

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

**IN RE: FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA**

Administrative Proceeding No.: 18-AP-FINCON-02010

**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, 2017, of FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY (hereinafter referred to as “Company”) based upon the following findings, to wit:

JURISDICTION

1. Allan L. McVey 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.

2. The Company was incorporated on December 18, 1877 in the State of West Virginia by the name of “Farmers and Mechanics Mutual Fire Insurance Company of West Virginia”. The word “Fire” was deleted from its name in 1990. The Company commenced business on March 23, 1878. The purpose of the Company is to furnish its members effective mutual insurance coverage authorized by Chapter 33, Article 22, Section 8 of the West Virginia Code. The Company writes only in the State of West Virginia.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2013 and ending December 31, 2017, was conducted in accordance

with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On October 29, 2018, 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 October 31, 2018, 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 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.

5. By letter dated November 26, 2018, 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 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 they have 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 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. 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 4th day of December, 2018.


Allan L. McVey
Insurance Commissioner

THE PARTIES DO SO AGREE:
State of West Virginia, Offices of the Insurance Commissioner

By: 
Greg Elam
Associate General Counsel
Date: 12/9/18

Farmers and Mechanics Mutual Insurance Company of West Virginia

By: Foster Lee Sirbaugh, Jr.
[Print Name]

Signed: Foster Lee Sirbaugh, Jr.

Its: President / CEO

Dated: December 4, 2018

REPORT OF EXAMINATION
OF
**FARMERS AND MECHANICS MUTUAL
INSURANCE COMPANY OF WEST VIRGINIA**

MARTINSBURG, WV

NAIC COMPANY CODE: 36315
NAIC GROUP CODE: 4339

AS OF DECEMBER 31, 2017

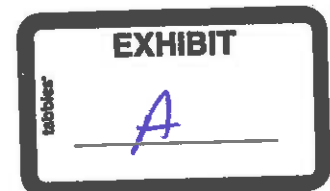


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SALUTATION

October 29, 2018

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

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:

Farmers and Mechanics Mutual Insurance Company of West Virginia
25 Administrative Drive
Martinsburg, West Virginia 25404

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

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2012. This examination commenced on May 30, 2018, and is a single-state, full scope, 5-year examination pursuant to W.Va. Code §33-2-9(a), as amended, covering the period from January 1, 2013 through December 31, 2017, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination.

The general procedures of the examination followed rules and standards as set forth in the NAIC Financial Condition Examiners Handbook ("Handbook") and West Virginia Laws, Regulations, and Directives of the WVOIC. The examination was conducted 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 risk within the Company and evaluating system controls and procedures used to mitigate those risks. In addition, the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions were assessed.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Accordingly, planning materiality and tolerable error thresholds were based on professional judgment after considering the nature of the business written by the Company, operating results, and the Company's financial position as of December 31, 2017.

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 have been 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.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of the current examination period and review of the subsequent events, there were no findings to report.

HISTORY

FMM was incorporated on December 18, 1877 in the State of West Virginia under the name "Farmers and Mechanics Mutual Fire Insurance Company of West Virginia". The word "Fire" was deleted from its name in 1990. The Company commenced business on March 23, 1878. The purpose of the Company is to furnish its members effective mutual insurance coverage authorized by Chapter 33, Article 22, Section 8 of the West Virginia Code. The Company writes only in the State of West Virginia.

CORPORATE RECORD

Each policyholder of the Company is a member. Each member is entitled to one vote. The annual policyholders' membership meeting is held at the principal office of the Company in Berkeley County, West Virginia, on the second Friday in March to elect a Board of Directors and to transact any other lawful business that may come before it.

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

There were no changes in the Charter or Bylaws during the exam period.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The corporate powers of the Company are vested in the Board of Directors consisting of not less than 6 nor more than 15 members in compliance with Article 1, Section 1 of the Company's Bylaws and in compliance with W. Va. Code §33-22-5. The individuals serving as members of the Board of Directors on December 31, 2017 were as follows:

Name and Address	Business Affiliation	Board Member Since
Martin Berkeley Frye Gerrardstown, WV	Secretary & Director	1993
Bernard Lee Snyder Ranson, WV	Director	1994
James Wayne Dailey, II Martinsburg WV	Director, Chairman	1995

Name and Address	Business Affiliation	Board Member Since
Anthony Joseph Petrucci Martinsburg, WV	Director	1998
James Patrick Whitacre Martinsburg, WV	Director, Treasurer	1999
Kenneth Laign Banks Inwood, WV	Director	2002
Vicki Shockey-Fulk Martinsburg, WV	Director	2002
Edwin Dennis McCormick Martinsburg, WV	Director/ Ex-President	2003
Foster Lee Sirbaugh Jr. Berkeley Springs, WV	Director/President	2012

OFFICERS

The annual meeting of the Board must be held on the second Friday in March following the fiscal year-end. At this meeting, the Board is required to elect a Chairman, a Vice Chairman, President, Treasurer and Secretary. Officers elected at the March 10, 2017 Board of Directors Meeting and serving as of December 31, 2017, were as follows:

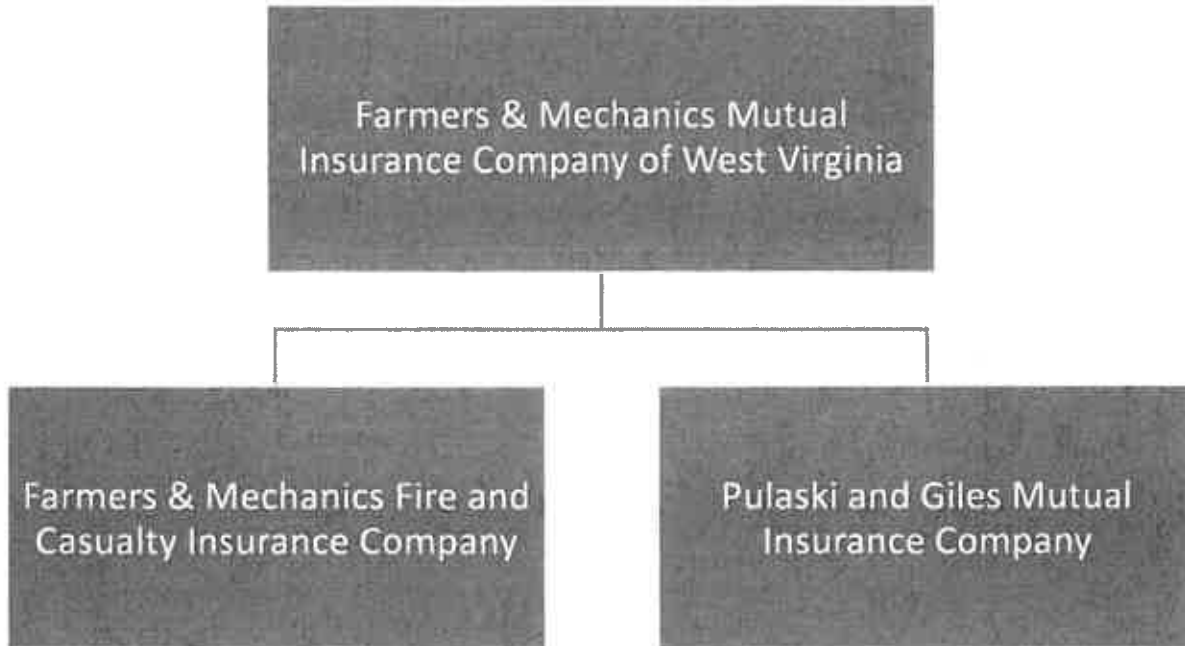
Name	Title
Foster Lee Sirbaugh Jr.	President
James Patrick Whitacre	Treasurer
Martin Berkeley Frye	Secretary
Daniel Ray Otto	Senior Vice President-Chief Finance Officer

COMMITTEES

Based on Article III, Section 7 of the Bylaws the Board of Directors by resolution may appoint committees as may be necessary to properly conduct the business of the Company. The Company does informally operate utilizing an Executive, Auditing, Finance, Strategic Planning, Marketing, Personnel, Nomination, and Proxy Committees.

ORGANIZATIONAL CHART

At December 31, 2017, the following entities were the members of the Farmers and Mechanics Group:



AGREEMENTS

Expense Sharing Agreement

FMM, and Farmers & Mechanics Fire and Casualty Insurance Company (“FMFC”), established an Expense Sharing Agreement on August 1, 2006. FMM provides certain management, underwriting support, accounting and information system services to FMFC.

FMM and Pulaski and Giles Mutual Insurance Company (“PGM”) established an Affiliation Agreement on September 29, 2016. FMM provides certain management, administrative, and policyholder services, including underwriting, claims adjustment, marketing, accounting and information system services to PGM.

TERRITORY AND PLAN OF OPERATION

The Company writes primarily homeowners (including mobile homes) fire and farm-owners policies exclusively in the State of West Virginia. The Company is also licensed in State of Virginia. However, the Company is not currently writing any business in Virginia.

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

GROWTH OF COMPANY

The following amounts represent growth of the Company and other financial comparisons for the year ended December 31, 2017 and for the period under examination.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Direct Premiums Written	25,016,430	24,057,113	23,673,820	23,074,851	22,188,187
Ceded Premiums Written	3,235,670	3,555,505	2,903,127	2,553,179	2,266,878
Net Premiums Written	21,974,748	20,693,720	20,964,883	20,710,679	20,099,102
Net Income	2,103,905	1,229,310	2,496,079	2,648,970	2,799,113
Total Net Assets	70,106,406	65,792,654	63,544,371	59,642,694	56,031,212
Total Liabilities	18,944,705	17,992,421	17,667,700	17,083,943	17,029,752
Policyholders Surplus	<u>\$ 51,161,701</u>	<u>\$ 47,800,233</u>	<u>\$ 45,876,671</u>	<u>\$ 42,558,751</u>	<u>\$ 39,001,460</u>

REINSURANCE

The Company's reinsurance was obtained through a reinsurance intermediary. It was determined that all reinsurers and the reinsurance intermediary were properly licensed or authorized to conduct business in the State of West Virginia.

Ceded Reinsurance

FMM's reinsurance program is designed to protect its capital and surplus. FMM has the following reinsurance coverage:

Excess of loss – Property & Casualty

FMM's Excess of Loss treaty consists of two layers and covers \$1,350,000 of property and \$850,000 of casualty excess of \$150,000. The first layer is \$850,000 excess \$150,000. The second layer (property only) is \$500,000 excess \$1,000,000.

The casualty clash layer is \$1,000,000 excess \$1,000,000.

Catastrophe – Property

FMM has a Catastrophe Excess of Loss treaty (three layers) that covers \$11,000,000 of property excess of \$1,000,000. The first layer is \$1,000,000 excess \$1,000,000. The second layer is \$4,000,000 excess \$2,000,000. The third layer is \$6,000,000 excess \$6,000,000.

FMM also has a second Excess of Loss treaty covering \$6,000,000 of property excess of \$12,000,000.

Facultative

FMM uses facultative reinsurance for property risks in excess of \$1,500,000.

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.

ASSETS
DECEMBER 31, 2017

ASSETS	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
Bonds	43,199,676	-	43,199,676
Stocks:			
Preferred stocks	256,500	-	256,500
Common stocks	15,300,665	-	15,300,665
Real Estate:			
Properties occupied by the company	1,286,856	-	1,286,856
Cash, Cash Equivalents and Short-Term Investments	3,146,127	-	3,146,127
Subtotals; Cash and Invested Assets	\$ 63,189,824	\$ -	\$ 63,189,824
Investment income due and accrued	422,608	-	422,608
Premiums and Considerations:			
Uncollected premiums and agents' balances in the course of collection	249,208	-	249,208
Deferred premiums; Agents' balances and installments booked but deferred and not yet due	3,896,960	-	3,896,960
Reinsurance:			
Amounts recoverable from reinsurers	535,648	-	535,648
Electronic data processing equipment and software	143,153	-	143,153
Receivables from parent, subsidiaries and affiliates	144,143	-	144,143
Aggregate write-ins for other-than-invested assets	1,524,862	-	1,524,862
Totals	\$ 70,106,406	\$ -	\$ 70,106,406

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017**

LIABILITIES, SURPLUS & OTHER FUNDS	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
Losses	3,088,856	-	3,088,856
Loss adjustment expenses	804,702	-	804,702
Commissions payable, Contingent Commissions and other similar charges	1,225,993	-	1,225,993
Other expenses	219,180	-	219,180
Taxes, Licenses and Fees	1,416	-	1,416
Current federal and foreign income taxes	380,924	-	380,924
Net deferred tax liability	133,362	-	133,362
Unearned premiums	12,639,791	-	12,639,791
Advance premium	374,328	-	374,328
Ceded reinsurance premiums payable	74,329	-	74,329
Amounts withheld or retained by company for account of others	1,824	-	1,824
Total Liabilities	\$ 18,944,705	\$ -	\$ 18,944,705
Unassigned funds (surplus)	51,161,701	-	51,161,701
Total Policyholders Surplus	\$ 51,161,701	\$ -	\$ 51,161,701
Total Liabilities, Surplus & Other Funds	\$ 70,106,406	\$ -	\$ 70,106,406

**STATEMENT OF OPERATIONS
DECEMBER 31, 2017**

	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
UNDERWRITING INCOME			
Premiums earned	21,491,585	-	21,491,585
Losses incurred	10,143,570	-	10,143,570
Loss adjustment expenses incurred	1,564,881	-	1,564,881
Other underwriting expenses incurred	8,158,665	-	8,158,665
Total underwriting deductions	19,867,116	-	19,867,116
Net underwriting gain (loss)	\$ 1,624,469	\$ -	\$ 1,624,469
INVESTMENT INCOME			
Net investment income earned	1,251,474	-	1,251,474
Net realized capital gains (losses) less capital gains tax	(29,750)	-	(29,750)
Net investment gain (loss)	\$ 1,221,724	\$ -	\$ 1,221,724
OTHER INCOME			
Net gain (loss) from agents' or premium balances charged off	(26,322)	-	(26,322)
Finance and service charges not included in premiums	108,682	-	108,682
Aggregate write-ins for miscellaneous income	19,112	-	19,112
Total other income	\$ 101,472	\$ -	\$ 101,472
Net income before dividends to policyholders and federal and foreign income taxes	2,947,665	-	2,947,665
Dividends to policyholders	-	-	-
Net income after dividends to policyholders and before federal and foreign income taxes	2,947,665	-	2,947,665
Federal and foreign income taxes incurred	843,760	-	843,760
Net income	\$ 2,103,905	\$ -	\$ 2,103,905

**CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2017**

SURPLUS ACCOUNT	2017	2016	2015	2014	2013
Surplus; December 31 prior year	47,800,233	45,876,671	42,558,751	39,001,460	35,966,264
Net income	2,103,905	1,229,310	2,496,079	2,648,970	2,799,113
Change in net unrealized capital gains or (losses)	1,350,488	688,520	786,831	894,594	316,080
Change in net deferred income tax	(91,269)	6,520	(2,218)	31,647	(288,708)
Change in nonadmitted assets	(1,656)	(788)	37,228	(17,920)	208,711
Change in provision for reinsurance	-	-	-	-	-
Change in surplus for the year	3,361,468	1,923,562	3,317,920	3,557,291	3,035,196
Surplus; December 31 current year	\$ 51,161,701	\$ 47,800,233	\$ 45,876,671	\$ 42,558,751	\$ 39,001,460

SUMMARY OF EXAMINATION CHANGES

There were no adjustments made to the Company's financial statements as a result of this examination.

SUBSEQUENT EVENTS

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

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted Tyler Leach, CISA, IT specialist of Dixon Hughes Goodman LLP, George Brown, CFE, CIE, MCM, Greg Wilson, FACS, MAAA, Actuary, of Lewis & Ellis Inc. and by Jamie Taylor, CFE, of the West Virginia Offices of the Insurance Commissioner, performed an examination of Farmers and Mechanics Mutual Insurance Company of West Virginia as of December 31, 2017.

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 a true and complete report of financial condition of Farmers and Mechanics Mutual Insurance Company of West Virginia as of December 31, 2017 as determined by this examination

Respectfully Submitted,



Roshi Fekrat, CPA, CFE, CIA, AMCM
Managing Director
Global Insurance Enterprises, Inc.
Representing the WV Offices of the Insurance Commissioner



Jamie Taylor, CFE
Director / Chief Financial Examiner
Financial Conditions Division
WV Offices of the Insurance Commissioner



**FARMERS &
MECHANICS**
INSURANCE COMPANIES

P.O. BOX 1917
MARTINSBURG, WV 25402-1917

PHONE 800-444-1917 | FAX 800-333-4310
FMIWV.COM

November 26, 2018

Jamie Taylor, CFE, APIR
Director/Chief Examiner
Financial Conditions Division
WV Offices of the Insurance Commissioner
900 Pennsylvania Ave.
Charleston, WV 25302

RE: Response to West Virginia Insurance Department Financial Examination Draft
For Farmers and Mechanics Mutual Insurance Company of West Virginia

Dear Mr. Taylor:

I would like to advise the West Virginia Department of Insurance that management has reviewed the draft exam report and did not identify any exceptions or concerns.

Thank you for the working relationship we have with the West Virginia Department of Insurance.

Regards

Foster L. Sirbaugh, Jr.
President / CEO

