

CORPORATE RECORDS

Charter

The Charter was amended in May 2013. The annual meeting was changed to the first Friday in May. The change in the Charter was approved by the WVOIC on June 7, 2013.

By-laws

The By-laws were amended in May 2013. The following changes were made: 1) the annual meeting was changed to the first Friday in May; 2) the Adjustment Committee section was removed; and 3) the membership of the Executive Committee was revised. The changes in the By-laws was approved by the WVOIC on June 7, 2013.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Company's By-laws 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 the meetings were well attended. Members serving on the Board of Directors at December 31, 2016, were as follows:

Name and Address

James R. Michael
Berkeley Springs, WV

Aaron T. Close
Berkeley Springs, WV

Timothy B. Close
Berkeley Springs, WV

Roger Michael
Berkeley Springs, WV

Principal Occupation

Retired
President of the Company

Insurance Agent
Vice President of the Company

Insurance Agent
Secretary/Treasurer of the Company

Retired

Name and Address

Nancy E. Schilling
Berkeley Springs, WV

Principal Occupation

Retired

Scott Swaim
Berkeley Springs, WV

Loan Officer

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, 2016, were as follows:

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

RELATED PARTIES

The Company is a producer controlled insurer pursuant to W. VA. Code §33-36 "Business Transacted with Producer Controlled Insurer Act."

The Company participated in the following related party agreement:

Producer Controlled Agreement

This agreement was effective October 4, 2013 between the Company and Timothy B. Close Insurance Agency, LLC (Agency). Pursuant to the agreement, the Company agrees to provide the Agency with its underwriting guidelines and the Agency agrees to adhere to the guidelines. Funds collected are property of the Company and are held by the Agency in a fiduciary capacity for the Company. The Agency agrees to prepare and maintain complete, separately identifiable, accurate and orderly records of business written for the Company and will maintain the same in accordance with generally accepted accounting practices. The Agency may negotiate but not bind reinsurance on behalf of the Company.

TERRITORY AND PLAN OF OPERATION

The Company operates in a three-county area that includes Morgan, Hampshire and Berkeley 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, LLC during the examination period.

REINSURANCE

Effective January 1, 2016, 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, 2016, the Casualty Excess of Loss Reinsurance contract provided \$1,000,000 of casualty coverage for ultimate net loss over and above the Company's net retention of \$10,000 each casualty loss. The agreement covers bodily injury and property damage liability, including medical payments.

Effective January 1, 2016, the maximum reinsurance coverage under the Aggregate Excess of Loss Reinsurance contract was 100% of 1200% of gross net earned premium income in excess of an amount equal to 70% of gross net earned premium income.

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.

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, 2016, 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.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Bonds	\$ 669,315	669,377	669,420	669,417	669,446
Admitted assets	1,167,070	1,201,199	1,223,985	1,222,122	1,200,538
Loss reserves	5,000	6,000	5,000	5,000	16,250
Total liabilities	107,110	108,031	108,959	107,830	116,919
Policyholders' surplus	1,059,960	1,093,167	1,115,027	1,114,292	1,083,619
Premiums earned	52,122	55,048	54,278	52,028	49,454
Net losses incurred	24,541	1,405	7,135	21,365	29,559
Net income	(2,570)	14,787	14,849	7,961	(31,807)

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).

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.

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.

FINANCIAL STATEMENTS

The following Statement of Assets, Liabilities and Policyholders' Surplus and Statement of Income follow the format of the first two pages of the annual financial statement filed with the WVOIC.

The statements reflect the financial condition of the Company at December 31, 2016 and its transactions during the year 2016, as determined through this examination. The amounts are shown in whole dollars and columns may not foot due to rounding.

STATEMENT OF ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS
December 31, 2016

<u>Assets</u>		
Bonds		\$ 669,446
Common stocks		86,024
Cash and cash equivalents		445,068
Total Assets		\$ 1,200,538
<u>Liabilities & Policyholders' Surplus</u>		
Unpaid losses and claims:		
Gross losses and claims reported, unpaid		\$ 112,500
Gross losses and claims incurred but not reported		5,000
Reinsurance recoverable on unpaid losses and claims		101,250
Total unpaid claims and losses net of reinsurance		16,250
Unearned premiums		92,917
Ceded reinsurance premiums payable		7,752
Total liabilities		116,919
Policyholders' surplus		1,083,619
Total liabilities and Policyholders' surplus		\$ 1,200,538

STATEMENT OF INCOME

December 31, 2016

Underwriting Income	
Net premiums and assessments earned	\$ 49,454
Deductions	
Net losses incurred	29,559
Loss expenses incurred including claims adjustment expenses	2,045
Other underwriting expenses incurred:	
Commissions and brokerage	
Directors and agents' compensation allowances	22,079
Commissions received on reinsurance ceded	41,371
Net commissions and brokerage	<u>(19,292)</u>
Salaries	2,924
Directors fees	10,800
Advertising and subscriptions	34
Boards, bureaus and association dues	7,982
Insurance and fidelity bonds	5,234
Travel and travel items	886
Rent and rent items	4,184
Printing and stationery	760
Postage and telephone	1,727
Legal and auditing fees	5,500
Admin fee	30,000
Computer maintenance	332
General expenses	2,617
Bank service fee	368
Total underwriting expenses incurred	<u>54,055</u>
Total underwriting deductions	85,658
Net underwriting gain	<u><u>(36,204)</u></u>
Investment Income	
Net investment income earned	6,166
Net realized capital gains or (losses) from sale or maturity of assets	<u>(1,784)</u>
Net investment gain or (loss)	4,382
Other Income	
Finance and service charges not included in premiums	15
Total other income	<u>15</u>
Net income before federal income taxes	(31,807)
Federal income taxes incurred	-
Net income after federal income taxes	<u><u>\$ (31,807)</u></u>

POLICYHOLDERS' SURPLUS ACCOUNT

December 31, 2016

Policyholders' Surplus Account	
Policyholders' surplus, December 31 of previous year	\$ 1,114,292
Gains and (Losses) in Surplus	
Net income	(31,807)
Change in net unrealized capital gains or (losses)	1,119
Aggregate write-ins for gains and losses in surplus	15
Policyholders' surplus as of statement date	<u>\$ 1,083,619</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There were no adjustments to surplus as of December 31, 2016 based on the results of this examination.

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.

SUMMARY OF EXAMINATION RECOMMENDATIONS

For this period of examination and review of the subsequent events, there were no significant findings.

ACKNOWLEDGMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner of the West Virginia Offices of the Insurance Commissioner. The undersigned performed an examination of Peoples Mutual Fire Insurance Company of West Virginia, Inc. as of December 31, 2016.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is true and complete report of financial condition of Peoples Mutual Fire Insurance Company of West Virginia, Inc. as of December 31, 2016 as determined by this examination.

Respectfully Submitted,



Susan Carroll, CPA, CFE, MCM

Examiner-in-Charge

Representing the West Virginia Offices of the Insurance Commissioner

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

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RECEIVED

December 15, 2017

State of WV
Offices of the Insurance Commissioner
PO Box 50540
Charleston, WV 25305

DEC 22 2017

BY: _____

Jamie Taylor, Director/Chief Examiner

Thank you for your Financial Examination, for the year ending December 31, 2016, letter dated Nov. 28, 2017 for People's Mutual Fire Insurance Company of WV, Inc

This letter will serve as our response and acknowledgement of the Financial Examination Report and that there were no significant findings.

Thank you for the suggested recommendations included in each of the identified areas of review, and know that the Board strives to be fiscally conservative and judicious in the their fiduciary responsibility of protecting the assets of the policyholders.



Aaron Close
Vice-President People's Mutual
Fire Insurance Company of WV, INC

