

**EXAMINATION REPORT**  
**on**  
**VIRGINIA FARM BUREAU**  
**TOWN AND COUNTRY INSURANCE COMPANY**  
**Richmond, Virginia**  
**as of**  
**December 31, 2020**

# 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 Virginia Farm Bureau Town and Country Insurance Company as of December 31, 2020, 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 15<sup>th</sup> day of June 2022

A handwritten signature in black ink, appearing to read "Scott A. White", written over a horizontal line.

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
May 13, 2022

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, an examination of the affairs and financial condition of

**VIRGINIA FARM BUREAU  
TOWN AND COUNTRY INSURANCE COMPANY**

Richmond, 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's Bureau of Insurance (Bureau) as of December 31, 2017. This examination covers the period from January 1, 2018 through December 31, 2020.

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 examination was conducted by the Bureau on a coordinated basis, with the Commonwealth of Virginia as the NAIC lead state. The examination of the Corporation was conducted concurrently with the examination of the following insurers:

<b><u>Insurer</u></b>	<b><u>Domiciliary State</u></b>
Virginia Farm Bureau Mutual Insurance Company	Virginia
Virginia Farm Bureau Fire and Casualty Insurance Company	Virginia
Countryway Insurance Company	New York

The services of Merlinos & Associates, Inc. were employed to provide an actuarial analysis as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2020. The services of Baker Tilly were employed to provide a report on the evaluation of the information system controls.

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 was issued a certificate of incorporation on April 5, 1993, by the Virginia State Corporation Commission (Commission). According to the Articles of Incorporation, the purposes for which the Company was organized are as follows:

To make, issue and effect contracts or policies of insurance providing coverage for any and all classes of insurance, excluding life insurance, annuities and title insurance, ...

To cede to or accept from any insurer reinsurance upon the whole or any part of any risk, with or without contingent liability or participation.

To have and to exercise all powers necessary or convenient to carry into effect any or all of the purposes for which the corporation is organized, including the conduct of any and all acts incidental to carrying into effect the purposes as aforesaid.

The Company's authorized capital is 10,000,000 shares of common stock with a par value of \$2 per share. Initial capitalization consisted of 500,000 shares issued and

outstanding, with paid in surplus in the amount of \$3,500,000. At initial licensing, Virginia Farm Bureau Mutual Insurance Company (VFBMIC) was the sole owner of the Company and held all of the issued and outstanding stock. On October 31, 1994, VFBMIC transferred 100% of the common capital stock of the Company, along with \$953,620 in cash and 100% of the common capital stock of Virginia Farm Bureau Fire and Casualty Insurance Company (VFBFCIC) to Farm Bureau Holdings of Virginia, Inc. (Holdings) in exchange for 100% of the common capital stock of Holdings. At the conclusion of the exchange, Holdings contributed an additional \$5,000,000 in surplus to the Company. In 1998, the Company received \$5,000,000 in additional paid in capital from the parent.

### **MANAGEMENT AND CONTROL**

The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need to be a stockholder of the Company, but all must be members of the Board of Directors of the Federation. The bylaws further provide that the directors be elected at the regular annual meeting of the Company by the stockholders for the term of one year. A majority of the members of the Board of Directors constitutes a quorum for the transaction of business.

The bylaws do not require any committees to be established; however, three standing committees, a budget and audit committee, a compensation committee, and an investment and finance committee, have been established to date. The bylaws also provide that the officers of the Company shall be a president, a first vice president, an executive vice president, a secretary and a treasurer, and such other officers and positions as the Board of Directors may deem necessary. At December 31, 2020, the directors and officers of the Company were as follows:

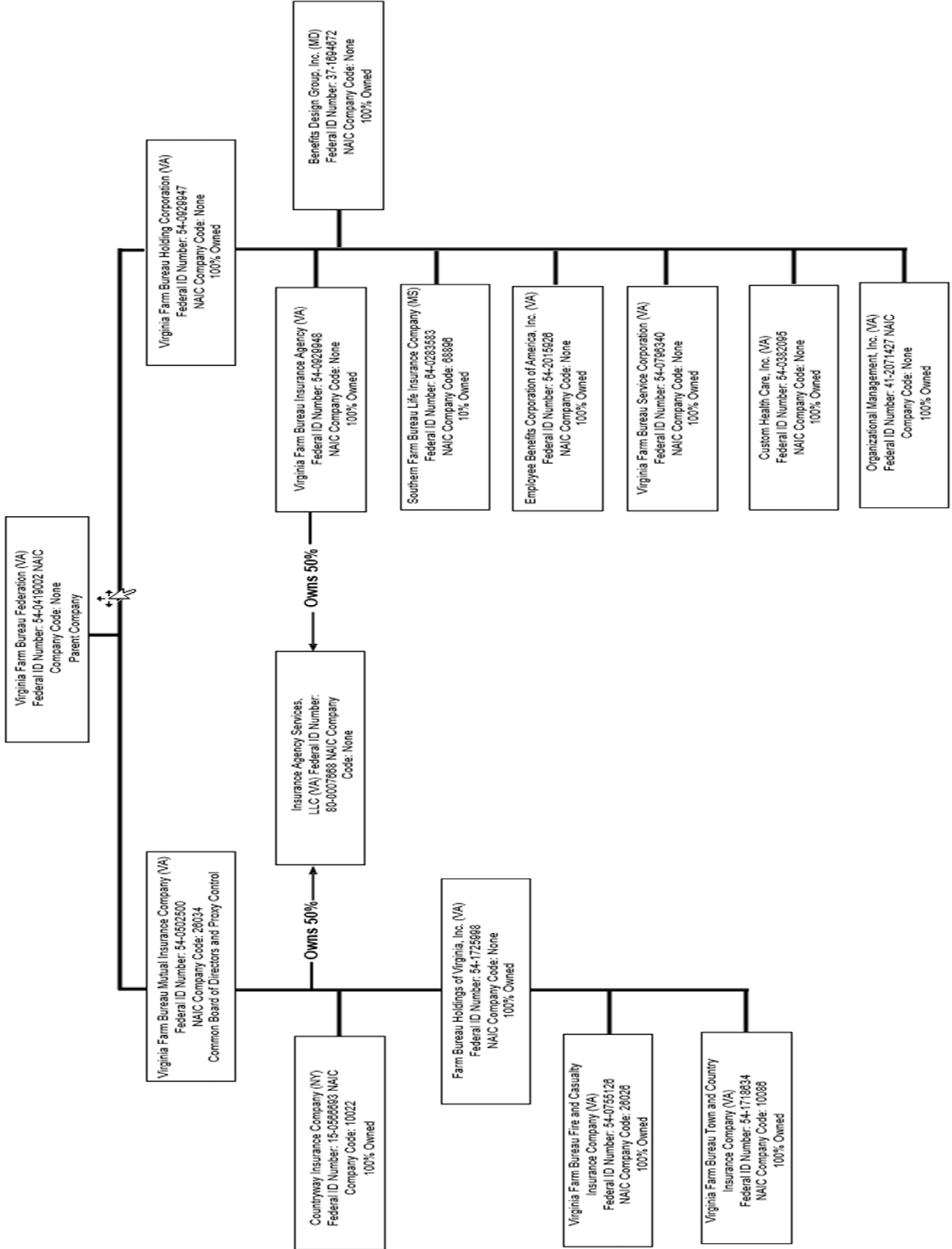
<u>Directors</u>	<u>Business or Affiliation</u>	<u>County of Residence</u>
Wayne F. Pryor	Farmer/President of the Company	Goochland
James B. Bates	Farmer	Essex
Emily F. Edmondson	Farmer	Tazewell
Marvin L. Everett, Jr.	Farmer	Southampton
Lindy T. Fimon	Agriculture & Natural Resources Extension Agent-Lunenburg	Brunswick
Thomas E. Graves, Jr.	Farmer	Orange
David L. Hickman	Farmer	Accomack
Alice F. Hundley	Secretary	Essex
Jordan M. Jenkins, Jr.	Farmer	Lunenburg

Jeannie L. Layton-Dudding	Agriculture & Natural Resources Extension Agent-Giles	Craig
Robert J. Mills, Jr.	Farmer	Pittsylvania
William F. Osl, Jr.	Farmer	Cumberland
Chapman L. H. Pemberton	Farmer	Hanover
Scott E. Sink	Farmer	Montgomery
Bruce N. Stanger	Farmer	Montgomery
Richard L. Sutherland	Farmer	Grayson
Peter A. Truban	Farmer	Shenandoah
Russell L. Williams II	Farmer	Rockbridge

OfficersTitle

Wayne F. Pryor	President, Administrative Officer and Chief Executive Officer
Darlene P. Wells	Executive Vice President and General Manager
Scott E. Sink	First Vice President
Kathleen M. Early	Secretary
Marc D. Follmer	Assistant Secretary
Robert F. Brown	Senior Vice President of Product Development and Actuarial
Diane Hudobenko	Senior Vice President of Human Resources
David A. Priddy	Senior Vice President of Accounting and Business Services and Treasurer
G. Christopher Kern	Assistant Treasurer
Patrick E. Caine	Chief Information Officer
Raymond W. Leonard	Vice President of Sales
Sam L. Rooks, Jr.	Vice President of Underwriting
Virginia A. Glenn	Vice President of Training and Field Operations
Laura P. Gannon	Vice President of Claims

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is a wholly-owned subsidiary of Holdings. Holdings is 100% owned by VFBMIC, which is controlled by the Federation by means of a common board of directors and through proxy control. The following organizational chart illustrates this relationship at December 31, 2020:





## **RELATED PARTY TRANSACTIONS**

### **Administrative Services Agreement**

The Company entered into an Administrative Services Agreement with VFBMIC effective September 14, 1994. Under the terms of the Agreement, VFBMIC is responsible for performing and providing accounting, financial, investment, actuarial, underwriting, claims and computer services for the Company. As compensation for these services, the Company will pay VFBMIC a monthly fee equal to the actual cost of the labor and expenses incurred in the performance of the services. The service fee shall be paid within 10 days of the receipt of the Company's accounting of the incurred expenses. The Company incurred expenses of \$18,845,090, \$22,306,711 and \$19,403,468 for 2018, 2019 and 2020, respectively.

### **Federal Income Tax Allocation Agreement**

Effective January 1, 2007, the Company entered into a federal income tax allocation agreement with VFBMIC and VFBFCIC. This agreement was amended in 2011 to include Countryway Insurance Company, a New York domestic insurer that was purchased by VFBMIC in 2011. The purpose of this agreement is to provide for the filing of consolidated federal income tax returns for the allocation of federal income tax liability and savings among the companies. The method of allocation between the companies is made primarily on a separate return basis. The intercompany tax balances are settled quarterly. The final settlement shall be made within 30 days after the filing of the consolidated income tax return.

## **DIVIDENDS TO SHAREHOLDER**

The Company paid no dividends to its sole shareholder during the period covered by this examination.

## **TERRITORY AND PLAN OF OPERATION**

The Company confines its operations to Virginia where it is licensed to transact the business of accident and sickness, fire, miscellaneous property, farmowners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery, animal and water damage insurance.

Business is produced by 204 agents, who are compensated based on the amount of premiums written plus bonuses which are dependent upon a combination of the growth and profitability of the agent's book of business plus the Company's net income before taxes.

Office space and clerical help are furnished to the agents in their territories by county Farm Bureaus under a Memorandum of Agreement with the Federation, which are compensated by the Company based upon a percentage of premium income, or under a Joint Operations Agreement whereby the Company incurs all operational costs of the office.

Risks are bound by the agents when applications are accepted in the field from qualified applicants, after which policies are issued from the Richmond office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that his coverage will be canceled.

Losses are reported to the county Farm Bureau through which the application was taken. Claims are confirmed and adjusted by the Company's salaried personnel where practicable, otherwise independent professional adjusters or Farm Bureau insurance companies in other states are used.

### GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2020:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid in and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2011	60,293,668	42,340,353	1,000,000	13,500,000	3,453,315
2012	62,107,618	44,264,430	1,000,000	13,500,000	3,343,188
2013	71,252,148	51,414,652	1,000,000	13,500,000	5,337,496
2014	65,748,686	44,402,544	1,000,000	13,500,000	6,846,142
2015	66,929,080	43,580,918	1,000,000	13,500,000	8,848,162
2016	66,691,884	42,631,061	1,000,000	13,500,000	9,560,823
2017	68,101,723	43,426,070	1,000,000	13,500,000	10,175,653
2018	69,523,862	43,325,551	1,000,000	13,500,000	11,698,311
2019	71,517,339	45,576,512	1,000,000	13,500,000	11,440,827
2020	76,028,152	46,361,506	1,000,000	13,500,000	15,166,646

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2011	25,450,116	20,000,497	7,891,724	(2,442,105)
2012	26,823,649	20,161,466	8,485,183	(1,823,000)
2013	26,826,897	18,422,931	8,160,557	243,409
2014	26,768,848	17,462,901	8,005,380	1,300,567
2015	26,816,068	18,384,620	7,846,515	584,933
2016	27,037,753	19,549,297	8,330,782	(842,326)
2017	28,414,042	19,629,868	8,866,918	(82,744)
2018	30,614,871	21,042,099	9,423,101	149,671
2019	32,529,220	24,109,987	10,883,517	(2,464,284)
2020	32,917,607	20,389,313	9,966,977	2,561,317

**REINSURANCE**

The Company had the following reinsurance agreements in force at December 31, 2020:

Ceded:

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Property Per Risk Excess of Loss	Property (except auto physical damage)	\$300,000 each risk	\$4,700,000
Facultative Excess of Loss	Property (Catastrophe)	\$5,000,000 10% participation on \$25,000,000 1 <sup>st</sup> layer	\$10,000,000 \$230,000,000 per occurrence; \$460,000,000 all occurrences
Excess of Loss	Property (Supplemental Catastrophe)	\$235,000,000	\$15,000,000 per occurrence; \$30,000,000 all occurrences
Excess of Loss	Property (Catastrophe -Terrorism)	\$5,605,000	\$11,210,000
Aggregate Excess of Loss	Catastrophe and Auto Physical Damage	\$11,000,000	\$9,000,000
Excess of Loss	Liability	\$650,000	\$30,000,000; occurrence cap of \$1,200,000
	Workers' Compensation	\$600,000	\$30,000,000 (\$1,200,000 maximum employers' liability limit)

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Quota Share	Casualty (Umbrella Liability)	15% of first \$1,000,000	85% of first \$1,000,000; 100% up to \$19,000,000
Excess of Loss	Farm Pollution Liability (Claims Made)	\$500 each incident	\$1,000,000

Affiliate Agreement:

On December 19, 1997, the Company entered into a Net Premiums Reinsurance Agreement with VFBMIC, which became effective beginning with accident year 1998. This agreement provides for the reinsurance of 100% of the Company's net losses and underwriting expenses incurred for all lines of business except automobile, for which VFBMIC receives 100% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement.

Reinsurance Pooling Agreement:

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBMIC and VFBFCIC for automobile policies. Each of the companies is an insured as well as a participant in the agreement. Pursuant to this agreement, each of the companies will cede 100% of their automobile business written and assumed, after deduction for any reinsurance ceded to all other companies, after the effective date of this agreement. Each participant will assume their proportionate share of the net premiums earned, net losses and loss adjustment expenses incurred, and underwriting expenses incurred that are ceded to the Pool, but shall not be liable for any amounts beyond said proportionate share, irrespective of the inability of other participants or reinsureds to meet their respective obligations. For the 1998 accident year, each participant assumed an initial retrocession from the Pool as indicated below:

Virginia Farm Bureau Mutual Insurance Company	60%
Virginia Farm Bureau Fire and Casualty Insurance Company	20%
Virginia Farm Bureau Town and Country Insurance Company	20%

For the 1999 accident year and for each subsequent accident year, each participant will assume a retrocession from the Pool in a percentage that will be determined by the Board of Directors of the participating companies in January of the applicable year. For the accident years 2018 through 2020, the respective Boards elected to retain the above percentages.

**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2020. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2020.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$57,862,400		\$57,862,400
Cash and cash equivalents	2,832,108		2,832,108
Other invested assests	595,955		595,955
Investment income due and accrued	541,000		541,000
Uncollected premiums and agents' balances in course of collection	2,957,526	12,428	2,945,098
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,530,799	70	6,530,729
Amounts recoverable from reinsurers	3,470,988		3,470,988
Net deferred tax asset	1,243,492		1,243,492
Guaranty funds receivable or on deposit	<u>6,382</u>		<u>6,382</u>
Totals	<u>\$76,040,650</u>	<u>\$12,498</u>	<u>\$76,028,152</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$12,695,720
Reinsurance payable on paid losses and loss adjustment expenses		2,045,482
Loss adjustment expenses		1,378,492
Taxes, licenses and fees		398,956
Current federal income taxes		956,747
Unearned premiums		23,782,892
Advance premium		990,764
Ceded reinsurance premiums payable		2,905,854
Payable to parent, subsidiaries and affiliates		<u>1,206,599</u>
 Total liabilities		 \$46,361,506
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	13,500,000	
Unassigned funds	<u>15,166,646</u>	
 Surplus as regards policyholders		 <u>29,666,646</u>
 Totals		 <u><u>\$76,028,152</u></u>



**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$32,917,607
Deductions:	
Losses incurred	\$17,659,809
Loss adjustment expenses incurred	2,729,504
Other underwriting expenses incurred	9,966,977
Total underwriting deductions	\$30,356,290
Net underwriting loss	\$2,561,317

INVESTMENT INCOME

Net investment income earned	\$1,734,631
Net realized capital losses	(41,388)
Net investment gain	\$1,693,243

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$2,376)
Finance and service charges not included in premiums	378,738
Total other income	\$376,362
Net income before federal income taxes	\$4,630,922
Federal income taxes incurred	969,113
Net income	\$3,661,809

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Surplus as regards policyholders, December 31, previous year	<u>\$24,675,653</u>	<u>\$26,198,311</u>	<u>\$25,940,827</u>
Net income	\$1,509,525	(\$439,045)	\$3,661,809
Change in net deferred income tax	(7,242)	181,465	69,781
Change in nonadmitted assets	<u>20,375</u>	<u>96</u>	<u>(5,771)</u>
Change in surplus as regards policyholders for the year	<u>\$1,522,658</u>	<u>(\$257,484)</u>	<u>\$3,725,819</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$26,198,311</u></u>	<u><u>\$25,940,827</u></u>	<u><u>\$29,666,646</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$33,783,478
Net investment income	2,166,746
Miscellaneous income	376,362
Total	<u>\$36,326,586</u>
Benefit and loss related payments	\$18,546,093
Commissions, expenses paid and aggregate write-ins for deductions	12,579,413
Federal income taxes paid	413,930
Total	<u>\$31,539,436</u>
Net cash from operations	<u>\$4,787,150</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	<u>\$8,052,616</u>
Total investment proceeds	<u>\$8,052,616</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$10,797,845</u>
Total investments acquired	<u>\$10,797,845</u>
Net cash from investments	<u>(\$2,745,229)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>\$144,905</u>
Net cash from financing and miscellaneous sources	<u>\$144,905</u>
Net change in cash and short-term investments	<u><u>\$2,186,826</u></u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$645,282
End of year	<u>2,832,108</u>
Net change in cash and short-term investments	<u><u>\$2,186,826</u></u>

**ACKNOWLEDGMENT**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Christopher J. Collins, CFE, Mario A. Cuellar, CFE, and Danielle Ellis of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "T Bradford Earley Jr".

T. Bradford Earley, Jr, CFE  
Manger - BOI



June 14, 2022

David H. Smith, Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Dear Mr. Smith:

Virginia Farm Bureau Town & Country Insurance Company received and has reviewed the draft examination report as of December 31, 2020, which was dated May 13, 2022, and was received via email June 10, 2022.

Please provide an electronic copy of the report to Ginger Lewis, Director of Financial Reporting, at [ginger.lewis@vafb.com](mailto:ginger.lewis@vafb.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne F. Pryor".

Wayne F. Pryor, President  
Virginia Farm Bureau Town & Country Insurance Company