

BEFORE JAMES A. DODRILL, INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA

In the Matter of:

**FARMERS HOME FIRE INSURANCE
COMPANY OF AMERICA (NAIC#15342)**

ADMINISTRATIVE PROCEEDING NO. 20-AP-FINCON-02011

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

COMES NOW James A. Dodrill, Insurance Commissioner of the State of West Virginia, (hereinafter the “Insurance Commissioner”) and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2018, of FARMERS HOME FIRE INSURANCE COMPANY OF WEST VIRGINIA (hereinafter referred to as “Company”) based upon the following findings, to wit:

JURISDICTION & FINDINGS OF FACT

1. The Insurance Commissioner 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 is organized pursuant to provisions of Article 22, Chapter 33 of the *West Virginia Code*.
3. The Company was incorporated on June 20, 1896, under the laws of the State of West Virginia, and commenced business on June 2, 1896. The Company is authorized to transact business as a farmers’ mutual fire insurance company under the provisions of Article 22 of Chapter 33 of the *West Virginia Code*.
4. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2014 and ending December 31, 2018, was conducted in accordance

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

5. On May 29, 2020, 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.

6. On or about May 29, 2020, a true and accurate copy of the Report of Financial Examination was sent to, and received via email, John B. Arbuckle, Jr. A copy of the Letter dated May 29, 2020, is attached hereto as Exhibit B.

7. 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, to make a submission, rebuttal, or objection concerning any matter contained in the Report.

8. By letter dated June 4, 2020, management of the Company acknowledged 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 June 4, 2020, is attached hereto as Exhibit C.

CONCLUSIONS OF LAW

1. *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. *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

It is, therefore, **ORDERED** as follows:

1. The Report of Financial Examination of the Company, attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.
2. 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 requested, upon entry by the Insurance Commissioner.
3. 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 *Code* § 33-2-9(j)(4).
4. The Company shall 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. The Company, as indicated by its authorized signature hereon, waives any right(s) 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. This matter is dismissed from the administrative docket of the Insurance Commissioner.

ENTERED this 29th day of June, 2020.



James A. Dodrill
West Virginia Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By:
Gregory A. Elam, Associate General Counsel

Date: Gregory A. Elam
6/24/2020

FARMERS HOME FIRE INSURANCE COMPANY

BY: John B. Arbuckle, Jr.
[Print Name]

Signed: John B. Arbuckle, Jr.

Its: Secretary / Treasurer

Dated: June 25, 2020

I am signing this order with the understanding that the report will not be presented to the Board until our meeting on August 4, 2020. This is more than thirty days. TBAE

REPORT OF EXAMINATION
OF
FARMERS HOME FIRE INSURANCE COMPANY OF WEST VIRGINIA
LEWISBURG, WV
NAIC #15342
AS OF DECEMBER 31, 2018



TABLE OF CONTENTS

SALUTATION 3

SCOPE OF EXAMINATION 4

SUMMARY OF SIGNIFICANT FINDINGS 5

HISTORY 5

MANAGEMENT AND CONTROL 5

BOARD OF DIRECTORS 5

OFFICERS 6

COMMITTEES 7

AGREEMENTS 7

TERRITORY AND PLAN OF OPERATION 7

GROWTH OF COMPANY 8

REINSURANCE 8

ACCOUNTS AND RECORDS 8

FINANCIAL STATEMENTS 9

STATEMENT OF ASSETS 10

STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS 11

STATEMENT OF INCOME 12

RECONCILIATION OF SURPLUS 13

SUMMARY OF EXAMINATION CHANGES 14

SUBSEQUENT EVENTS 14

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS 14

SUMMARY OF EXAMINATION RECOMMENDATIONS 14

ACKNOWLEDGEMENT AND SIGNATURE 15

SALUTATION

May 29, 2020
Lewisburg, West Virginia

The Honorable James A. Dodrill
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 Home Fire Insurance Company of West Virginia
800 Jefferson Street South
Lewisburg, WV 24901

hereinafter referred to as the “Company”. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of the Company. The last examination covered the five-year period from January 1, 2009 through December 31, 2013. The examination commenced on January 3, 2020 pursuant to W.Va. Code §33-2-9(a), as amended, and covers the five-year period from January 1, 2014 through December 31, 2018.

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, 2018.

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

There are no significant findings as a result of this examination.

HISTORY

The Company was incorporated on June 20, 1896, under the laws of the State of West Virginia, and commenced business on June 26, 1896. The Company is authorized to transact business as a farmers’ mutual fire insurance company under the provisions of Article 22 of Chapter 33 of the West Virginia Code. The Company’s purpose shall be to safeguard its members, so far as possible, against property and liability losses and to distribute the same on the mutual insurance plan permitted by the Statutes of West Virginia, as set forth in the Company’s By-Laws.

Dividends to Policyholders

The Company did not pay any dividends to policyholders during the examination period.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The corporate powers of the Company are vested in the Board of Directors (“Board”) consisting of nine members, one-third of whom shall be elected at each annual meeting for terms of three years, as stated in Article IV, Section 1 of the Company’s By-Laws and in compliance with W. Va. Code §33-22-5(a). The individuals serving as members of the Board on December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>	<u>Board Member Since</u>
John B. Arbuckle, Jr.* Lewisburg, West Virginia	Officer/Agent Farmers Home Fire Insurance Company of West Virginia	1967
Julian F. Arbuckle Lewisburg, West Virginia	Officer/Agent Farmers Home Fire Insurance Company of West Virginia	2014

<u>Name and Address</u>	<u>Business Affiliation</u>	<u>Board Member Since</u>
Joel Callison Hillsboro, West Virginia	Farmer	2013
Vincent S. Deeds Renick, West Virginia	Law Enforcement	2015
Jesse O. Guills, Jr. Lewisburg, West Virginia	Attorney	1998
William R. Jones Lewisburg, West Virginia	Retired Officer Farmers Home Fire Insurance Company of West Virginia	1985
J. Wilbur Larew Greenville, West Virginia	Farmer	1968
Donald McNeel Hillsboro, West Virginia	Farmer	2013
E. Lee Perkins Frankford, West Virginia	Farmer	2005

*Chairman

OFFICERS

The annual meeting of the Board shall be held immediately following the annual meeting of members to elect from their number, for terms of one year, a President, Vice-President, Treasurer, and Secretary as designated by the Board. Officers elected by the Board, and serving as of December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
J. Wilbur Larew	President
Jesse O. Guills, Jr.	Vice-President
John B. Arbuckle, Jr.	Secretary & Treasurer
Julian F. Arbuckle	Assistant Secretary and Treasurer

It was observed that the Company's Secretary and Treasurer and Assistant Secretary and Treasurer oversee the Company's daily operations.

COMMITTEES

The Officers of the Company shall constitute an Executive Committee with such powers as the Board may delegate to it and shall meet on the call of the Secretary, as stated in the Company's By-Laws. There was no Committee activity during the period under examination.

AGREEMENTS

The Company is not party to an insurance holding company system. However, the Company is under common management and shares office space, employees, and services with Arbuckle Insurance Agency ("Arbuckle"). During the examination period, the Company entered into both a shared services and lease agreement with Arbuckle.

Lease Agreement

Effective April 1, 2015, the Company entered into a lease agreement with Arbuckle, leasing the use and occupancy, joint with the Company, of its shared building. Arbuckle pays the Company an agreed upon fee monthly, which is due on the first of each calendar month. The agreement allows for consecutive one year terms, which is reviewed and extended each year by the Board.

Shared Services Agreement

Effective August 1, 2015, the Company entered into an agreement with Arbuckle to share expenses for shared services. Under the terms of the agreement, the Company provides sufficient staffing to Arbuckle for the benefit of running the agency's day-to-day business. In return, Arbuckle pays an agreed upon fee to the Company for fair share cost reimbursement of shared employee salaries and medical insurance. The agreement allows for automatic renewal of one year terms, unless cancelled.

TERRITORY AND PLAN OF OPERATION

The Company writes primarily fire, property coverage only, with a maximum retained liability of \$35,000 on mostly low-value dwellings, older mobile homes, and farming and construction outbuildings. The Company also writes a small amount of inland marine property coverage on farm equipment and livestock. The Company writes business solely in the State of West Virginia,

primarily in Greenbrier County, as well as the counties of Monroe, Pocahontas, and Summers. The Company does not write liability coverage.

GROWTH OF COMPANY

The following amounts represent growth of the Company and key financial data for the year ended December 31, 2018 and for the period under examination:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Admitted assets	\$ 4,516,571	\$ 4,619,727	\$ 4,532,171	\$ 4,327,354	\$ 4,365,652
Liabilities	\$ 18,850	\$ 10,956	\$ 14,623	\$ 18,917	\$ 19,820
Surplus as regards policyholder	\$ 4,497,721	\$ 4,608,771	\$ 4,517,548	\$ 4,308,437	\$ 4,345,832
Revenue	\$ 314,880	\$ 324,126	\$ 329,906	\$ 329,609	\$ 330,195
Net Income (Loss)	\$ (20,946)	\$ 29,098	\$ 137,455	\$ 150,079	\$ 37,853

The Company's operations were consistent during the examination period, and it reported positive income in all years except 2018. In 2018, increased underwriting losses and a decrease in gains from investments were attributable to a reported net loss. The Company was sufficiently capitalized during the period under examination.

REINSURANCE

The Company's reinsurance program is comprised of a single aggregate excess of loss agreement, reinsuring the Company's extended coverage contracts. The agreement covers 90% of \$300,000 of losses that are in excess of 80% of gross net written premium, or \$53,800, whichever is greater.

ACCOUNTS AND RECORDS

The Company maintains its books and records at its home office in Lewisburg, West Virginia. In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the WVOIC and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**STATEMENT OF ASSETS
DECEMBER 31, 2018**

	<u>Assets</u>	<u>Non-Admitted</u>	<u>Admitted Assets</u>
Bonds	\$3,882,365		\$3,882,365
Preferred Stocks	369,941		369,941
Common Stocks	88,802		88,802
Properties Occupied by the Company	57,500		57,500
Cash	21,810		21,810
Subtotals	\$4,420,418		\$4,420,418
Investment Income Due and Accrued	51,629		51,629
Current Federal and Foreign Income Tax Recoverable	22,273		22,273
Net Deferred Tax Asset	108,355	86,104	22,251
Furniture and Equipment	22,794	22,794	
Prepaid Assets	24,628	24,628	
Total Assets	\$4,650,097	\$133,526	\$4,516,571

**STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2018**

Losses		\$10,785
Commissions Payable, Contingent Commissions and Other Similar Charges		50
Unearned Premiums		6,217
Advance Premium		1,798
Total Liabilities		\$18,850
Unassigned Funds (Surplus)		4,497,721
Surplus as Regards Policyholders		4,497,721
TOTAL		\$4,516,571

**STATEMENT OF INCOME
DECEMBER 31, 2018**

Premiums Earned	\$315,349
Losses Incurred	77,937
Loss Adjustment Expenses Incurred	30,641
Other Underwriting Expenses Incurred	381,843
Total Underwriting Deductions	490,421
Net Underwriting Loss	(175,072)
Net Investment Income Earned	246,153
Net Realized Capital Losses	(99,042)
Net Investment Gain	147,111
Aggregate Write-ins for Miscellaneous Income	242
Total Other Income	242
Net Loss Before All Other Taxes	(27,719)
Federal and Foreign Income Taxes Incurred	(6,773)
Net Loss	\$(20,946)

**RECONCILIATION OF SURPLUS
DECEMBER 31, 2018**

Surplus as of Prior Examination – 12/31/2013	\$4,261,952
Net Income	37,853
Change in net unrealized capital gains	17,400
Change in net deferred income tax	0
Change in nonadmitted assets	28,627
Change in surplus as regards policyholders	<u>83,880</u>
Surplus at December 31, 2014	<u><u>\$4,345,832</u></u>
Net Income	150,079
Change in net unrealized capital gains	(215,182)
Change in net deferred income tax	51,074
Change in nonadmitted assets	(23,366)
Change in surplus as regards to policyholders	<u>(37,395)</u>
Surplus at December 31, 2015	<u><u>\$4,308,437</u></u>
Net Income	137,455
Change in net unrealized capital gains	70,823
Change in net deferred income tax	(20,738)
Change in nonadmitted assets	21,571
Change in surplus as regards to policyholders	<u>209,111</u>
Surplus at December 31, 2016	<u><u>\$4,517,548</u></u>
Net Income	29,098
Change in net unrealized capital gains	65,176
Change in net deferred income tax	(26,562)
Change in nonadmitted assets	23,511
Change in surplus as regards to policyholders	<u>91,223</u>
Surplus at December 31, 2017	<u><u>\$4,608,771</u></u>
Net Income	(20,946)
Change in net unrealized capital gains	(76,200)
Change in net deferred income tax	87,123
Change in nonadmitted assets	(101,027)
Change in surplus as regards to policyholders	<u>(111,050)</u>
Surplus at December 31, 2018	<u><u>\$4,497,721</u></u>

SUMMARY OF EXAMINATION CHANGES

There were no adjustments to the financial statements as a result of the examination.

SUBSEQUENT EVENTS

E. Lee Perkins was elected to the office of Vice-President, effective August 6, 2019, following Mr. Guills' passing, which also left a vacancy on the Board. The vacancy has not been filled.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior Report of Examination, as of December 31, 2013, contained the following recommendation.

1. It is recommended that the Company enter into agreements with all its custodians of its securities with the terms required by the provisions of W. Va. Code §33-8A-6.

The Company has complied with this recommendation.

SUMMARY OF EXAMINATION RECOMMENDATIONS

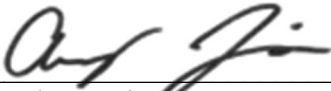
There were no findings or recommendations as a result of the examination.

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. In addition to the undersigned, Jan Moenck, CFE, CIA, CBA, CFSA, CISA, Examination Partner and Supervising Examiner of Risk & Regulatory Consulting, LLC, participated in the examination.

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 Home Fire Insurance Company of West Virginia as of December 31, 2018 as determined by this examination.

Respectfully Submitted,



Andy Jennings, CFE, ARM
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the WV Offices of the Insurance Commissioner



Jamie Taylor, CFE, PIR
Chief Financial Examiner
Company Analysis and Examination Division
WV Offices of the Insurance Commissioner