

EXAMINATION REPORT
on
VIRGINIA FARM BUREAU
FIRE AND CASUALTY 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 Fire and Casualty 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 15th day of June 2022

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

Scope of the Examination	1
History	2
Management and Control	4
Related Party Transactions	7
Dividends to Shareholder	7
Territory and Plan of Operation	8
Growth of the Company	9
Reinsurance	10
Financial Statements.....	13
Aknowledgment	19

Richmond, Virginia
May 13, 2022

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

Dear Sir:

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

**VIRGINIA FARM BUREAU
FIRE AND CASUALTY INSURANCE COMPANY**

Richmond, Virginia,

hereinafter referred to as the Company, has been completed. The report thereon is hereby 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.

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.

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:

<u>Insurer</u>	<u>Domiciliary State</u>
Virginia Farm Bureau Mutual Insurance Company	Virginia
Virginia Farm Bureau Town and Country 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. In addition, the services of Baker Tilly US, LLP were employed to perform a review of the Company's IT general controls as of December 31, 2020.

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 granted a charter by the Virginia State Corporation Commission (Commission) on December 7, 1961 and commenced business on January 28, 1962. The purposes, in part, for which the Company was organized, according to the articles of incorporation, are as follows:

- (1) 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, ...
- (2) To assume reinsurance from other insurance companies and to cede reinsurance to other insurance companies, with or without contingent liability or participation.
- (3) 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 doing of any and all acts incidental to carrying into effect the purposes aforesaid.

The Company amended its Articles of Incorporation on April 6, 1993, to change its name from Early Settlers Insurance Company to its current name. Additionally, the Company amended its bylaws on May 26, 1993, to reflect its new name and the move of its Registered Office from the City of Richmond to the County of Goochland.

On June 30, 1994, the Company issued an additional 10,000 shares of common stock to Virginia Farm Bureau Mutual Insurance Company (VFBMIC), its parent and sole stockholder. On July 1, 1994, the Commission issued a Certificate of Amendment to the Company, which provided for the Company's common stock to have no par value. The transaction increased the Company's common capital stock account balance to \$1,000,000, thereby bringing the Company into compliance with the minimum capital and surplus requirements of Code of Virginia § 38.2-1028.

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 Town and Country Insurance Company (VFBTCIC), 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 of paid in capital to the Company. In 1998, Holdings contributed another \$5,000,000 to paid-in capital.

MANAGEMENT AND CONTROL

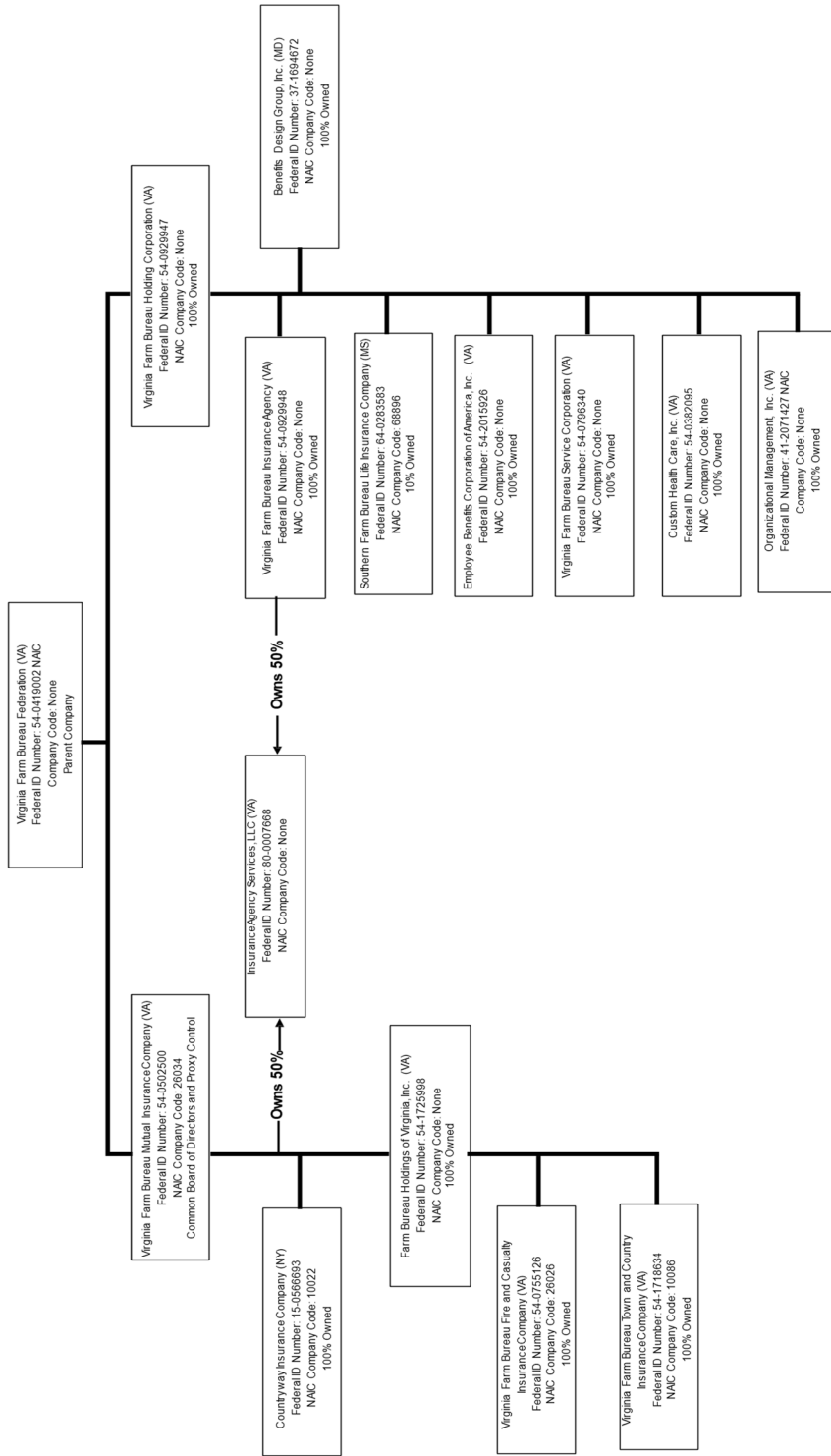
The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of the Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need be a member or policyholder of the Company, but all must be members of the Board of Directors of the Federation. A majority of the members of the board shall constitute a quorum for the transaction of business.

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 may deem necessary. At December 31, 2020, directors and officers 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	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 Jr.	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

<u>Officers</u>	<u>Title</u>
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 January 1, 1995. Under the terms of the Agreement, VFBMIC will perform and provide accounting, financial, investment, actuarial, underwriting, claims and computer services for the Company. In consideration of the services provided, the Company will pay VFBMIC a monthly fee equal to the actual cost of labor and expenses incurred in providing the services. The Company incurred expenses of \$18,382,780, \$23,729,695 and \$21,192,339 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 VFBTCIC. 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, farm owners' 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 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	\$48,761,574	\$32,132,769	\$1,000,000	\$10,000,000	\$5,628,805
2012	44,938,595	30,001,455	1,000,000	10,000,000	3,937,140
2013	50,901,305	33,101,671	1,000,000	10,000,000	6,799,634
2014	51,144,367	31,602,596	1,000,000	10,000,000	8,541,771
2015	54,992,682	34,382,378	1,000,000	10,000,000	9,610,304
2016	60,506,211	39,390,931	1,000,000	10,000,000	10,115,280
2017	66,383,129	45,080,590	1,000,000	10,000,000	10,302,539
2018	73,160,867	50,282,119	1,000,000	10,000,000	11,878,748
2019	77,729,386	55,635,561	1,000,000	10,000,000	11,093,825
2020	82,798,777	56,717,309	1,000,000	10,000,000	15,081,468

<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	\$25,450,118	\$20,006,011	\$7,813,366	(\$2,369,259)
2012	26,823,648	20,162,825	8,406,086	(1,745,263)
2013	26,826,897	18,427,774	8,079,862	319,261
2014	26,768,848	17,466,320	7,922,608	1,379,920
2015	26,816,068	18,385,543	7,759,078	671,447
2016	27,037,753	19,550,916	8,246,886	(760,049)
2017	28,414,045	19,629,918	8,784,268	(141)
2018	30,614,871	21,042,144	9,342,337	230,390
2019	32,529,215	24,113,487	10,807,870	(2,392,142)
2020	32,917,607	20,387,161	9,905,332	2,625,114

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	\$10,000,000
Excess of Loss	Property (Supplemental Catastrophe)	\$5,000,000 10% participation on \$25,000,000 1 st layer	\$230,000,000 per occurrence; \$460,000,000 all occurrences
Excess of Loss	Property (Catastrophe -Terrorism)	\$235,000,000	\$15,000,000 per occurrence; \$30,000,000 all occurrences
Excess of Loss	Property (Catastrophe and Auto Physical Damage)	\$5,605,000	\$11,210,000
Aggregate Excess of Loss	Liability	\$11,000,000	\$9,000,000
	Workers' Compensation	\$650,000	\$30,000,000; occurrence cap of \$1,200,000
		\$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

Assumed:

Pro Rata	Workers' Compensation		Proportionate share of losses incurred by the National Workers' Compensation Pool; based on participation percentage
Pro Rata	Automobile		Proportionate share of losses incurred by the Virginia Commercial Auto Insurance Procedure; based on participation percentage

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.

All agreements have an insolvency clause.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period 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	\$55,640,737		\$55,640,737
Cash and cash equivalents	3,122,741		3,122,741
Other invested assets	693,567		693,567
Investment income due and accrued	511,358		511,358
Uncollected premiums and agents' balances in course of collection	3,170,907	527,745	2,643,162
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,114,101	61,760	14,052,341
Amounts recoverable from reinsurers	4,299,999		4,299,999
Funds held by or deposited with reinsured companies	17,391		17,391
Net deferred tax asset	1,778,891		1,778,891
Guaranty funds receivable or on deposit	28,324		28,324
Aggregate write-ins for other than invested assets	124,985	114,719	10,266
Totals	<u>\$83,503,001</u>	<u>\$704,224</u>	<u>\$82,798,777</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$12,719,662
Reinsurance payable on paid losses and loss adjustment expenses		2,045,482
Loss adjustment expenses		1,378,492
Taxes, licenses and fees		453,826
Current federal income taxes		982,585
Unearned premiums		33,228,238
Advance premium		1,348,424
Ceded reinsurance premiums payable		3,369,964
Payable to parent, subsidiaries and affiliates		1,189,468
Aggregate write-ins for liabilities		<u>1,168</u>
 Total liabilities		 \$56,717,309
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	10,000,000	
Unassigned funds	<u>15,081,468</u>	
 Surplus as regards policyholders		 <u>26,081,468</u>
 Totals		 <u><u>\$82,798,777</u></u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$32,917,607</u>
Deductions:	
Losses incurred	\$17,657,653
Loss adjustment expenses incurred	2,729,508
Other underwriting expenses incurred	<u>9,905,332</u>
Total underwriting deductions	<u>\$30,292,493</u>
Net underwriting loss	<u>\$2,625,114</u>

INVESTMENT INCOME

Net investment income earned	\$1,716,807
Net realized capital losses	<u>(49,931)</u>
Net investment gain	<u>\$1,666,876</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$33,089)
Finance and service charges not included in premiums	<u>422,074</u>
Total other income	<u>\$388,985</u>
Net income before federal income taxes	\$4,680,975
Federal income taxes incurred	<u>1,008,397</u>
Net income	<u><u>\$3,672,578</u></u>

CAPITAL AND SURPLUS

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Surplus as regards policyholders, December 31, previous year	<u>\$21,302,539</u>	<u>\$22,878,748</u>	<u>\$22,093,825</u>
Net income	\$1,367,594	(\$490,253)	\$3,672,578
Change in net deferred income tax	193,869	325,516	80,236
Change in nonadmitted assets	17,746	(623,186)	234,829
Change in provision for reinsurance	<u>(3,000)</u>	<u>3,000</u>	
Change in surplus as regards policyholders for the year	<u>\$1,576,209</u>	<u>(\$784,923)</u>	<u>\$3,987,643</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$22,878,748</u></u>	<u><u>\$22,093,825</u></u>	<u><u>\$26,081,468</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$33,848,213
Net investment income	2,102,400
Miscellaneous income	388,985
Total	<u>\$36,339,598</u>
Benefit and loss related payments	\$18,740,407
Commissions, expenses paid and aggregate write-ins for deductions	12,492,175
Federal income taxes paid	701,557
Total	<u>\$31,934,139</u>
Net cash from operations	<u>\$4,405,459</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	<u>\$8,014,403</u>
Total investment proceeds	<u>\$8,014,403</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$11,052,715</u>
Total investments acquired	<u>\$11,052,715</u>
Net cash from investments	<u>(\$3,038,312)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>\$506,744</u>
Net cash from financing and miscellaneous sources	<u>\$506,744</u>
Net change in cash and short-term investments	<u><u>\$1,873,891</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$1,248,849
End of year	<u>3,122,740</u>
Net change in cash and short-term investments	<u><u>\$1,873,891</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, Christopher J. Collins, CFE, Jennifer K. Blizzard, CFE and T. Bradford Earley, Jr., CFE, CPCU, AIAF of the Bureau participated in the work of the examination.

Respectfully submitted,

Mario A Cuellar

Mario A. Cuellar, CFE
Insurance Principal Financial Analyst



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 Fire & Casualty Insurance Company received and has reviewed the draft examination report as of December 31, 2020, which was dated May 13, 2022, and 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.

Sincerely,

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

Wayne F. Pryor, President
Virginia Farm Bureau Fire & Casualty Insurance Company