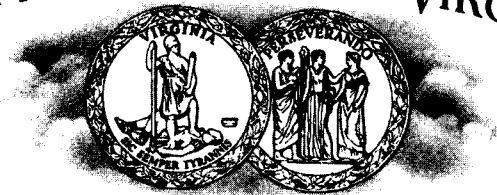


**EXAMINATION REPORT  
of the  
HIGHLAND MUTUAL FIRE  
INSURANCE COMPANY  
McDowell, Virginia  
as of  
December 31, 2009**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Highland Mutual Fire Insurance Company as of December 31, 2009, 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 2<sup>nd</sup> day of December, 2010

A handwritten signature in black ink that reads "Alfred W. Gross".

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
September 22, 2010

Honorable Alfred W. Gross  
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 records and affairs of the

**HIGHLAND MUTUAL FIRE INSURANCE COMPANY**

**McDowell, Virginia**

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

**DESCRIPTION**

The Company is a mutual assessment property and casualty insurer licensed under Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2006. The current examination covers the three-year period from January 1, 2007 through December 31, 2009.

**HISTORY**

The Company was chartered on September 2, 1916. According to the charter, the purpose for which it was organized is as follows:

The insurance of dwelling houses, barns and their contents, growing crops, and other property not more hazardous, and buildings not more hazardous in towns and villages, detached at such distances as the bylaws of the corporation may prescribe, and their contents and livestock owned on the premises, and while in barns and stables insured, upon the mutual assessment plan without distribution of profits among its members, and

upon the terms and conditions provided in the bylaws, against loss or damage caused by fire, storm or lightning.

### MANAGEMENT AND CONTROL

The management of the Company is vested in a Board of Directors ("Board") composed of seven members elected annually by the membership. The bylaws provide for the Board to elect a President, a Vice President and a Secretary-Treasurer from its membership for a term of one year.

It is the Board's responsibility to audit claims, to approve or reject applications for insurance, to adopt forms of policy and applications and to serve as agents. When in the interest of the Company, the Board may levy an assessment based on an estimate of the amount that will be necessary to pay all losses, damages and expenses for the current year and to make up any deficiencies in funds for the preceding year. If the Board deems necessary, an additional assessment may be included for a safety fund to serve as a reserve for claims. However, no more than one such general assessment may be made in any six-month period. The directors and officers of the Company at December 31, 2009 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Roy M. Gutshall	Farmer Mustoe, Virginia
Elizabeth H. Hefner	Retired Monterey, Virginia
Bertha P. Hise	Retired Warm Springs, Virginia
Joseph T. Neil	Farmer McDowell, Virginia
Dareld G. Puffenbarger	Farmer Hightown, Virginia
Lewis W. Shumate	Farmer McDowell, Virginia
Ronald J. White	Farmer Monterey, Virginia

**Officers**

Elizabeth H. Hefner	President
Roy M. Gutshall	Vice President
Lewis W. Shumate	Secretary-Treasurer

**FIDELITY BOND**

At December 31, 2009, the Company had an employee dishonesty policy in force providing coverage in the amount of \$25,000 to insure against losses arising from dishonest acts of its President and Secretary-Treasurer.

**TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a mutual assessment property and casualty insurer and operates in Highland and Bath Counties as provided by its charter.

Applications for fire and lightning insurance are solicited by the Board who appraise the property to be insured. Upon approval of the Board, a continuous policy is issued and the Company retains a maximum of \$25,000 on each risk. Applicants are required to pay an initiation fee of \$10 per policy, plus prevailing premiums for new business. Applicants are then subject to all future assessments levied against members. Assessments are levied in advance whenever the Board deems that additional funds are necessary for operation. If, however, members should withdraw from the Company by giving 30 days notice, a refund of any advance assessment is made. Members are also entitled to a refund of the unearned portion of an assessment when a policy is canceled before its expiration date.

Property insured by the Company is classified into three groups:

- Class 1: Brick, stone, or wooden buildings, with metal, slate, slate-surfaced asphalt or asbestos roofs
- Class 2: Barns, other outbuildings and unoccupied dwellings
- Class 3: Mobile homes

Losses are adjusted by the directors and the payment of all claims is approved by the Board. Directors receive the following compensation for their services: \$75 for attending Board meetings and \$30 per policy (\$10 paid by the policyholder and \$20 paid by the Company) for new or revised policies written.

### GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and examination reports, reflect the growth of the Company for the ten-year period ending December 31, 2009:

<u>Year</u>	<u>Admitted</u>			<u>Number of Policies</u>	<u>Insurance In Force</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>		
2000	\$351,048	\$1,309	\$349,739	511	\$22,533,755
2001	360,589	1,263	359,326	504	22,698,880
2002	390,971	2,744	388,227	503	23,992,950
2003	349,719	1,977	347,742	487	24,695,450
2004	392,478	2,507	389,971	495	25,561,400
2005	388,904	2,339	386,565	507	27,210,750
2006	400,542	27,069	373,473	513	28,470,800
2007	421,690	1,809	419,881	503	27,824,800
2008	417,120	3,623	413,497	488	27,946,850
2009	413,958	25,125	388,833	488	29,412,035

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In Force</u>
2000	\$34,046	\$14,201	\$156	511	\$22,533,755
2001	34,884	16,586	24,312	504	22,698,880
2002	36,498	10,823	662	503	23,992,950
2003	31,691	8,114	63,125	487	24,695,450
2004	35,400	5,952	232	495	25,561,400
2005	37,680	7,771	30,047	507	27,210,750
2006	36,811	11,571	17,583	513	28,470,800
2007	34,707	13,895	8,414	503	27,824,800
2008	37,807	11,938	35,000	488	27,946,850
2009	34,696	7,650	25,000	488	29,412,035

**REINSURANCE**

The Company had the following reinsurance agreements in force at December 31, 2009:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company Retention</u>	<u>Reinsurers' Limit</u>
Property Facultative Pro Rata	Property	\$25,000	Seven times the net retained liability of the Company plus the amount ceded, and shall be subject to a maximum amount of \$300,000 and a minimum retention of \$7,500 as respects any one risk
Aggregate Excess of Loss	Property	100% of net premiums and assessments earned or \$38,400, whichever amount is the greater	100% of 150% of net premiums and assessments earned, or 100% of \$86,400, whichever amount is the lesser

All reinsurance has been placed through Guy Carpenter & Co., LLC, a reinsurance intermediary. Both agreements contain an insolvency clause.



## **SCOPE**

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2007 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **FINANCIAL STATEMENTS**

There follows a statement of income and disbursements for the period under review, a statement of financial condition as of December 31, 2009, and a statement of Examiners' changes in surplus as of December 31, 2009.

**INCOME FOR THE PERIOD UNDER REVIEW**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net assessments received	\$34,707	\$37,807	\$34,696
Interest on cash deposits	13,895	11,938	7,650
Reconciling amounts			
Social security	642	642	643
Federal withholding	240	240	240
Other income	<u>479</u>	<u>479</u>	<u>293</u>
 Total income	 \$49,484	 \$51,106	 \$43,522
 Deduct total disbursements for the year	 <u>28,748</u>	 <u>54,822</u>	 <u>45,937</u>
 Net income	 \$20,736	 (\$3,716)	 (\$2,415)
 Add ledger assets December 31, previous year	 <u>398,044</u>	 <u>418,780</u>	 <u>415,064</u>
 Ledger assets December 31, current year	 <u><u>\$418,780</u></u>	 <u><u>\$415,064</u></u>	 <u><u>\$412,649</u></u>

**DISBURSEMENTS FOR THE PERIOD UNDER REVIEW**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net losses paid	\$8,414	\$35,000	\$25,000
Net commission and brokerage	930	1,140	1,380
Gross salaries	8,400	8,400	8,400
Directors' fees	1,950	1,950	1,875
Travel and travel items	587		862
Boards, bureaus and associations	200	200	200
Legal and auditing, not in connection with losses	610	385	415
Furniture, fixtures and equipment			434
Rent, office and equipment maintenance			434
Advertising	664	539	493
Printing and stationery	283	367	322
Postage, telephone and express	695	662	744
Insurance and fidelity bonds	306	500	
Charitable contributions	2,775	2,775	2,775
Other expenses	163	143	224
Taxes, licenses and fees	1,246	1,236	1,288
Payroll items	<u>1,525</u>	<u>1,525</u>	<u>1,525</u>
 Total disbursements	 <u><u>\$28,748</u></u>	 <u><u>\$54,822</u></u>	 <u><u>\$45,937</u></u>

**ASSETS**

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$412,649			\$412,649
Interest due or accrued		881		881
Refund of reinsurance premiums		428		428
Totals	<u>\$412,649</u>	<u>\$1,309</u>	<u>\$0</u>	<u>\$413,958</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Net unpaid losses	\$22,818
Taxes, licenses and fees	1,164
Ceded reinsurance balances payable	83
Assessments unearned	<u>1,060</u>
Total liabilities	\$25,125
Excess of admitted assets over liabilities (surplus)	<u>388,833</u>
Totals	<u>\$413,958</u>

**EXAMINERS' CHANGE IN SURPLUS**

	<u>Amount Per Company</u>	<u>Amount Per Examiners</u>	<u>Increase (Decrease) in Surplus</u>
<u>Assets:</u>			
Refund of reinsurance premiums	\$0	\$428	\$428
<u>Liabilities:</u>			
Net unpaid losses	21,250	22,818	<u>(1,568)</u>
Examiners' net decrease in surplus			<u><u>(\$1,140)</u></u>
Surplus as regards policyholders per Examiners			\$388,833
Surplus as regards policyholders per Company			<u>389,973</u>
Examiners' net decrease in surplus			<u><u>(\$1,140)</u></u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION**Accounts and Records1. Refund of Reinsurance Premiums \$428

The above asset was established by the Examiners and represents refunds of reinsurance premiums at year end that were not accounted for by the Company. The Examiners recommend that the Company properly account for write-in items in future filings.

2. Net Unpaid Losses \$22,818

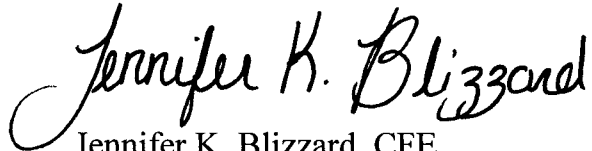
The above liability is \$1,568 more than the amount reported in the Company's 2009 Annual Statement. The increase resulted from the Company not properly accruing for all unpaid losses at year end. The Examiners recommend that the Company properly report all net unpaid losses in future filings.

**CONCLUSION**

The courteous cooperation extended to the Examiners by the Company is hereby acknowledged.

In addition to the undersigned, Mario A. Cuellar, CFE of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE  
Senior Insurance Examiner

## Highland Mutual Fire Insurance Company

4178 Bullpasture River Road  
McDowell, Va. 24458  
(540) 396-3321

November 25, 2010

STATE CORP COMMISSION  
BUREAU OF INSURANCE  
10 NOV 29 AM 10:15

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

Dear Mr. Smith:

In response to your letter dated November 17, 2010 concerning our examination report, I submit the following response.

1. In future refunds of reinsurance assets will be accounted for. Since these are never calculated by reinsurance company or received by us until in June of following year we will have to submit amended pages each year to our Annual Statement.
2. The unpaid loss not accounted for was not submitted to us by the end of the year 2009 nor before our annual statement was completed and due. WE should have included this on our amended pages.

We apologize for these errors.

We will need seven (7) copies of this report.

Sincerely,



Lewis W. Shumate  
Secretary/treasurer