

EXAMINATION REPORT
on
SHENANDOAH MUTUAL FIRE INSURANCE COMPANY
WOODSTOCK, 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 Shenandoah Mutual Fire 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 1st day of July 2020

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

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 8, 2020

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 financial condition, records and affairs of the

SHENANDOAH MUTUAL FIRE INSURANCE COMPANY
Woodstock, Virginia

hereinafter referred to as the Company, has been completed. 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.

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.

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 on February 7, 1876, as Shenandoah Farmers Mutual Fire Insurance Company. The name was shortened to its present form by charter amendment on December 14, 1943. The charter was restated on September 9, 1965, and as it presently reads, the purpose of the Company is as follows:

The conduct of a mutual assessment fire insurance business, within the widest definition of Section 38.1-659, Chapter 15, Code of Virginia of 1950, as amended from time to time.

On May 1, 1967, Frederick Mutual Fire Insurance Company of Winchester, Virginia was merged into the Company and on April 1, 1970, East Rockingham and Page Farmers Home Mutual Fire Insurance Company of Luray, Virginia was merged into the Company.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of seven to nine directors who are required to be members of the Company. Directors are elected by the members at the annual meeting in February of each year for a term of one year.

With respect to authority established in the bylaws, the board of directors shall fix their own compensation and that of all officers, set remuneration for travel expenses and establish the rate of commissions or other compensation for agents of the Company.

Officers of the Company shall be elected by the board at its annual meeting. The officers of the Company shall be a chairman of the board (if elected), president, one or more vice presidents, secretary, treasurer, and such other officers as may be needed. The board of directors may, by a resolution passed by a majority of the whole board, designate the chairman of the board (if elected), president, vice president, secretary, and treasurer to constitute an executive committee. To the extent provided in the resolution, the committee shall have and exercise the power of the board of directors in the management and control of the business and affairs of the Company.

The bylaws also provide that any vacancy of a director or officer whose term has not expired may be filled by the board of directors for the unexpired term.

At December 31, 2019, the directors and officers were as follows:

Directors

Principal Occupation

Donald L. Atwood

Farmer
Front Royal, Virginia

Larry A. Carbaugh

Retired
Stephens City, Virginia

Dennis K. Fleming

Self-Employed
Luray, Virginia

Mark K. Getz

Treasurer/VP of Operations
Edinburg, Virginia

Darrell B. Hulver

Store Manager
Luray, Virginia

Randall S. Jones

Secretary/Claims Manager
Woodstock, Virginia

Gary D. Ramsey

Farmer
Fort Valley, Virginia

Dudley H. Rinker

Self-Employed
Stephens City, Virginia

Officers

Donald L. Atwood

President

Gary D. Ramsey

Vice President

Mark K. Getz

Treasurer

Randall S. Jones

Secretary

TERRITORY AND PLAN OF OPERATION

The Company may operate throughout the Commonwealth of Virginia. However, business is currently written only in the counties of Albemarle, Alleghany, Amherst, Augusta, Bath, Bedford, Botetourt, Campbell, Clarke, Craig, Culpeper, Fauquier, Franklin, Frederick, Greene, Halifax, Henry, Highland, Loudoun, Madison, Montgomery, Nelson, Orange, Page, Pittsylvania, Prince William, Rappahannock, Roanoke, Rockbridge, Rockingham, Shenandoah and Warren, and also within the corporate limits of the cities of Buena Vista, Charlottesville, Covington, Danville, Harrisonburg, Lexington, Lynchburg, Martinsville, Radford, Roanoke, Salem, Staunton, Waynesboro and Winchester.

Marketing of insurance is conducted through 44 commissioned captive or independent agents, including three employees who are licensed agents. The lines of insurance written include fire and allied lines, comprehensive personal liability, dwelling properties, homeowner's, farm machinery, and livestock floaters. It is the practice of the Company to retain \$75,000 on property, and \$45,000 on bodily injury, property damage, and medical payment coverages. The balance of coverage is reinsured and is limited only by the amount the facultative reinsurer will accept.

Company personnel in conjunction with the binding authority of agents underwrite business. Property is classified according to use, construction, location, and occupancy.

All rates are set by the board of directors, who frequently establish special rates as needed for risks with unique hazards. Two full-time employees who also have secondary responsibilities for underwriting handle claims adjustment. The services of independent adjusting firms are used at times.

REINSURANCE

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

<u>Type of Contract</u>	<u>Lines</u>	<u>Net Retention</u>	<u>Reinsurance Limits</u>
First Per risk Excess of Loss (property)	Fire, Inland Marine, and Multiple Lines	\$75,000	\$525,000, each loss, each risk; \$1,050,000 each loss occurrence
Second Per risk Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$600,000	100% of \$600,000 in excess of \$600,000, each loss, each risk; \$800,000 each loss occurrence

<u>Type of Contract</u>	<u>Lines</u>	<u>Net Retention</u>	<u>Reinsurance Limits</u>
Property Catastrophe Excess of Loss	Fire, Inland Marine, and Multiple Lines	\$150,000	100% of \$1,000,000 in excess of \$150,000 combined net loss, each occurrence
Property Facultative Pro Rata	Property	\$45,000	\$750,000 any one risk
Casualty Excess of Loss	Bodily Injury, Property Injury, Personal Injury, and Medical Payments	\$45,000	100% of \$1,500,000 in excess of \$45,000, per occurrence
Aggregate Excess of Loss	All	57.0% of the Company's gross net premiums earned	100% of 150% of Company's gross net earned premium income in excess of 57% of gross net earned premium income.
Umbrella Facultative	Personal, Farm and Commercial Umbrella Liability	\$50,000	95% of \$1,000,000 of Ultimate Net Loss, each occurrence, each policy

All reinsurance agreements are placed through Guy Carpenter. Each reinsurance agreement contains an insolvency clause.

GROWTH OF THE COMPANY

The following data, obtained taken from Annual Statements filed with the Bureau and the financial statements contained in examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2019:

<u>Year</u>	Admitted <u>Assets</u>	<u>Liabilities</u>	Policyholder <u>Surplus</u>
2010	\$3,109,059	\$1,914,269	\$1,194,790
2011	2,995,037	2,114,132	880,905
2012	3,300,797	2,146,354	1,154,443
2013	3,874,982	2,292,430	1,582,552
2014	4,174,326	2,534,405	1,639,921
2015	4,811,628	2,765,123	2,046,505
2016	5,178,225	2,867,376	2,310,849
2017	5,486,482	2,875,212	2,611,270
2018	5,673,221	2,958,202	2,715,019
2019	6,620,778	3,649,654	2,971,124

<u>Year</u>	Number Of <u>Policies</u>	Insurance In <u>Force</u>	Assessments <u>Received</u>	Investment <u>Income</u>	Losses <u>Paid</u>
2010	6,167	\$1,677,178,875	\$2,138,031	\$85,511	\$663,865
2011	5,607	1,607,156,517	2,151,981	97,183	1,160,715
2012	5,627	1,621,129,580	2,230,917	96,837	910,155
2013	5,777	1,684,056,311	2,542,341	80,472	807,093
2014	5,848	1,710,314,301	2,635,782	92,824	1,067,431
2015	5,896	1,735,507,883	2,856,921	45,115	838,458
2016	5,947	1,774,534,815	2,972,903	75,287	1,065,239
2017	5,996	1,825,753,952	3,026,685	171,979	1,018,019
2018	6,052	1,890,451,132	3,097,519	265,731	1,369,909
2019	6,617	2,129,991,363	3,737,352	128,621	983,777

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 Company with the Bureau for the period ending December 31, 2019.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net assessments received	\$3,026,685	\$3,097,519	\$3,737,352
Interest on bonds	66,331	76,073	87,669
Interest on cash deposits	5,037	5,259	9,472
Dividends on stocks	17,777	10,497	16,058
Real estate income	3,000	3,000	3,000
Gain on sale of investments	79,834	170,902	12,422
Social security	26,142	27,791	29,247
Federal withholding	33,736	35,115	37,742
State withholding	15,742	17,682	19,119
Increase by adjustment in book value of ledger assets		8,348	5,792
Other income	42,111	44,818	44,775
Total Income	\$3,316,395	\$3,497,004	\$4,002,648
Deduct total disbursements for the year	2,960,374	3,407,106	3,168,857
Net Income	\$356,021	\$89,898	\$833,791
Add Ledger Assets December 31, previous year	4,380,365	4,736,386	4,826,284
Ledger Assets December 31, current year	<u>\$4,736,386</u>	<u>\$4,826,284</u>	<u>\$5,660,075</u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net losses paid	\$1,018,019	\$1,369,909	\$983,777
Loss adjustment expense	27,371	101,836	104,021
Net commission and brokerage	701,381	698,660	792,015
Gross salaries	369,647	395,878	416,488
Directors' fees	7,170	9,635	8,230
Travel and travel items	7,934	7,388	8,884
Boards, bureaus and associations	42,360	46,847	57,710
Legal and auditing, not in connections with losses	39,020	40,084	39,307
Outside inspections, loss prevention and survey services	483	706	864
Furniture, fixtures and equipment	21,259	59,670	60,509
Rent, office and equipment maintenance	3,000	3,000	3,000
Advertising	24,629	24,070	33,711
Printing and stationery	15,711	19,415	23,723
Postage, telephone and express	25,670	27,961	28,619
Insurance and fidelity bonds	23,699	21,636	21,417
General operating expenses	86,868	110,812	185,109
Taxes, licenses and fees	93,572	94,146	97,359
Payroll items	217,253	235,732	262,710
Real estate	47,778	40,721	41,404
Federal Corporate Income Tax	164,842	99,000	
Decrease by adjustment in book value	22,708		
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u><u>\$2,960,374</u></u>	<u><u>\$3,407,106</u></u>	<u><u>\$3,168,857</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,316,734			\$3,316,734
Common stocks	726,171	522,148		1,248,319
Cash in company's office	200			200
Cash on deposit	1,001,523	12,065		1,013,588
Real estate	559,433			559,433
Federal income taxes receivable		65,042		65,042
Interest due and accrued	2,224	11,763		13,987
Assessments due		318,709	2,425	316,284
Equipment, furniture and supplies	53,790		41,283	12,507
Overpayment of merchant fees receivable		11,084		11,084
Deferred income taxes		63,600		63,600
Totals	<u>\$5,660,075</u>	<u>\$1,004,411</u>	<u>\$43,708</u>	<u>\$6,620,778</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

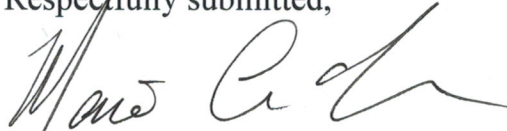
Net unpaid losses	\$604,300
Loss adjustment expenses unpaid	800
Fees or commissions payable	64,562
Other expenses due or accrued	157,476
Payroll Items due or accrued	7,249
Taxes licenses and fees	56,298
Ceded reinsurance balances payable	128,869
Assessments unearned	2,624,969
Unapplied cash	2,741
Advertising, auditing & legal	1,341
Utilities, janitorial and printing	1,049
Total liabilities	<u>\$3,649,654</u>
Excess of admitted assets over liabilities (surplus)	<u>2,971,124</u>
Totals	<u>\$6,620,778</u>

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, Jennifer K. Blizzard, CFE, T. Bradford Earley, CFE and Chris J. Collins, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping tail.

Mario A. Cuellar, CFE
Senior Insurance Examiner
Commonwealth of Virginia



Fire Insurance Company
P. O. Box 106
Woodstock, VA 22664-0106

Donald L. Atwood – President
Gary D. Ramsey – Vice President
Mark K. Getz – VP of Operations & Treasurer
Randall S. Jones – Secretary & Claims Manager

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June 26, 2020

Mr. David H. Smith
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond Va 23218

RE: Acknowledgement of Receipt of Report

Dear Mr. Smith:

Please be advised that we are in receipt of the Examination report of Shenandoah Mutual Fire Insurance Company as of December 31, 2019 and have no issues with any matter contained in the report.

Please supply us with 10 copies of the report for future use.

It was a pleasure working with the examiners during the course of the examination.

Yours truly,

Donald L. Atwood
President