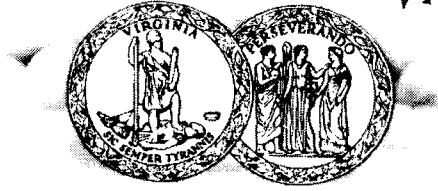


**Examination Report**  
**on**  
**MUTUAL ASSURANCE SOCIETY OF VIRGINIA**  
**Richmond, Virginia**  
**as of**  
**December 31, 2009**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Mutual Assurance Society of Virginia 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 4th day of February, 2011

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Description ..... 1

History ..... 1

Management and Control ..... 2

Fidelity Bond and Other Insurance ..... 4

Territory and Plan of Operation ..... 4

Growth of the Society ..... 5

Reinsurance ..... 6

Scope ..... 9

Financial Statements ..... 9

Conclusion ..... 15

Richmond, Virginia  
November 24, 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

**MUTUAL ASSURANCE SOCIETY OF VIRGINIA**  
Richmond, Virginia

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

**DESCRIPTION**

The Society is a mutual assessment property and casualty insurer licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. It conducts its business under one or more of the following assumed names that have been recorded pursuant to Chapter 5 of Title 59.1 of the Code:

Mutual Assurance Society  
The Old Mutual  
Mutual Assurance

The Society was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

**HISTORY**

The Society was chartered on December 22, 1794, by a special act of the General Assembly of Virginia by which the Society was authorized to insure citizens of Virginia against losses by fire. Operations were confined to fire insurance until May 17, 1955, when the charter was amended to permit the issuance of miscellaneous property and water

damage coverages. On June 3, 1965, the charter was further amended to permit the Society:

...to transact Fire Insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, to issue, to engage in, and to transact Miscellaneous Property Insurance, Water Damage Insurance, Burglary and Theft Insurance, Glass Insurance, Boiler and Machinery Insurance, Elevator Insurance, Animal Insurance, Collision Insurance, Personal Injury Liability Insurance, Property Damage Liability Insurance, Motor Vehicle and Aircraft Insurance, Marine Insurance and Contingent and Consequential Losses Insurance as classified and defined in Article 2 of Chapter 1 of Title 38.1 of the Code of Virginia, and such other classes of insurance which an insurance company other than life insurance companies and title insurance companies may transact under the insurance laws of the Commonwealth of Virginia,...

### MANAGEMENT AND CONTROL

The management of the Society is vested in a board of directors consisting of eight individuals, all of whom shall be members of the Society. As provided in the Society's bylaws, directors are elected by the members at their annual meeting to serve for a period of three years. A majority of the directors constitutes a quorum for any meeting of the board. The board of directors shall elect a President, who shall be a director of the Society, a Secretary and a Treasurer, each to hold office for one year or until their successors have been elected and have qualified.

At December 31, 2009, the directors and officers of the Society were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Mary C. Doswell	Senior Vice President, Alternative Energy Solutions Dominion Resources, Inc. Richmond, Virginia
O. H. Parrish, Jr.	Retired
L. Gerald Roach	President Mutual Assurance Society of Virginia Richmond, Virginia

Directors (continued)Principal Occupation

Julious P. Smith, Jr.

Chairman and Chief Executive Officer  
Williams Mullen  
Richmond, Virginia

Richard T. Wheeler, Jr.

Chairman, President and Chief Executive Officer  
Franklin Federal Savings Bank  
Richmond, Virginia

J. F. Williams, III

Chairman Emeritus  
Harrison and Bates, Incorporated  
Richmond, Virginia

Richard W. Wiltshire, Jr.

Retired

Coleman Wortham, III

President and Chief Executive Officer  
Davenport & Company LLC  
Richmond, VirginiaOfficers

L. Gerald Roach

President

John S. Case

Secretary and Treasurer

Jeffrey S. Wrobel, Sr.

Executive Vice President

### **FIDELITY BOND AND OTHER INSURANCE**

The Society had a fidelity bond in force at December 31, 2009, in the amount of \$2,000,000. The Society also had insurance coverage in force that included workers compensation and employers liability, directors and officers liability, fiduciary responsibility insurance, employment practices liability insurance, business property and liability, commercial auto, and commercial umbrella coverage.

### **TERRITORY AND PLAN OF OPERATION**

The Society is authorized to transact the business of a mutual assessment property and casualty insurance company in the Commonwealth of Virginia. Insurance is generally written only within the corporate limits of certain independent cities, protected areas of the counties of Henrico and Chesterfield, and other areas contiguous to certain independent cities rated ISO 7 or better. However, primary and secondary residences can be written as an accommodation to existing members located in the Commonwealth provided the Society can adequately service the insurance needs of its members.

Business is produced by salaried employees and independent agents who take applications. If the home office approves the application, a perpetual dwelling property, homeowners or personal umbrella liability policy is issued with the usual endorsement forms available. Independent agents are paid a commission of 20% of the policy premiums for new business and 15% for continuing business. No commissions are paid on premiums written directly by the home office.

Property is classified by type of construction and location of risk. Only dwellings that meet the Society's underwriting and eligibility requirements and which are in areas having adequate fire protection are insured as new risks. However, unprotected primary and secondary residences are written as an accommodation to homeowner policyholders. Dwelling property policy premium rates, adopted by the board of directors effective January 1, 2004, do not vary because of location of risk but differ between masonry and frame construction, with frame construction carrying a higher rate. Homeowner policy premium rates are determined by the Society's independent research. Current homeowner rates were adopted effective January 1, 2003.

Historically, the Society charged premiums and assessments on a calendar year basis; however, all policyholders now pay a full twelve-month premium on the inception date of a policy and pay the annual assessment on a policy's billing anniversary date. An additional assessment is leveled annually on secondary residences and coastal property.

### GROWTH OF THE SOCIETY

The following data, obtained from annual statements and examination reports, indicates the growth of the Society for the ten-year period ending December 31, 2009:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2000	\$241,789,611	\$3,244,777	\$238,544,834
2001	212,706,379	21,423,560	191,282,819
2002	185,929,482	11,285,170	174,644,312
2003	200,740,113	22,995,156	177,744,957
2004	204,855,641	24,211,505	180,644,136
2005	210,120,062	22,420,342	187,699,720
2006	226,266,420	26,862,512	199,403,908
2007	231,001,380	26,725,480	204,275,900
2008	171,078,284	7,040,624	164,037,660
2009	193,360,002	15,727,496	177,632,506

<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>
2000	\$1,435,912	\$4,615,626	\$2,849,280	(\$6,028,994)
2001	1,568,812	4,102,136	2,620,742	(5,154,066)
2002	1,873,340	4,970,601	3,087,630	(6,184,891)
2003	1,494,191	25,692,120	3,340,839	(27,538,768)
2004	2,206,911	12,827,526	3,700,279	(14,320,894)
2005	3,928,092	3,408,908	4,002,909	(3,483,725)
2006	3,337,340	6,323,573	1,988,800	(4,975,033)
2007	2,749,948	6,482,845	4,430,379	(8,163,276)
2008	2,793,302	5,194,076	4,199,865	(6,600,639)
2009	3,344,222	8,185,225	4,425,640	(9,266,643)



**REINSURANCE**

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

**Ceded:**

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
Excess of Loss	Property	\$350,000	<p><u>First Excess Cover:</u> The next \$150,000 in excess of the first \$350,000</p> <p><u>Second Excess Cover:</u> The next \$500,000 in excess of the first \$500,000</p> <p><u>Third Excess Cover:</u> The next \$2,000,000 in excess of the first \$1,000,000</p>
Excess of Loss	Liability	\$350,000	<p><u>First Excess Cover:</u> The next \$150,000 in excess of the first \$350,000</p> <p><u>Second Excess Cover:</u> The next \$250,000 in excess of the first \$500,000</p>
Excess of Loss	Property Catastrophe	<u>First Excess Cover</u> \$5,000,000	\$5,000,000 of ultimate net loss each occurrence in excess of the Society's retention of \$5,000,000; subject to a limit of \$10,000,000 with respect to all loss occurrences

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
		<u>Second Excess Cover</u> \$10,000,000	\$5,000,000 of ultimate net loss each occurrence in excess of the Society's retention of \$10,000,000; subject to a limit of \$10,000,000 with respect to all loss occurrences
		<u>Third Excess Cover</u> \$15,000,000	\$5,000,000 of ultimate net loss each occurrence in excess of the Society's retention of \$15,000,000; subject to a limit of \$10,000,000 with respect to all loss occurrences
		<u>Fourth Excess Cover</u> \$20,000,000	\$15,000,000 of ultimate net loss each occurrence in excess of the Society's retention of \$20,000,000; subject to a limit of \$30,000,000 with respect to all loss occurrences
Quota Share	Umbrella	5% of the first \$1,000,000, each occurrence, each policy	95% of first \$1,000,000, each occurrence, each policy
Excess of Loss	Umbrella	None of \$4,000,000 in excess of \$1,000,000, each occurrence, each policy	100% of \$4,000,000 in excess of \$1,000,000, each occurrence, each policy

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Society's Retention</u>	<u>Reinsurers' Limits</u>
Facultative Excess of Loss	Property Property:	\$3,000,000	\$2,000,000
Quota Share	Identity Theft		100% of \$15,000 each risk
Quota Share	Equipment Breakdown		100% of \$50,000 each occurrence

Reinsurance is placed directly by the Society and through the reinsurance intermediaries of Guy Carpenter & Company, LLC and General Re Intermediaries. All of the reinsurance agreements in force contain an insolvency clause.

Assumed:

The Society is part of a reinsurance pool with NAMIC Insurance Company, Inc., under a quota share/retrocessional reinsurance agreement. Pursuant to the agreement, the Society, as retrocessionaire, assumes a small percentage of the ceding insurer's liabilities associated with directors and officers liability, insurance company professional liability, agents errors and omissions, insurance company trustees and fiduciaries liability and professional liability for insurance company associations.

## **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.

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 and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2009, a statement of income for the period ending December 31, 2009, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$55,819,904		\$55,819,904
Common stocks	132,691,907		132,691,907
Real estate	1,152,776		1,152,776
Cash and short-term investments	1,370,326		1,370,326
Investment income due and accrued	1,096,255		1,096,255
Uncollected premiums and agents' balances in course of collection	51,520		51,520
Amounts recoverable from reinsurers	8,222		8,222
Other amounts receivable under reinsurance contracts	357,958		357,958
Current federal income tax recoverable	300,000		300,000
Guaranty funds receivable or on deposit	15,110		15,110
Electronic data processing equipment	116,277	30,522	85,755
Furniture and equipment	93,260	93,260	
Aggregate write-ins:			
Cash surrender value	165,000		165,000
Prepaid expenses	596,176	596,176	
Equities and deposits in pools and associations	245,269		245,269
Totals	<u>\$194,079,960</u>	<u>\$719,958</u>	<u>\$193,360,002</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$2,604,494
Loss adjustment expenses		529,481
Commissions payable, contingent commissions and other similar charges		534,691
Other expenses		90,556
Taxes, licenses and fees		76,372
Net deferred tax liability		6,997,639
Unearned premiums		3,778,491
Advance premiums		158,831
Ceded reinsurance premiums payable		96,783
Aggregate write-ins for liabilities:		
Deferred compensation		850,312
Reserve for uncashed checks		9,846
		<hr/>
Total liabilities		\$15,727,496
Unassigned funds (surplus)	<u>177,632,506</u>	
Surplus as regards policyholders		<u>177,632,506</u>
Totals		<u><u>\$193,360,002</u></u>

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

UNDERWRITING INCOME

Premiums earned	\$3,344,222
Deductions:	
Losses incurred	\$6,476,572
Loss adjustment expenses incurred	1,708,653
Other underwriting expenses incurred	4,425,640
Total underwriting deductions	\$12,610,865
Net underwriting loss	(\$9,266,643)

INVESTMENT INCOME

Net investment income earned	\$5,875,898
Net realized capital gains	114,383
Net investment gain	\$5,990,281

OTHER INCOME

Finance and service charges not include in premiums	\$1,141
Aggregate write-ins for miscellaneous income	197,863
Total other income	\$199,004
Net income before federal income taxes	(\$3,077,358)
Federal income taxes incurred	203,527
Net income	(\$3,280,885)

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	<u>\$199,403,908</u>	<u>\$204,275,900</u>	<u>\$164,037,660</u>
Net income	\$4,226,410	(\$7,203,469)	(\$3,280,885)
Change in net unrealized capital gains or (losses)	346,653	(34,947,194)	15,596,998
Change in net deferred income tax	(13,035)	1,725,407	811,838
Change in nonadmitted assets	<u>311,964</u>	<u>187,016</u>	<u>466,895</u>
Change in surplus as regards policyholders for the year	<u>\$4,871,992</u>	<u>(\$40,238,240)</u>	<u>\$13,594,846</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$204,275,900</u></u>	<u><u>\$164,037,660</u></u>	<u><u>\$177,632,506</u></u>



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

Premiums collected net of reinsurance	\$4,049,946
Net investment income	6,028,979
Miscellaneous income	199,004
Total	<u>\$10,277,929</u>
Benefit and loss related payments	\$5,744,259
Commissions, expenses paid and aggregate write-ins for deductions	5,838,853
Federal income taxes recovered	(1,862,549)
Total	<u>\$9,720,563</u>
Net cash from operations	<u>\$557,366</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$17,319,883
Stocks	6,019,602
Miscellaneous proceeds	884,102
Total investment proceeds	<u>\$24,223,587</u>
Cost of investments acquired (long-term only):	
Bonds	\$9,724,533
Stocks	14,385,127
Real estate	36,000
Total investments acquired	<u>\$24,145,660</u>
Net cash from investments	<u>\$77,927</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided:	<u>\$513,895</u>
Net cash from financing and miscellaneous sources	<u>\$513,895</u>
Net change in cash and short-term investments	<u>\$1,149,188</u>

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

Cash and short-term investments:	
Beginning of year	\$221,138
End of year	<u>1,370,326</u>
Net change in cash and short-term investments	<u>\$1,149,188</u>

**CONCLUSION**

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, Mario A. Cuellar, CFE and Theresa C. Lewis, CFE of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley', written in a cursive style.

T. Bradford Earley, AIAF, CFE, CPCU  
Insurance Principal Financial Analyst

*Incorporated 1794*

*Mutual Assurance Society of Virginia*  
*Richmond, Virginia*

STATE OF VIRGINIA  
BUREAU OF INSURANCE  
JAN 29 AM 9:31

*4001 Fitzhugh Avenue  
P.O. Box 6927  
Richmond, Va. 23280-0927*

*Telephone (804) 355-1794  
Fax (804) 355-1971*

January 26, 2011

Mr. David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

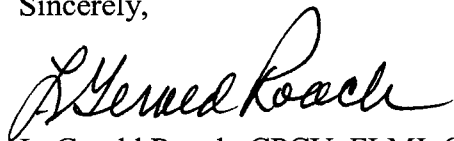
Re: Examination Report as of December 31, 2009

Dear Mr. Smith:

This acknowledges receipt of your letter of January 24, 2011, as well as two draft copies of the Bureau's Examination Report of Mutual Assurance Society of Virginia as of December 31, 2009.

The Society respectfully requests 15 copies of the Examination Report for its present and future needs.

Sincerely,



L. Gerald Roach, CPCU, FLMI, CFE  
President