

EXAMINATION REPORT
of
LOUDOUN MUTUAL INSURANCE COMPANY
WATERFORD, VIRGINIA
as of
DECEMBER 31, 2021

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Loudoun Mutual Insurance Company as of December 31, 2021, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 10th day of March 2023

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
January 27, 2023

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

LOUDOUN MUTUAL INSURANCE COMPANY

Waterford, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The Company was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2018. This examination covers the period from January 1, 2019, through December 31, 2021.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's 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. 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.

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2021.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company is a mutual assessment property and casualty insurer. The Company was chartered by an Act of the General Assembly of Virginia on March 12, 1849. The Company's business was originally limited to fire, lightning and extended coverage until it began issuing homeowners coverage subsequent to an amendment to its charter on November 13, 1961. According to its charter, the Company shall engage in and transact fire insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, issue, engage in and transact miscellaneous property insurance, water damage insurance, burglary and theft insurance, glass insurance, personal injury liability insurance, property damage liability insurance, marine insurance and contingent and consequential losses insurance.

Effective January 1, 2021, the Company entered into an affiliation agreement with Pennsylvania domiciled Community Insurance Company ("Community") and Montour Mutual Insurance Company ("Montour"). These businesses are comprised of low value homeowner and dwelling fire policies in Southeast, Northeast, and Central Pennsylvania. The affiliation agreement gives the Company control by granting it the right to appoint a majority of the board of directors of each of the Pennsylvania entities, along with supporting the financial capacity of both companies through 100% quota share reinsurance. There is also an Expense Sharing Agreement in place with each Pennsylvania insurer, along with the expectations that the Company will make available resources to help Community and Montour operate more effectively. This affiliation/control subjects the Company to additional regulatory requirements, including filing statements with the NAIC, being subject to RBC requirements, and holding company filings. It will also allow the Company to expand its business outside of Virginia.

MANAGEMENT AND CONTROL

The articles of incorporation provide that the business of the Company shall be managed by a Board of not more than thirteen Directors divided into three classes. Two classes shall consist of not more than four Directors and one class of not more than five. Directors shall be elected to three year terms by the members at the annual meeting.

Only one class of Directors shall be up for election at each annual meeting. Vacancies are filled by the Board with such Directors serving until the end of the unexpired term. No person shall be elected a Director unless they are a member of the Company. No person who has reached the age of 75 years shall be elected a Director. Any person who reaches age 75 shall resign as a Director at the end of the calendar year in which they reach 75.

The bylaws stipulate that the Company shall have a Chairman of the Board who shall be elected at the annual meetings and who shall preside over the Board and the executive committee. There shall be a Vice Chairman of the Board who shall be elected at the annual meeting and who shall carry out the duties and functions of the Chairman in his or her absence. The officers of the Company shall be elected by the Board at each annual board meeting. The officers shall be a President, a Secretary, a Treasurer and such other officers as the Board of Directors may deem necessary. The President shall be a member of the Board of Directors. The Treasurer and Secretary may or may not be members of the Board. Directors and officers of the Company at December 31, 2021, were as follows:

Directors

Principal Occupation

Donald A. Butler

Owner
Virginia Property Group, Inc.
Winchester, Virginia

William C. Orndoff

Treasurer
Frederick County Virginia
Clearbrook, Virginia

Mary M. Finnell

Retired Co-Manager/Edward Jones Brokerage
Charlottesville, Virginia

M. Byrd Inskeep

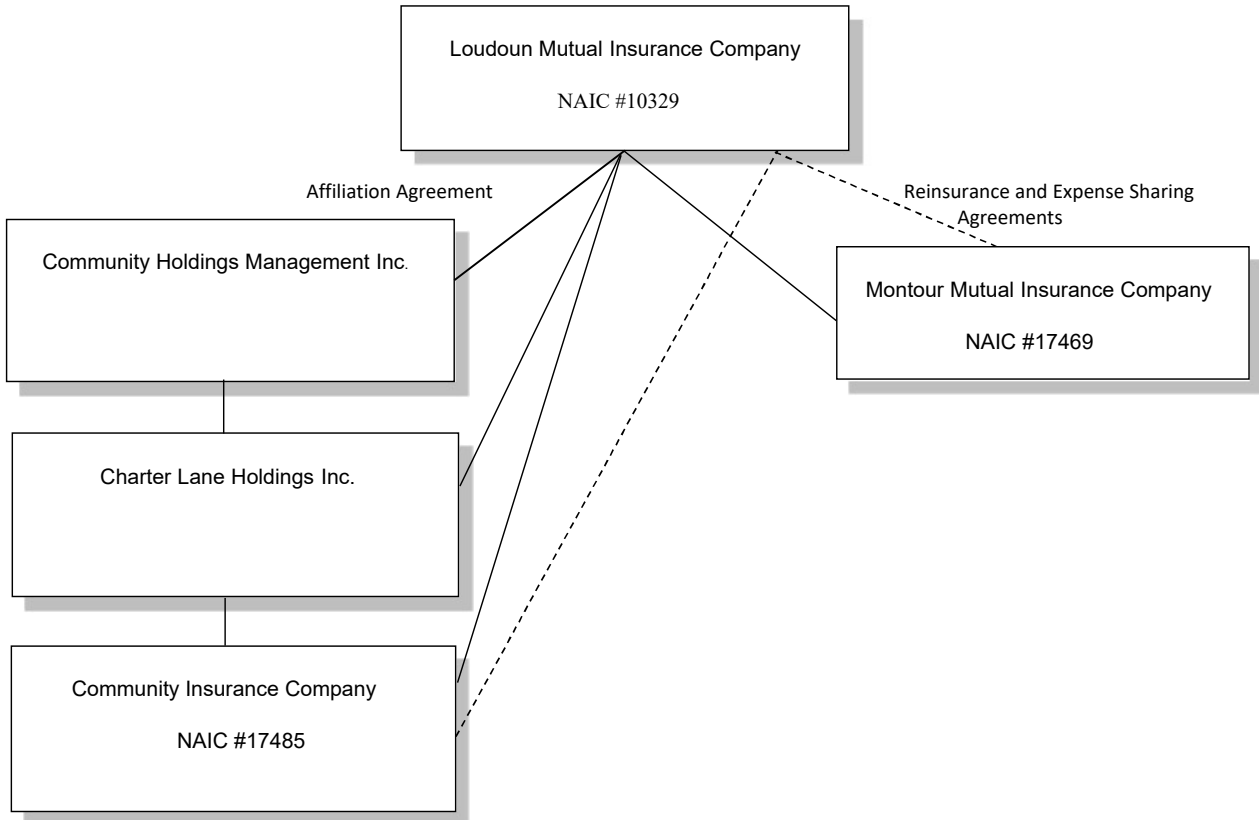
Partner
Battle Park Farms
Culpepper, Virginia

Marilyn A. Adams	Branch Manager Farm Credit of Virginia Purcellville, Virginia
Brian S. Montgomery	President Warrenton Foreign Car, Inc. Warrenton, Virginia
Richard C. Shickle	Retired - VP Administration and Finance Shenandoah University Winchester, Virginia
Christopher G. Shipe	President Loudoun Mutual Insurance Company Waterford, Virginia
Robert W. Smalley, Jr.	President Smalley Packaging Co., Inc. Berryville, Virginia
John R. Riley, Jr.	Retired – Administrator Frederick County Stephenson, Virginia
J. Stanley Crockett, III	Retired – Manager, Virginia Inland Port Winchester, Virginia
Paul S. Fleming, II	SVP, Sales – Bankers Insurance, LLC Glen Allen, Virginia
Mitchell L. Moore	SVP for Advancement, Shenandoah Winchester, Virginia

Officers

Richard C. Shickle	Chairman of the Board
Robert W. Smalley, Jr.	Vice Chairman of the Board
Christopher G. Shipe	President
Dorothea C. Rohde	Corporate Secretary
Kimberly A. Fry	Vice President and Treasurer
Timothy J. Koppenhaver	Executive Vice President and Underwriting Manager
Charles I. Good, IV	Vice President and Marketing Manager
Todd E. Robertson	Vice President, Information Systems Manager and Assistant Treasurer
Selena Duggar	Vice President and Claims Manager

The following organizational chart illustrates the Company's affiliation relationship as of December 31, 2021:



RELATED PARTY TRANSACTIONS

Expense Sharing Agreement

Effective January 2021, the Company entered into separated Expense Sharing Agreements with Community and Montour. The Company provides marketing, agency appointments, policy development, rating, underwriting, claims management and litigation management services to Community and Montour. In exchange for these services, Community and Montour reimburse the Company on an actual cost basis within 30 days after the end of each quarter. The Company received \$46,868, for 2021.

Affiliation Agreement

Effective January 1, 2021, the Company entered into separated Affiliation Agreements with Community and Montour. In addition, Community and Montour have entered into Property and Casualty Quota Share Reinsurance Contracts with the Company in which 100% of premium income and associated losses and expenses are ceded to the Company.

Consulting Agreement

Effective May 8, 2020, the Company entered into a Consulting Agreement with Charter Lane Holdings, Inc. ("CLH"). CLH assists the Company with growth opportunities, including lines of business and potential acquisitions and affiliations, regulatory matters, agency management, and complex accounting and reporting matters. The agreement is a five year agreement with an annual fee of \$470,000 to be paid April 1, annually.

TERRITORY AND PLAN OF OPERATION

The Company is licensed by the State Corporation Commission to operate as a mutual assessment property and casualty insurer throughout the Commonwealth of Virginia.

Policies are marketed through 129 independent agencies with 159 locations throughout Virginia which accept applications for fire insurance with optional standard coverages, homeowners insurance, farmowners, or small commercial lines. The agent inspects the property and applies rates from a schedule provided by the Company. Final approval and authority for all policy issues rests with the underwriting staff.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2021:

Ceded:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss First Excess Cover	Property	\$400,000	\$600,000 per risk; liability of reinsurer shall not exceed a total payment of net loss and adjustment expense of \$1,800,000 per occurrence
Excess of Loss Second Excess Cover	Property	\$1,000,000	\$3,000,000 per risk; liability of reinsurer shall not exceed \$3,000,000 with respect to all net loss and adjustment expenses per occurrence
Excess of Loss First Excess Cover	Liability	\$200,000	\$800,000 per occurrence
Excess of Loss Second Excess Cover	Liability	\$1,000,000	\$1,000,000 per occurrence, subject to a limit of liability to the reinsurer of \$3,000,000 each loss occurrence

Excess of Loss	Property (Facultative)	\$4,000,000	\$6,000,000 per risk; liability of reinsurer shall not exceed a total payment of net loss and adjustment expense of \$10,000,000
Excess of Loss First Excess Cover	Property (Catastrophe)	\$2,500,000	\$2,500,000 of ultimate net loss in excess of company retention of \$2,500,000 any one loss occurrence
Excess of Loss Second Excess Cover	Property (Catastrophe)	\$5,000,000	\$5,000,000 of ultimate net loss in excess of company retention of \$5,000,000 any one loss occurrence
Excess of Loss Third Excess Cover	Property (Catastrophe)	\$10,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$10,000,000 any one loss occurrence
Fourth Property Catastrophe Excess	Property (Catastrophe)	\$20,000,000	\$50,000,000 of ultimate net loss in excess of company retention of \$20,000,000 any one loss occurrence
Fifth Property Catastrophe Excess	Property (Catastrophe)	\$70,000,000	\$15,000,000 of ultimate net loss in excess of company retention of \$20,000,000 any one loss occurrence
Sixth Property Catastrophe Excess	Property (Catastrophe)	\$85,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$85,000,000 any one loss occurrence
Quota Share and Excess of Loss (Umbrella Facultative Liability)	Liability	5% of first \$1,000,000 each loss occurrence	95% of first \$1,000,000 each loss occurrence and up to 100% of the next \$4,000,000 each loss occurrence

The Company also offers optional identity theft coverage on all its homeowners, mobile homeowners, and farmowners policies through The Hartford Steam Boiler Inspection and Insurance Company (Hartford). The Company cedes 100% of the premium and 100% of the liability under the identity theft coverage to Hartford.

In addition, the Company offers Equipment Breakdown Coverage on farmowners and homeowners through Hartford. The Company cedes 100% of the premium and 100% of all losses under the equipment breakdown program to Hartford.

All reinsurance agreements contain an insolvency clause.

Assumed:

The Company assumes a small amount of reinsurance from the Regional Reciprocal Catastrophe Pool ("RRCP"), a pool of reinsurers, all who are a party to this agreement and all are licensed or qualified in Virginia.

The Company assumes a small amount of reinsurance from the National Association of Mutual Insurance Company's ("NAMIC") as part of a retrocessional pool. The Company's participation allows it to have access to NAMIC's directors and officers and professional liability coverage.

Through its affiliation agreement with Community and Montour, the Company reinsures and assumes 100% of both companies earned premium.

GROWTH OF THE COMPANY

The following data, taken from annual statements filed with the Bureau of Insurance and the financial statements contained in examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2021:

Year	Admitted Assets	Liabilities	Unassigned Funds
2012	\$55,438,126	\$22,476,146	\$32,961,980
2013	64,989,917	26,197,928	38,791,989
2014	73,999,821	30,916,331	43,083,490
2015	79,807,006	34,492,842	45,314,164
2016	86,742,136	39,585,240	47,156,896
2017	95,357,426	45,314,901	50,042,525
2018	94,133,832	47,686,087	46,447,745
2019	101,963,251	49,591,930	52,371,321
2020	109,541,139	54,734,142	54,806,997
2021	120,271,822	54,442,506	65,829,316

Year	Premiums Earned	Losses and Loss Adjustment Expenses	Other Underwriting Expenses	Gain or (Loss)
2012	\$26,295,920	\$18,044,931	\$9,547,411	(\$1,296,422)
2013	30,433,616	13,440,796	11,664,056	5,328,764
2014	35,496,032	18,124,288	13,111,191	4,260,553
2015	40,102,989	20,673,596	15,029,979	4,399,414
2016	44,667,530	26,511,400	16,250,307	1,905,823
2017	48,190,950	31,633,507	17,985,270	(1,427,827)
2018	50,955,042	37,493,026	18,390,345	(4,928,329)
2019	54,615,041	34,684,299	19,819,168	111,574
2020	57,442,152	38,926,612	19,686,742	(1,171,202)
2021	61,106,758	32,712,037	22,285,775	6,108,946

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$63,883,433		\$63,883,433
Preferred stocks	1,371,058		1,371,058
Common stocks	37,658,029		37,658,029
Properties occupied by the company	1,377,982		1,377,982
Cash and short-term investments	7,011,252		7,011,252
Derivatives	644		644
Investment income due and accrued	440,366		440,366
Uncollected premiums and agents' balances in course of collection	1,875,721	18,442	1,857,279
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,842,960		5,842,960
Amounts recoverable from reinsurers	66,982		66,982
Other amounts receivable under reinsurance contracts	39,613		39,613
Federal income tax recoverable	52,141		52,141
Electronic data processing equipment and software	3,484		3,484
Furniture and equipment	125,965	125,965	
Receivables from parent, subsidiaries, and affiliates	325,834		325,834
Aggregate write-ins for other than invested assets	1,133,445	792,680	340,765
Totals	<u>\$121,208,909</u>	<u>\$937,087</u>	<u>\$120,271,822</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$7,622,616
Loss adjustment expenses		2,037,426
Commissions payable, contingent commissions and other similar charges		3,494,416
Other expenses		390,212
Taxes, licenses and fees		286,917
Net deferred tax liability		195,639
Unearned premiums		36,986,588
Advance premiums		1,840,578
Ceded reinsurance premiums payable		211,632
Payable for securities		19,441
Aggregate write-ins for liabilities		<u>1,357,041</u>
 Total liabilities		 \$54,442,506
 Unassigned funds (surplus)	<u>\$65,829,316</u>	
 Surplus as regards policyholders		 <u>65,829,316</u>
 Totals		 <u><u>\$120,271,822</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$61,106,758</u>
Deductions:	
Losses incurred	\$27,384,116
Loss adjustment expenses incurred	5,327,921
Other underwriting expenses incurred	<u>22,285,775</u>
Total underwriting deductions	<u>\$54,997,812</u>
Net underwriting gain	<u>\$6,108,946</u>

INVESTMENT INCOME

Net investment income earned	\$1,802,849
Net realized capital gains	<u>1,386,049</u>
Net investment gain	<u>\$3,188,898</u>

OTHER INCOME

Net loss from agents or premium balances charged off	(\$86,606)
Finance and service charges not included in premiums	<u>203,563</u>
Total other income	<u>\$116,957</u>
Net income before federal income taxes	\$9,414,801
Federal income taxes incurred	<u>2,115,900</u>
Net income	<u><u>\$7,298,901</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31, previous year	<u>\$46,447,745</u>	<u>\$52,371,320</u>	<u>\$54,806,997</u>
Net income	\$2,825,026	\$1,481,861	\$7,298,901
Change in net unrealized capital gains	3,642,961	1,758,726	1,273,770
Change in net deferred income tax	(65,310)	254,650	203,710
Change in nonadmitted assets	344,967	(444,369)	(285,722)
Aggregate write-ins for gains and losses in surplus	<u>(824,068)</u>	<u>(615,191)</u>	<u>2,531,660</u>
Change in surplus as regards policyholders for the year	<u>\$5,923,576</u>	<u>\$2,435,677</u>	<u>\$11,022,319</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$52,371,320</u></u>	<u><u>\$54,806,997</u></u>	<u><u>\$65,829,316</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$63,818,323
Net investment income	2,447,786
Miscellaneous income	116,956
Total	<u>\$66,383,065</u>
Benefit and loss related payments	\$28,375,913
Commissions, expenses paid and aggregate write-ins for deductions	26,379,654
Federal income taxes paid	1,596,977
Total	<u>\$56,352,544</u>
Net cash from operations	<u>\$10,030,521</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$19,227,539
Stocks	1,677,187
Net gain on cash, cash equivalents, and short-term investments	41,826
Miscellaneous proceeds	14,425
Total investment proceeds	<u>\$20,960,977</u>
Cost of investments acquired (long-term only):	
Bonds	\$25,661,687
Stocks	4,075,467
Real estate	83,902
Total investments acquired	<u>\$29,821,056</u>
Net cash from investments	<u>(\$8,860,079)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$514,713)</u>
Net cash from financing and miscellaneous sources	<u>(\$514,713)</u>
Net change in cash and short-term investments	<u>\$655,729</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$6,355,523
End of year	7,011,252
Net change in cash and short-term investments	<u>\$655,729</u>

SUBSEQUENT EVENTS

1. On June 24, 2022, the Company formed a single member LLC, Loudoun Mutual Agency Services, LLC (LMICAS), domiciled in Pennsylvania. LMICAS was formed to purchase a book of business from a small property and casualty insurance agency in Pennsylvania. The purchase was effective July 1, 2022. LMICAS is entering into a services agreement with Community to manage the book of business.
2. Effective October 12, 2022, Montour merged into Community and ceased independent operations.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, Chris J. Collins, CFE, Jennifer K. Blizzard, CFE, Danielle T. Ellis, Michael R. Peterson, and Chamelle C. Macon participated in the work of the examination.

Respectfully submitted,

William K. Knight

William K. Knight, CFE
Principal Insurance Examiner
Commonwealth of Virginia



LOUDOUN MUTUAL

INSURANCE COMPANY

March 8, 2023

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23218

RE: Loudoun Mutual Insurance Company,
Examination Report as of December 31, 2021

SENT VIA EMAIL

Dear Mr. Smith:

This is to acknowledge receipt by email of the draft Examination Report as December 31, 2021.

We certainly take no exceptions with the findings in the draft examination report submitted for our review but have made some minor, editorial suggestions.

We would like to note and express our appreciation for the professionalism demonstrated by the Examiners who worked with us during this process.

Respectfully,

Christopher G. Shipe AIT, CPCU
President/CEO