


I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Century Mutual Insurance Company, as of December 31, 2017 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 20th day December, 2018.

Mike Causey  
Commissioner of Insurance



  
Ke Xu, CPA, CFE  
Chief Financial Examiner  
Examination Section

**Century Mutual Insurance Company**

Greensboro, North Carolina

**Report on Examination**

As of December 31, 2017

**Century Mutual Insurance Company**

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# Century Mutual Insurance Company

Report on Examination

December 31, 2017

November 15, 2018

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-2-131 of the General Statutes of North Carolina (“G.S.”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

## Century Mutual Insurance Company

(Hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 5-B Terrace Way, Greensboro, North Carolina 27403. The following report on examination is respectfully submitted.

### SCOPE OF THE EXAMINATION

This examination covers the period from January 1, 2013, to December 31, 2017, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The most recent prior examination of the Company was as of December 31, 2012.

This examination was performed using the Department’s modified risk-focused examination approach. The primary purpose of a modified risk-focused examination is to review and evaluate an insurer’s business processes to assist in assessing and monitoring its current financial condition and prospective solvency. As part of this process, the examination identifies and evaluates 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 modified risk-focused examination process. The key functional activities identified are Cash and Investments, Premiums and Underwriting, and Losses and Reserves. The examination process includes assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with G.S. Chapter 58 and evaluating management’s compliance with Statements of Statutory Accounting Principles (“SSAP”). This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company’s financial statements.

This examination report includes significant findings of fact, and general information about the Company 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 are separately communicated to the Company.

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## SUMMARY OF EXAMINATION FINDINGS

### Comments, Recommendations and Directives

1. The Board of Directors ("Board") approved an amendment to the Company's bylaws at the March 2016 annual meeting; however, the change in the bylaws was not filed with the Commissioner as required by G.S. 58-7-45(b). The Company is directed to comply with G.S. 58-7-45(b) and promptly file any change in the bylaws with the Department.
2. The Company reported three securities with a National Association of Insurance Commissioners ("NAIC") designation of 4 at book or adjusted carrying values, which are higher than the securities' fair values. SSAP No. 26 requires securities with an NAIC designation of 4 to be reported at the lower of amortized cost or fair value. No examination adjustment was made due to the immaterial amount; however, the Company is directed to comply with SSAP No. 26 in future filings.
3. The Company had a vacant Vice President position for the years of 2015, 2016, 2017 and 2018, which is a violation of the Company's bylaws. The Company is directed to comply with its bylaws by designating a person for the Vice President position.
4. The Company maintains fidelity bond coverage of \$100,000, which is less than the NAIC Financial Condition Examiners Handbook's recommended range of \$125,000 to \$150,000. We recommend that the Company maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.

## COMPANY HISTORY

The Company was formed in 1894 as the Guilford Branch of Farmers Mutual Fire Insurance Association. On January 1, 1994, the Company incorporated and the Company's name was changed to Century Mutual Insurance Company. The Company merged with Eastern Farmers Mutual Insurance Company ("EFMIC"), effective October 1, 2009, and amended its charter to become a statewide limited assessable mutual insurance company.

## MANAGEMENT AND CONTROL

### Board of Directors

The business and affairs of the Company are under the control of the Board consisting of seven individuals.

The following individuals were serving as directors at December 31, 2017:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Jennifer Lineberry	Thomasville, NC	President
John Morgan	Wilmington, NC	Secretary and Treasurer
Gene Bennett	Rich Square, NC	Partner of Bennett Brothers Partners
Phillip Ricks Jr.	Conway, NC	Served as a Director of EFMIC
James Compton	Greensboro, NC	Retired investment advisor
John Simons III	Murfreesboro, NC	Owner and operator of Simons Farms
Ernest Evans	Ahoskie, NC	Served as a Director of EFMIC

### Committees

At December 31, 2017, the Board had committees for Finance, Audit, Governance and Underwriting.



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## Officers

The Board, at its annual meeting, elects four officers: a President, a Vice President, a Secretary and a Treasurer. Officers are elected for a one-year term. The Vice President position has been vacant since 2015.

The following individuals were serving as officers at December 31, 2017:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Jennifer Lineberry	Thomasville, NC	President
John Morgan	Wilmington, NC	Secretary and Treasurer

## Code of Conduct and Conflict of Interest

The Company has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

## Accounts and Records

The Company's books and records are maintained at 5-B Terrace Way, Greensboro, North Carolina 27403.

## Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with G.S. 58-10-185(a). Rives & Associates, LLP, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017, for the Company.

## Fidelity Bonds

The Company's fidelity bond provides the Company with coverage totaling \$100,000. It was noted that the Company's coverage is less than the minimum amount of fidelity bond coverage recommended by the NAIC Financial Condition Examiners Handbook for the Company. Refer to the Summary of Examination Findings for details.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed in North Carolina and operates as a statewide multiline limited assessable mutual insurance company. The Company underwrites fire, farmowners multiple peril and homeowners multiple peril policies. Additionally, the Company offers equipment breakdown and service line endorsements which are both 100% reinsured by Factory Mutual Insurance Company as well as an identity theft endorsement which is 100% reinsured by Hartford Steam Boiler Inspection and Insurance Company.

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## Trends of the Company

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2017:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(Loss)
2017	\$10,349,543	\$8,360,673	\$3,363,658	\$2,407,231	\$411,724
2016	\$9,553,979	\$7,886,407	\$3,157,577	\$2,125,220	\$171,279
2015	\$9,381,353	\$7,820,720	\$2,984,370	\$2,045,461	(\$719,914)
2014	\$8,617,553	\$6,993,984	\$2,801,958	\$1,874,327	\$337,911
2013	\$8,124,544	\$6,630,421	\$2,616,391	\$1,794,363	\$715,560

## Actuarial Opinion and Appointed Actuary

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with G.S. 58-10-150 and G.S. 58-10-155.

The statutory reserves and related items for 2017 were reviewed and certified by the Company's Appointed Actuary, Davis M. Shephard, FCAS, MAAA, of Merlinos & Associates, Inc. Actuarial opinions regarding the reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the reserves on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

## REINSURANCE

### Reinsurance Ceded

The Company has a property and casualty per risk excess of loss reinsurance agreement and a three-layer property catastrophe excess of loss reinsurance agreement (collectively referred to as the "Agreements"), effective January 1, 2017, with four subscribing reinsurers as follows: Farmers Mutual Hail Insurance Company of Iowa, Hannover Re (Bermuda) Ltd., SCOR Reinsurance Company, Inc. and Shelter Mutual Insurance Company, Inc. ("Reinsurers").

Beach Re Ltd., the Company's intermediary, negotiated the Agreements with the Reinsurers who each assumed, at varying percentages, any loss or losses which may occur under any policies in force covering business classified by the Company as property and casualty business. The coverage provided by the Agreements is summarized below.

Under the property and casualty per risk excess of loss reinsurance agreement:

For property business, the Company retains \$75,000 of each loss, each and every risk. The Reinsurers are liable for the losses in excess of the Company's retention up to \$925,000 for each loss, each and every risk, subject to an occurrence limitation of \$2,775,000.

For casualty business, the Company retains \$75,000 of each loss, each and every occurrence. The Reinsurers are

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liable for the losses in excess of the Company's retention up to \$925,000 for each loss, each and every occurrence.

Under the three-layer property catastrophe excess of loss reinsurance agreement:

The first layer provides coverage if the Company sustains, from any one loss occurrence, an ultimate net loss in excess of its \$250,000 retention. The Reinsurers are then liable for the ultimate net loss in excess of the Company's retention, up to \$750,000 with respect to any one loss occurrence.

The second layer provides coverage if the Company sustains, from any one loss occurrence, an ultimate net loss in excess \$1,000,000, inclusive of underlying catastrophe reinsurance. The Reinsurers are then liable for the ultimate net loss in excess of the Company's retention, up to \$1,000,000 with respect to any one loss occurrence.

The third layer provides coverage if the Company sustains, from any one loss occurrence, an ultimate net loss in excess \$2,000,000, inclusive of underlying catastrophe reinsurance. The Reinsurers are then liable for the ultimate net loss in excess of the Company's retention, up to \$6,000,000 with respect to any one loss occurrence.

The Company ceded premiums totaling \$860,235 and \$933,530 in 2017 and 2016, respectively, to the Reinsurers under these contracts.

## FINANCIAL STATEMENTS

The following financial statements are based on the annual statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. No adjustments were made to surplus as a result of this examination. The financial statements as of December 31, 2016, are unexamined and are presented for comparative purposes only.



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## Statutory Statement of Admitted Assets

	December 31,	
	2017	2016
		<i>(unexamined)</i>
<b><u>Admitted Assets</u></b>		
Bonds	\$ 3,441,919	\$ 3,105,654
Preferred stocks	220,936	339,492
Common stocks	3,637,524	2,121,897
Mortgage loans - first liens	20,075	24,455
Real estate properties occupied by the Company	46,565	48,377
Cash and short-term investments	2,704,690	3,696,341
Total cash and invested assets	<u>10,071,709</u>	<u>9,336,216</u>
Investment income due and accrued	56,908	69,183
Uncollected premiums and agents' balances in the course of collection	37,778	33,578
Premiums and agents' balances booked but deferred and not yet due	95,394	34,448
Amounts recoverable from reinsurers	26,875	821
Net deferred tax asset	60,879	56,331
Electronic data processing equipment and software	-	23,402
Total admitted assets	<u>\$ 10,349,543</u>	<u>\$ 9,553,979</u>

See accompanying notes to the financial statements.

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## Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2017	2016
		(unexamined)
<b><u>Liabilities</u></b>		
Losses	\$ 239,364	\$ 234,948
Loss adjustment expenses	93,788	42,362
Commissions payable, contingent commissions and other similar charges	89,358	92,902
Other expenses	22,689	14,956
Taxes, licenses and fees	3,607	4,716
Current federal and foreign income taxes	4,923	613
Unearned premiums	1,403,624	1,110,141
Advance premium	95,676	107,267
Ceded reinsurance premiums payable	35,841	59,667
	<hr/>	<hr/>
Total liabilities	1,988,870	1,667,572
<b><u>Capital and Surplus</u></b>		
Unassigned funds	8,360,673	7,886,407
	<hr/>	<hr/>
Total capital and surplus	8,360,673	7,886,407
	<hr/>	<hr/>
Total liabilities, capital and surplus	\$ 10,349,543	\$ 9,553,979

See accompanying notes to the financial statements.

# Century Mutual Insurance Company

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## Statutory Statement of Operations

	Year Ended December 31,	
	2017	2016
		<i>(unexamined)</i>
<b><u>Underwriting Income</u></b>		
Premiums earned	\$ 2,407,231	\$ 2,125,220
Losses incurred	949,384	1,041,022
Loss adjustment expenses incurred	305,840	267,810
Other underwriting expenses incurred	1,148,924	1,030,453
Total underwriting deductions	2,404,148	2,339,285
Net underwriting gain (loss)	3,083	(214,065)
<b><u>Investment Income</u></b>		
Net investment income earned	212,356	200,149
Net realized capital gains	184,493	241,957
Net investment gain	396,849	442,106
<b><u>Other Income</u></b>		
Finance and service charges not included in premiums	18,751	8,173
Total other income	18,751	8,173
Federal income tax incurred	6,959	64,935
Net income	\$ 411,724	\$ 171,279

See accompanying notes to the financial statements.

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## Statutory Statement of Capital and Surplus

	December 31,	
	2017	2016
		(unexamined)
Capital and surplus, beginning of year	<u>\$ 7,886,407</u>	<u>\$ 7,820,720</u>
Capital and surplus increases (decreases):		
Net income	411,724	171,279
Change in net unrealized capital gains or (losses)	241,679	(108,261)
Change in net deferred income tax	14,494	3,866
Change in non-admitted assets	3,660	(1,197)
Prior period adjustment to correct an error related to overstated unearned premiums	<u>(197,291)</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>474,266</u>	<u>65,687</u>
Capital and surplus, end of year	<u>\$ 8,360,673</u>	<u>\$ 7,886,407</u>

See accompanying notes to the financial statements.



# Century Mutual Insurance Company

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with the accounting practices prescribed by the G.S. The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost in accordance with the valuation standards of the NAIC unless they are required to be reported at market value by the NAIC.

**Common stocks:** Carried at fair value provided by the Securities Valuation Office (“SVO”) of the NAIC except investments in subsidiaries which are carried at a value determined under the equity method provided by the SVO of the NAIC.

**Preferred stocks:** Carried at the estimated market value provided by the SVO of the NAIC or based on quoted market prices.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and include marketable securities with maturities greater than three months but less than one year at the time of purchase.

**Premiums:** Premiums written are earned over the period of coverage on a pro rata basis. Premiums billed to policyholders are recorded as uncollected premiums when the coverage period begins. Payments received in advance of coverage are recorded as premiums received in advance until earned. Delinquent uncollected premiums are charged directly to reserves and unassigned funds once delinquent for 30 days.

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## 2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2017		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 3,441,919	\$ -	\$ 3,441,919
Preferred stocks	220,936		220,936
Common stocks	3,637,524		3,637,524
Mortgage loans - first liens	20,075		20,075
Properties occupied by the company	46,565		46,565
Cash and short-term investments	2,704,690		2,704,690
Total cash and invested assets	10,071,709	-	10,071,709
Investment income due and accrued	56,908		56,908
Uncollected premiums and agents' balances in course of collection	37,778		37,778
Deferred premiums, agents' balance and installments booked	95,394		95,394
Amounts recoverable from reinsurers	26,875		26,875
Net deferred tax assets	60,879		60,879
Electronic data processing equipment and software	6,804	6,804	-
Furniture and equipment	3,521	3,521	-
Prepaid general expenses	525	525	-
Total admitted assets	\$ 10,360,393	\$ 10,850	\$ 10,349,543

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## 3. Reserves

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	December 31,	
	2017	2016
Reserve for losses and loss adjustment expenses, beginning of year	\$ 277,310	\$ 260,515
		<i>(unexamined)</i>
Add:		
Provision for losses and loss adjustment expenses, current year	1,378,000	1,298,000
Change in estimated losses and loss adjustment expenses, prior years	<u>(122,776)</u>	<u>10,832</u>
Total incurred	<u>1,255,224</u>	<u>1,308,832</u>
Deduct:		
Losses and loss adjustment expenses paid, current year	1,069,000	1,114,000
Losses and loss adjustment expenses paid, prior year	<u>130,382</u>	<u>178,037</u>
Total paid	<u>1,199,382</u>	<u>1,292,037</u>
Reserve for losses and loss adjustment expenses, end of year	<u>333,152</u>	<u>277,310</u>
Increase in reserve for losses and loss adjustment expenses	\$ 55,842	\$ 16,795

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2017, and 2016, the liability for losses and loss adjustment expenses was reduced by approximately \$495,000 and \$86,000, respectively, for amounts to be recovered from reinsurers.

# Century Mutual Insurance Company

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## 4. Capital and Surplus

The following, in conjunction with the Statutory Statement of Capital and Surplus, see page 8, represents the changes in the Company's capital and surplus since the Company's last examination:

	December 31,		
	2015	2014	2013
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 6,993,984	\$ 6,630,421	\$ 6,203,878
Capital and surplus increases (decreases):			
Net income (loss)	(719,914)	337,911	715,560
Change in net unrealized capital gain (loss)	(49,667)	84,810	(189,956)
Change in net deferred income tax	23,133	(22,997)	(124,205)
Change in nonadmitted assets	1,541,184	(4,161)	25,144
Change in provision for reinsurance	32,000	(32,000)	-
Change in surplus as regards policyholders for the year	826,736	363,563	426,543
Capital and surplus, end of year	\$ 7,820,720	\$ 6,993,984	\$ 6,630,421



**Century Mutual Insurance Company**

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**APPENDIX A – REPORT DISTRIBUTION**

Jennifer Lineberry, President  
5-B Terrace Way  
Greensboro, North Carolina 27403

John Morgan, Secretary and Treasurer  
5-B Terrace Way  
Greensboro, North Carolina 27403

## CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of G.S. 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$700,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



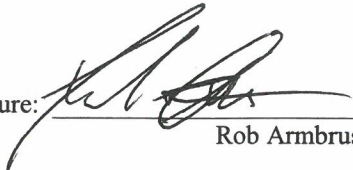
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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

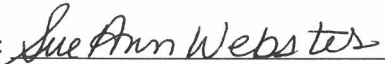
November 15, 2018

STATE OF NORTH CAROLINA  
COUNTY OF WAKE

Rob Armbruster, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: 11/15/2018  
Rob Armbruster

Sworn and subscribed before me this 15<sup>th</sup> day of November, 2018.

Notary Public Signature:  Notary Public Seal: