

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

In the Matter of:

WEST VIRGINIA MUTUAL INSURANCE COMPANY (NAIC#11972)

ADMINISTRATIVE PROCEEDING NO. 20-AP-FINCON-02015

**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 West Virginia Mutual Insurance Company (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 created through legislation, West Virginia House Bills 601 and 2122 in 2002 and 2003, respectively, to provide medical professional liability insurance (“MPLI”) to physicians in West Virginia (WV). The Company’s creation was in response to a market crisis in professional liability insurance for West Virginia physicians. The Company was initially incorporated in West Virginia as a mutual insurer under the name West Virginia Physicians Mutual Insurance Company on August 29, 2003 and commenced business on July 1, 2004. The Company adopted its current name in June 2006. The Company assumed certain assets and liabilities of the Board of Risk Insurance Management (“BRIM”), which had previously provided MPLI to

physicians. The Company assumed all applicable policies previously carried by BRIM from 2002 going forward. As a mutual insurer, the Company is owned by its policyholders. The Company has no affiliates and is not part of a Holding Company System. The Company remains the leading provider (based on market share of direct premium written) of MPLI coverage in the State of West Virginia. During the examination period, there were two amendments to the Company's Bylaws, and one amendment to its Articles of Incorporation.

4. In 2016, the Articles of Incorporation were amended to remove the term "nonprofit" from Article III, remove the obsolete provision limiting the Company from writing outside the state until the debt was repaid to the State of West Virginia, and updated and revised headings.

5. In 2016, the Bylaws were amended to remove reference to the Nonprofit Corporation Act.

6. In 2018, the Bylaws were amended to remove the obsolete requirement for a Dean of a West Virginia school of medicine to serve on the Company's Board of Directors ("Board"), changed the requirements for the composition of the Board clarifying and modifying other terms and headings and changing the requirement for the Audit Committee and the Compensation Committee to "at least" three directors.

7. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2016 and ending December 31, 2018, was conducted in accordance with *Code* §33-2-9(c) by the Insurance Commissioner.

8. On May 15, 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.

9. On or about May 21, 2020, a true and accurate copy of the Report of Financial Examination was sent and received via email to Tamara Lively. A copy of the Letter dated May 21, 2020, is attached hereto as Exhibit B.

10. 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.

11. By letter dated June 16, 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 16, 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 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: 6/26/2020

WEST VIRGINIA MUTUAL INSURANCE COMPANY

BY: R. Austin Wallace, MD
[Print Name]

Signed: 

Its: Chair, President, and CEO

Dated: 25 June 2020

REPORT OF EXAMINATION
OF
WEST VIRGINIA MUTUAL INSURANCE COMPANY
CHARLESTON, WV
NAIC # 11972
AS OF DECEMBER 31, 2018

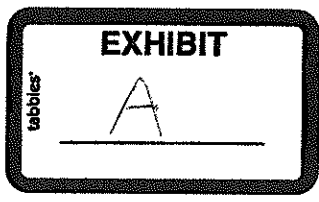


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SALUTATION

May 15, 2020
Charleston, 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:

West Virginia Mutual Insurance Company
500 Virginia Street East, Suite 1200
Charleston, WV 25301

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

SCOPE OF EXAMINATION

The examiners have performed a multi-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 November 8, 2019 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. 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 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 created through legislation, West Virginia House Bills 601 and 2122 of 2002 and 2003, respectively, to provide medical professional liability insurance (“MPLI”) to physicians in West Virginia (WV). The creation was in response to a market crisis in professional liability insurance for West Virginia physicians.

The Company was initially incorporated in West Virginia as a mutual insurer under the name West Virginia Physicians Mutual Insurance Company on August 29, 2003 and commenced business on July 1, 2004. The Company adopted its current name in June 2006. The Company assumed certain assets and liabilities of the Board of Risk Insurance Management (“BRIM”), which had previously provided MPLI to physicians. The Company assumed all applicable policies previously carried by BRIM from 2002 going forward.

As a mutual insurer, the Company is owned by its policyholders. The Company has no affiliates and is not part of a Holding Company System. The Company remains the leading provider (based on market share of direct premium written) of MPLI coverage in the State of West Virginia.

During the examination period, there were two amendments to the Company’s Bylaws, and one amendment to its Articles of Incorporation.

- In 2016, the Articles of Incorporation were amended to remove the term “nonprofit” from Article III, remove the obsolete provision limiting the Company from writing outside the

state until the debt was repaid to the State of West Virginia, and updated and revised headings.

- In 2016, the Bylaws were amended to remove reference to the Nonprofit Corporation Act.
- In 2018, the Bylaws were amended to remove the obsolete requirement for a Dean of a West Virginia school of medicine to serve on the Company's Board of Directors ("Board"), changed the requirements for the composition of the Board clarifying and modifying other terms and headings, and changing the requirement for the Audit Committee and the Compensation Committee to "at least" three directors.

Capitalization

West Virginia House Bills 601 and 2122 of 2001 and 2003, respectively, provided the Company with initial capital and surplus of \$31,000,000 through the issuance of a surplus note to the state of WV and one-time assessments of insurance carriers and physicians licensed in West Virginia. The company repaid the final \$8,000,000 of the surplus note on January 8, 2009.

Dividends to Policyholders

Dividends to policyholders are determined based on financial results and surplus levels, and are expensed as declared by the Board of Directors. During the examination period, the following dividend activity occurred:

On December 2, 2018 the Company declared a dividend in the amount of \$1,495,320 in accordance with Chapters 31 and 33 of the State of West Virginia Code. The dividends were distributed to policyholders prior to December 31, 2018 and are deductible for federal income taxes.

On December 2, 2016 the Company declared a dividend in the amount of \$999,857 in accordance with Chapters 31 and 33 of the State of West Virginia Code. The dividends were distributed to policyholders prior to December 31, 2016 and are deductible for federal income taxes.

On December 3, 2014 the Company declared a dividend in the amount of \$6,250,144 in accordance with Chapters 31 and 33 of the State of West Virginia Code. The dividends were distributed to policyholders prior to December 31, 2014 and are deductible for federal income taxes.

The Company did not declare or pay dividends in 2017 or 2015.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

Significant changes in key trends

As a result of physician retirements and hospital/physician consolidations in West Virginia, the insured base has been gradually declining. As a result, net premium written has declined in each of the last five years as shown below:

NET PREMIUM WRITTEN				
2018	2017	2016	2015	2014
\$14,884,357	\$15,710,711	\$17,104,145	\$18,374,502	\$20,653,537

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The Company's Third Amended and Restated Bylaws provide for a Board of Directors to be composed of not less than eleven persons and not more than thirteen persons. The Bylaws of the Company follow the requirements of W. Va. Code §33-20F-5. The Bylaws were amended in February 2018 to remove the requirement for one director to be a dean of a West Virginia school of medicine, increased the required number of physician board members from five to six, and allowed the Board, upon majority vote, to add at least two additional directors to the annual ballot of directors beyond the initial eleven directors.

The current required composition of the Board is:

- Six directors who are physicians licensed to practice medicine in this state by the Board of Medicine or the Board of Osteopathy, including at least one general practitioner and one specialist (“Physician Directors”).
- Three directors who have substantial experience as an officer or employee of a company in the insurance industry;
- Two directors with general knowledge and experience in business management who are officers and employees of the Company and are responsible for the daily management of the Company; and
- Additional Directors. In addition to the eleven directors noted above, the Board of Directors, upon majority vote, may add on any annual ballot of directors at least two directors.

Directors are elected at the annual meeting of the policyholders held on the first Wednesday in May and serve staggered, four-year terms, or until their successor is elected and qualified. Mid-term vacancies are temporarily filled by the Board until the next annual meeting of the policyholders, at which time the policyholders elect an individual to fill the remaining portion of the term. The Board is required to elect a chairman who presides at the meetings of the Board of Directors and the policyholders.

As of December 31, 2018, the Board was comprised of eleven individuals, seven of which were physicians rather than the historical six, due to Dr. Wallace moving out of the physician category and into the Company officer category.

The individuals serving as members of the Board of Directors as of December 31, 2018 were as follows:

<u>Name</u>	<u>Category/Title</u>
R. Austin Wallace, MD	WVMIC Officer/ President, CEO, Board Chairman
John W. Neville, Jr., M.D	Physician/Vice Chair
Michael A. Stewart, M.D	Physician/Treasurer
Hans G. Dransfeld, M.D.	Physician/Secretary
Dara P. Aliff, D.O.	Physician/Director
Robert L. Ghiz, M.D. ¹	Physician/Director
Luke W. Martin, M.D	Physician/Director
Tamara D. Huffman	WVMIC Officer /COO and EVP, Director
B. Frederick Becker	Industry/Director
Joseph V. Funderburk III, CLU, ChFC	Industry/Director
Bruce R. Martin, CIC	Industry/Director

OFFICERS

The Company's Third Amended and Restated Bylaws provide for the following officers to be elected by the Board: a Chair of the Board, Vice Chair, President, Secretary, and a Treasurer, and other such officers or appointees as may be deemed necessary by the Board of Directors. Additionally, the President may appoint officers or appointees and the Board may authorize the President to establish the terms of conditions of these individuals. Any two offices may be held by the same person except the offices of President and Secretary. Two officers who are employees of the Company are to be elected to the Board. Each officer holds office for a term of one year or until a successor is elected and qualified, except those appointed by the President who may be removed by the President at any time with or without cause. Officers elected by the Board of Directors, and serving as of December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
R. Austin Wallace, MD	President, CEO, and Chairman of the Board
Tamara D. Huffman	Executive Vice President & Chief Operating Officer
Scott A. Atkins	Vice President of Underwriting
John Neville	Vice Chairman
Hans Dransfeld	Secretary
Michael Stewart	Treasurer
Susan Romaine	Assistant Secretary
Michael Crum	Assistant Treasurer

¹ Dr. Ghiz retired from the Board as of June 30, 2019 and was replaced by Dr. Stephen C. Lochow.

COMMITTEES

The Bylaws were amended in February 2018 to change the permissible composition of the Board's Audit Committee and Compensation Committee from requiring three directors, to "at least three" directors. As of December 31, 2018, the following were the Board committees and their composition:

Audit Committee

Bruce R. Martin, CIC, Chair
Robert L. Ghiz, M. D.
Michael A. Stewart, M.D.
John W. Neville, Jr., M.D.
R. Austin Wallace, M. D. (Ex officio)

Nominating Committee

John W. Neville, Jr., M.D., Chair
Joseph V. Funderburk
Hans G. Dransfeld, M. D.

Risk Management Committee

Hans G. Dransfeld, M.D., Chair
B. Frederick Becker
Robert L. Ghiz, M.D.
Tamara D. Lively-Huffman, CPCU
Luke W. Martin, M. D.
R. Austin Wallace, M.D.
John W. Neville, Jr., M.D.
Dara P. Aliff, D.O.

Claims Committee

Robert L. Ghiz, M.D., Chair
Hans G. Dransfeld, M.D.
Joseph V. Funderburk III
Tamara D. Lively-Huffman, CPCU
Luke W. Martin, M. D.
R. Austin Wallace, M.D.
John W. Neville, Jr., M.D.
Michael A. Stewart, M.D.
Dara P. Aliff, D.O.

Finance Committee

Michael A. Stewart, M.D., Chair
B. Frederick Becker
Joseph V. Funderburk III
John W. Neville, Jr., M.D.
R. Austin Wallace, M.D.

Compensation Committee

B. Frederick Becker, Chair
Joseph V. Funderburk III
Robert L. Ghiz, M.D.
Michael A. Stewart, M.D.

Underwriting Committee

John W. Neville, Jr., M.D., Chair
Hans G. Dransfeld, M.D.
Joseph V. Funderburk III
Robert L. Ghiz, M.D.
Tamara D. Lively-Huffman, CPCU
Bruce R. Martin, CIC
Luke W. Martin, M. D.
Michael A. Stewart, M.D.
R. Austin Wallace, M.D.
Dara P. Aliff, D.O.

Examiners performed a review of the Board, Board Committee, and Membership meeting minutes for the period under examination. During our review, we noted that there are no meeting minutes kept for the nominating committee, which is not in accordance with the Bylaws.

ORGANIZATIONAL CHART

The Company has no affiliates.

AGREEMENTS

The Company is not part of a holding company and therefore has no related party agreements.

TERRITORY AND PLAN OF OPERATION

The Company only writes MPLI. The Company was initially licensed in WV, and obtained licenses in Ohio, Kentucky, and Virginia in 2009. Although licensed in three other states, the Company wrote 99.8% of its business in West Virginia as of December 31, 2018.

REINSURANCE

Assumed

In 2016, The Company entered into a Variable Quota Share (assuming) reinsurance agreement with MAG Mutual and its subsidiaries. MAG Mutual has experience with underwriting hospitals exclusively in WV. The Company entered into this partnership with the goal of expanding its business and further diversifying its risk. The contract was structured so that the amounts assumed by WVMIC would be fully included in WVMIC's ceded reinsurance program. The coverage is generally described as follows:

- **For Hospital Professional Liability:** WVMIC assumes 20% of the net liability for policies of \$5 million or less; and for policies over \$5 million, WVMIC assumes 20% of the first \$5 million and zero percent for amounts above \$5 million. (Maximum retention is \$1 million per policy.)

- For Medical Professional Liability: WVMIC assumes 80% for policies up to \$2.5 million; and for policies over \$2.5 million, WVMIC assumes 80% of the first \$2.5 million and zero percent for amounts above \$2.5 million. (Maximum retention is \$2 million per policy.)

Ceded

The Company has reinsured portions of its MPLI coverage to limit the amount of losses on individual claims. Reinsurance allows management to control exposure to potential losses arising from large risks and provides additional capacity for growth.

During the examination period, changes were made to the Company's ceded reinsurance program, as noted below. The Company uses BMS Intermediaries, Inc. as its reinsurance intermediary for treaties commencing July 1, 2013 and later.

From July 1, 2013 to June 30, 2016, the Company maintained excess of loss reinsurance in two layers. The first layer was a swing rated treaty that provides coverage of \$500,000 excess \$500,000 for each loss with \$2 million of coverage for Extra Contractual Obligations ("ECO") / Excess Policy Limits ("XPL") and clash coverage of \$1.5 million excess \$750,000. The second layer provides excess coverage up to \$2 million per loss / \$4 million in the aggregate in WV, KY, and OH. In VA, the aggregate is \$6 million. A first awards made agreement is in place for \$8 million excess of \$2 million, with the Company retaining 5% participation. ECO awards made coverage is maintained for \$10 million excess of \$10 million. The Company's major reinsurers are Underwriters at Lloyds, Odyssey Re, Transatlantic Re, Hannover, Aspen, and Platinum Underwriters.

From July 1, 2015 to June 30, 2016, the Company maintained excess of loss coverage in three layers. The first layer is a \$400,000 excess \$100,00 treaty with a \$5 million aggregate deductible, with the Company retaining 50% participation. The second layer of coverage is an excess cession treaty for ECO, bad faith, and XPL covering \$1 million excess \$1 million per loss and \$1 million excess \$3 million in the aggregate, with the Company retaining 10% participation. In Virginia, the amount recoverable is limited to the highest statutory cap during the policy term per loss, and three times the highest statutory cap during the policy term in the aggregate. A first awards-made

catastrophe policy is in place for \$8 million excess \$2 million with the Company retaining 5% participation. The second layer is \$10 million excess \$10 million with the Company retaining 5% participation. The awards-made catastrophe policy allows one reinstatement. The Company's major reinsurers are Hannover Ruck SE, Transatlantic Reinsurance Company, Aspen Insurance UK Limited, various Lloyds of London syndicates, and Amlin Bermuda (branch of Amlin AG).

From July 1, 2016 to December 31, 2017, the Company maintained excess of loss coverage in three layers. The first layer is a \$400,000 excess \$100,00 treaty with a \$7.5 million aggregate deductible. The next \$500,000 excess \$500,000 is fully retained by the Company and has no reinsurance coverage. The second layer of coverage is an excess cession treaty for ECO, bad faith, and XPL covering \$1 million excess \$1 million per loss and \$1 million excess \$3 million ultimate net loss, with the Company retaining 10% participation. The third layer is an excess cession treaty for ECO, bad faith, and XPL covering \$1 million excess \$2 million for ECO/XPL with the Company retaining 10% participation. No ECO/XPL coverage is provided unless cessions to the underlying excess of loss policy have first been exhausted. A first awards-made catastrophe policy is in place for \$8 million excess \$2 million with the Company retaining 5% participation. The second layer is \$10 million excess \$10 million with the Company retaining 5% participation. The awards-made catastrophe policy allows one reinstatement. The Company's major reinsurers are Hannover Ruck SE, Aspen Insurance UK Limited, various Lloyds of London syndicates, and Odyssey Reinsurance Company.

From January 1, 2018, the Company maintained excess of loss coverage in three layers. The first layer is a \$900,000 excess \$100,000 with a \$7 million aggregate deductible. The second layer is an excess cession treaty for ECO, bad faith, and XPL covering \$1 million excess \$1 million per loss and \$1 million excess \$3 million ultimate net loss, with the Company retaining 10% participation. The third layer is an excess cession treaty for ECO, bad faith, and XPL covering \$1 million excess \$2 million for ECO/XPL with the Company retaining 10% participation. No ECO/XPL coverage is provided unless cessions to the underlying excess of loss policy have first been exhausted. A first awards-made catastrophe policy is in place for \$8 million excess \$2 million with the Company retaining 5% participation. The second layer is \$10 million excess \$10 million with the Company retaining 5% participation. The awards-made catastrophe policy allows one

reinstatement. The Company's major reinsurers are Hannover Ruck SE, Aspen Insurance UK Limited, various Lloyds of London syndicates, and Odyssey Reinsurance Company.

The company cedes 100% of its net liability (up to \$250,000) arising under its Privacy Protection and Network Security Endorsements attached to the underlying MPLI policies via a quota share reinsurance treaty.

Material reinsurance contracts entered into during the current examination period were reviewed for authorization of reinsurer, transfer of risk, and insolvency, intermediary and cancellation provisions. No exceptions were noted.

Captive Reinsurance Arrangement

The Company entered into a captive reinsurance arrangement with one of its larger insured groups as of January 1, 2016. The physicians are issued underlying policies from the Company with \$1 million excess / \$3 million individual limits. The insured's captive reinsurer (Rembrandt SP Ltd. for an on behalf of Docks Group, LLC SP 2012-10) retains the first \$350,000 each incident (\$700,000 in the aggregate).

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	\$129,156,355		\$129,156,355
Common Stocks	17,880,824		17,880,824
Cash and Equivalents	2,929,833		2,929,833
Subtotals	\$149,967,012		\$149,967,012
Investment Income Due and Accrued	1,119,274		1,119,274
Deferred Premium	707,086		707,086
Amounts Recoverable from Reinsurers	661,919		661,919
Net Deferred Tax Asset	4,761,830	2,743,717	2,018,113
EDP and Software	35,002	16,638	18,364
Furniture and Equipment	26,787		0
Total Assets	157,519,673	2,787,142	154,732,531

**STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2018**

Losses	\$25,836,269
Reinsurance Payable on Paid Losses and LAE	25,920
Loss Adjustment Expenses	19,517,639
Commissions Payable	37,865
Other Expenses	1,641,944
Taxes, Licenses and Fees	99,489
Unearned Premiums	10,945,223
Advance Premium	1,312,422
Ceded Reinsurance Payable	554,676
Amounts Withheld for Account of Others	43,816
Total Liabilities	<u>\$60,015,263</u>
Gross Paid in and Contributed Surplus	7,651,150
Unassigned Funds (Surplus)	87,066,118
Surplus as regards to Policyholders	<u>94,717,268</u>
TOTAL	<u><u>\$154,732,531</u></u>

**STATEMENT OF INCOME
DECEMBER 31, 2018**

Premiums Earned	\$17,434,429
Losses Incurred	6,684,369
Loss Adjustment Expenses	4,389,079
Other Underwriting Expenses	4,998,862
Total Underwriting Deductions	<u>16,072,310</u>
Net Underwriting Gain	<u>\$1,362,119</u>
Net Investment Income	3,985,270
Net Realized Capital Gains	1,508,632
Net Investment Gain	<u>\$5,493,902</u>
Finance & Service Charges Not Included in Premiums	32,783
Total Other Income	<u>32,783</u>
Net Income Before Taxes and Dividends	6,888,804
Dividends to Policyholders	1,495,320
Federal and Foreign Income Tax	<u>(641,792)</u>
Net Income	<u><u>\$6,035,276</u></u>

**RECONCILIATION OF SURPLUS
DECEMBER 31, 2018**

Surplus as of Prior Examination – 12/31/2013	\$105,104,814
Net Income	(5,684,965)
Change in net unrealized capital gains	(5,397)
Change in net deferred income tax	837,944
Change in nonadmitted assets	(1,814,895)
Change in surplus as regards to policyholders	<u>(6,667,313)</u>
Surplus at December 31, 2014	<u>\$98,437,501</u>
Net Income	582,160
Change in net unrealized capital gains	(631,706)
Change in net deferred income tax	669,888
Change in nonadmitted assets	(1,034,683)
Change in surplus as regards to policyholders	<u>(414,341)</u>
Surplus at December 31, 2015	<u>\$98,023,160</u>
Net Income	(1,466,006)
Change in net unrealized capital gains	838,506
Change in net deferred income tax	1,252,848
Change in nonadmitted assets	(1,358,372)
Change in surplus as regards to policyholders	<u>(733,024)</u>
Surplus at December 31, 2016	<u>\$97,290,136</u>
Net Income	(8,211,866)
Change in net unrealized capital gains	988,160
Change in net deferred income tax	540,427
Change in nonadmitted assets	(211,143)
Change in surplus as regards to policyholders	<u>(6,894,422)</u>
Surplus at December 31, 2017	<u>\$90,395,714</u>
Net Income	6,035,276
Change in net unrealized capital gains	(2,529,657)
Change in net deferred income tax	(1,204,483)
Change in nonadmitted assets	2,020,418
Change in surplus as regards to policyholders	<u>4,321,554</u>
Surplus at December 31, 2018	<u>\$94,717,268</u>

SUMMARY OF EXAMINATION CHANGES

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

SUBSEQUENT EVENTS

1. Dr. Robert. L. Ghiz, M.D retired from the Board of Directors as of June 30, 2019 and was replaced by Dr. Stephen C. Lochow.
2. Scott Atkins, VP of Underwriting, left the Company in June 2019 and was not replaced.
3. Beginning in December, 2019 in China and progressing to the United States in March, 2020, the coronavirus (SARS-CoV-2) also known as COVID-19 reached pandemic status on March 11, 2020 per the World Health Organization (WHO). In efforts to slow the spread of COVID-19, the Federal Government along with various state governments and local municipalities have strongly encouraged and/or mandated work, school and travel restrictions along with mass “non-essential” business shutdowns. These actions have brought the US economy to at or near a grinding halt. As a result, the US Stock Market has experienced significant deterioration. At the exam report date, the extent of short and long term detrimental impact to insurers as well as the US and global economy as a whole, remains unknown.

SUMMARY OF EXAMINATION RECOMMENDATIONS

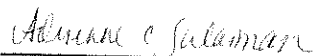
There were no significant findings or recommendations as a result of the examination.

ACKNOWLEDGEMENT AND SIGNATURE

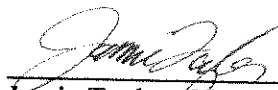
This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. In addition to the undersigned, David Palmer, CFE, MCM, consulting supervising examiner of Lewis & Ellis, Inc.; Bill O'Connell, CPA, CFE, CIA, consulting audit supervisor of Noble Consulting Services, Inc.; Deborah K. Zegeer, Examiner Manager of the WVOIC; Jessica Lynch, AFE, consulting examiner of Lewis & Ellis, Inc.; Kathryn Koch, FCAS, MAAA, consulting actuary of Lewis & Ellis, Inc.; and Lindsey Pittman, CPA, CFE, CISA, AES, IT Specialist of Lewis & Ellis, Inc. 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 West Virginia Mutual Insurance Company as of December 31, 2018 as determined by this examination.

Respectfully Submitted,



Adrienne Sulaiman, CFE, CPA
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the WV Offices of the Insurance Commissioner



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



STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner

James A. Dodrill
Insurance Commissioner

May 20, 2020

Austin Wallace, President
West Virginia Mutual Insurance Company
500 Virginia Street East, Suite 1200
Charleston, WV 25301

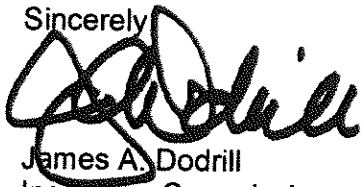
RE: Report of Financial Examination as of December 31, 2018

Dear Dr. Wallace:

Please find enclosed a copy of the **Report of Examination of West Virginia Mutual 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 of Examination** reflects the financial affairs and condition of the West Virginia Mutual Insurance Company, as of December 31, 2018.

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 agency during the statutory time period. If no exception is taken, please respond accordingly by the end of the thirty (30) day comment period.

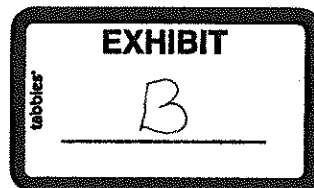
Sincerely,

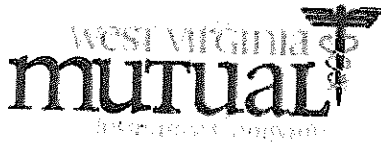


James A. Dodrill
Insurance Commissioner

JAD/jot

Enclosure: Copy of Report of Financial Examination





R. Austin Wallace, MD
Chairman of the Board
President and CEO

June 16, 2020

The Honorable James A. Dodrill
WV Insurance Commissioner
P. O. Box 50540
Charleston, WV 25305

RE: Report of Financial Examination as of December 31, 2018

Dear Mr. Dodrill:

West Virginia Mutual Insurance Company acknowledges receipt of the Report of Examination and is in acceptance of the Report.

We appreciate the professionalism of your staff during the examination, especially during the difficulties presented by the COVID-19 crisis.

My best regards,

R. Austin Wallace, M.D.
Chairman, President and CEO

