

EXAMINATION REPORT
of
GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY
Galax, Virginia
as of
December 31, 2019

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 Grayson-Carroll-Wythe Mutual Insurance Company as of December 31, 2019, 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 11th day of August 2020

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 29, 2020

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

Dear Sir:

Pursuant to your instructions and in accordance with § 38.2-1317 of the Code of Virginia, we have performed an examination of the financial condition, records and affairs of

**GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY**
Galax, Virginia

hereinafter referred to as the Company. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2016. The current examination covers the three year period from January 1, 2017 through December 31, 2019.

This 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.

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 originally granted a charter by the General Assembly of Virginia on February 24, 1896, under the name "Grayson County Farmers Mutual Benevolent Fire Insurance Company." The name of the Company has been changed several times. In 1977, the Farmers' Mutual Fire Insurance Company of Wythe County, Inc. was merged into the Company and the name changed to "Grayson-Carroll-Wythe Mutual Insurance Company." The purposes for which the Company was formed, according to its amended charter, are as follows:

The Conduct of a mutual assessment fire insurance business as defined in Code Section 38.1-659 including (a) fire insurance as defined in Code Section 38.1-6 and (b) miscellaneous property insurance as defined in Code Section 38.1-7 when such insurance is issued as a supplemental or comprehensive contract in connection with a fire insurance policy.

The doing of all acts necessary and incidental to the said conduct and carrying on of the business indemnifying the members thereof for loss of, or damage to, property, by the levying of assessments based upon past or anticipated future losses, throughout this State to the widest extent allowed by the laws of Virginia, and as amended from time to time.

The power to make, enter into, perform and carry out contracts for the foregoing purposes.

The power to issue bonds, or notes, which may be secured by deeds of trust on real estate, as well as chattel mortgages on personal property and conditional sales contracts, to purchase, or otherwise acquire the stocks, bonds, or other securities of other individuals, firms, or corporations, and to establish branches for more convenient operation of its business at any place, within the State of Virginia, and in general do all things to carry out the purposes of this corporation, not inconsistent with the law.

On October 27, 1992, the Bureau approved the merger of The Mutual Fire Insurance Company of Bland County into the Company. This merger became effective March 4, 1993.

MANAGEMENT AND CONTROL

According to the Company's bylaws, management is vested in a board of directors, each of whom shall be a member of the Company. Directors are elected on a rotating basis at the annual meeting of policyholders and hold office for a period of three years. The Directors shall elect, from their members, a president and a vice president; additionally they shall elect a secretary-treasurer who may or may not be a member of the board of directors. The president and vice president hold office for one year and until their successors are elected and qualified. The secretary-treasurer shall serve at the pleasure of the board. The articles of incorporation and by-laws were last amended in May of 2017. Directors and officers were as follows at December 31, 2019:

<u>Directors</u>	<u>Principal Occupation</u>
Patricia B. Belcher	Financial Manager, Mount Rogers Community Services Board Wytheville, Virginia
Samuel H. Cassell	Retired Wytheville, Virginia
Pete Hall	Treasurer, Grayson County, VA Independence, Virginia
Edward A. Hanks	Ameriprise Financial Galax, Virginia
Berlie R. Hill	Retired Mt. Airy, North Carolina
Joseph R. Liddle	Secretary - Treasurer, Grayson-Carroll- Wythe Mutual Insurance Company Galax, Virginia
G. Dallas Shumate	Retired Rural Retreat, Virginia

Officers

Samuel H. Cassell	President
Patricia B. Belcher	Vice President
Joseph R. Liddle	Secretary - Treasurer
Jeffery S. Reeves	Chief Financial Officer
Randall H. Carpenter	Executive Vice President
David F. Wilson	Claims Manager

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and as such may operate in any and all areas of the Commonwealth of Virginia.

The Company writes fire, inland marine and homeowners' coverages and presently retains \$100,000 on such risks. The Company's bylaws allow for a maximum retention of \$120,000 on any building and its contents, or group of buildings liable to burn from a single fire. All policies, with the exception of coverages for livestock and hay, contain deductibles ranging from \$250 up to \$5,000. New business solicited by agents is underwritten by the staff with final review by the secretary-treasurer who investigates and approves applications for insurance. Claims investigations and adjustments are handled by a claims adjuster, along with a final review and approval by the secretary-treasurer.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2019:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Per Risk Excess	Property	\$100,000 each risk each loss occurrence	100% of \$500,000 in excess of \$100,000 per risk
Property Catastrophe Excess	Property	\$400,000 each loss occurrence	100% of \$600,000 in excess of \$400,000 per occurrence
Casualty Excess of Loss	Liability	\$50,000 each risk each loss occurrence	\$1,000,000 in excess of \$50,000 per occurrence covering Bodily Injury, Property Damage and Liability including Medical Payments
Aggregate Excess of Loss	Property and Casualty	78% of Gross Net Earned Premium Income	125% of Gross Net Earned Premium Income
Property Facultative Pro-Rata	Property	Pro Rata, subject to a \$50,000 net retention each risk each loss occurrence	Pro Rata, Maximum cession of \$750,000 per risk
Quota Share and Excess of Loss (Umbrella Facultative)	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

All reinsurance is placed through Guy Carpenter & Company, LLC., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.

GROWTH OF THE COMPANY

The following data obtained from annual statements filed with the Bureau and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2019:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2010	\$13,878,750	\$1,875,221	\$12,003,529
2011	14,839,664	2,290,987	12,548,677
2012	15,690,586	2,760,603	12,929,983
2013	17,294,042	3,192,668	14,101,374
2014	18,707,863	3,666,430	15,041,433
2015	19,911,483	3,842,735	16,068,748
2016	21,599,980	4,214,297	17,385,683
2017	23,729,351	4,566,568	19,162,783
2018	23,768,443	4,600,441	19,168,002
2019	28,060,235	5,335,471	22,724,764

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
2009	\$2,533,985	\$849,328	\$1,360,508	\$324,149
2010	2,474,871	1,214,003	1,347,225	(86,357)
2011	2,914,759	1,415,734	1,465,861	33,164
2012	3,093,844	2,001,972	1,575,530	(483,658)
2013	3,839,631	1,704,918	1,803,557	331,156
2014	4,150,424	2,196,208	1,875,488	78,728
2015	4,461,994	1,755,981	1,981,693	724,320
2016	4,841,385	2,000,573	2,117,918	722,894
2017	5,181,788	2,408,865	2,201,240	571,683
2018	5,740,367	3,472,531	2,345,429	(77,593)
2019	6,221,086	1,752,505	2,671,756	1,796,825

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statements filed by the Association with the Bureau for the period ending December 31, 2019.

ASSETS

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$15,316,926		\$15,316,926
Preferred stocks	2,202,519		2,202,519
Common stocks	8,847,662		8,847,662
Real estate:			
Properties occupied by the company	150,307		150,307
Properties held for the production of income	144,762		144,762
Cash and short-term investments	716,599		716,599
Investment income due and accrued	143,083		143,083
Uncollected premiums and agents' balances in the course of collection	197,774	44,531	153,243
Deferred premiums, agents' balances and installments booked but deferred	371,349		371,349
Current federal income tax recoverable	13,785		13,785
Furniture and equipment	89,714	89,714	
Aggregate write-ins:			
Prepaid expenses	73,616	73,616	
Totals	<u><u>\$28,268,096</u></u>	<u><u>\$207,861</u></u>	<u><u>\$28,060,235</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$576,237
Loss adjustment expenses	25,272
Commissions payable, contingent commissions and other similar charges	172,870
Other expenses	299,600
Taxes, licenses and fees	84,054
Net deferred tax liability	321,164
Unearned premiums	3,705,279
Advance premium	41,697
Ceded reinsurance premiums payable	<u>109,298</u>
 Total liabilities	 \$5,335,471
 Unassigned funds (surplus)	 <u>22,724,764</u>
 Surplus as regards policyholders	 <u>22,724,764</u>
 Totals	 <u><u>\$28,060,235</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$6,221,086
Deductions:	
Losses incurred	\$1,474,758
Loss adjustment expenses incurred	277,747
Other underwriting expenses incurred	2,671,756
Total underwriting deductions	\$4,424,261
Net underwriting gain	\$1,796,825

INVESTMENT INCOME

Net investment income earned	\$743,975
Net realized capital gains	250
Net investment gain	\$744,225

OTHER INCOME

Finance and service charges	\$99,042
Aggregate write-ins for miscellaneous income:	52,918
Total other income	\$151,960
Net income before federal income taxes	\$2,693,010
Federal income taxes incurred	479,980
Net income	\$2,213,030

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Surplus as regards policyholders, December 31, previous year	<u>\$17,385,683</u>	<u>\$19,162,783</u>	<u>\$19,168,002</u>
Net income	\$1,091,112	\$852,344	\$2,213,030
Change in net unrealized capital gains or (losses)	834,964	(1,074,861)	1,735,562
Change in net deferred income tax	(140,077)	241,674	(353,496)
Change in non-admitted assets	<u>(8,899)</u>	<u>(13,938)</u>	<u>(38,334)</u>
Change in surplus as regards policyholders for the year	<u>\$1,777,100</u>	<u>\$5,219</u>	<u>\$3,556,762</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$19,162,783</u></u>	<u><u>\$19,168,002</u></u>	<u><u>\$22,724,764</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$6,425,566
Net investment income	776,613
Miscellaneous income	151,960
Total	<u>\$7,354,139</u>
Benefit and loss related payments	\$1,423,210
Commissions, expenses paid and aggregate write-ins for deductions	2,758,388
Federal and foreign income taxes paid	535,000
Total	<u>\$4,716,598</u>
Net cash from operations	<u><u>\$2,637,541</u></u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,054,943
Stocks	1,707,659
Total investment proceeds	<u>\$3,762,602</u>
Cost of investments acquired (long-term only):	
Bonds	\$3,081,720
Stocks	3,194,462
Total investments acquired	<u>\$6,276,182</u>
Net cash from investments	<u><u>(\$2,513,580)</u></u>

Cash From Financing and Miscellaneous Sources

Cash (applied):	
Other cash (applied):	<u>(\$30,762)</u>
Net cash from financing and miscellaneous sources	<u>(\$30,762)</u>
Net change in cash and short-term investments	<u><u>\$93,199</u></u>

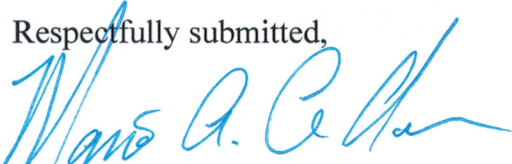
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$623,400
End of year	716,599
Net change in cash and short-term investments	<u><u>\$93,199</u></u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Chris J. Collins, CFE, Jennifer K. Blizzard, CFE and T. Bradford Earley, CFE, of the Bureau participated in the examination.

Respectfully submitted,

Mario A Cuellar, CFE
Senior Insurance Examiner



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7/30/2020

VA Bureau of Insurance

P.O. Box 1157

Richmond, VA 23218

David Smith, Chief Examiner

Mr. Smith,

I am in receipt of your letter dated 7/28/2020 and the Financial Examination Report for Grayson Carroll Wythe Mutual. We have reviewed the Financial Report and have no issues with the report. If possible, please provide us with 12 copies of the report. Please mail these copies to the address below:

Jeff Reeves
P.O. Box 1070
Galax, VA 24333

Thank you,

Sam Cassell
President

Grayson Carroll Wythe Mutual Insurance Company, Inc.