

Edgecombe Farmers Mutual Fire Insurance Company

Tarboro, North Carolina

Report on Examination

As of December 31, 2018

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April 29, 2020

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 (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

Edgecombe Farmers Mutual Fire Insurance Company

(hereinafter referred to as the “Company”). The Company’s statutory home office is located at 409 West Wilson Street, Tarboro, North Carolina 27886. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the 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 and the following key functional activities were identified:

Cash and Investments
Premiums and Underwriting
Reinsurance Ceding
Reserves and Claims Handling

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. 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 separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Rives & Associates, LLP of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018.

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. Conflict of interest forms were not executed annually by all officers and directors of the Company for the years 2015 and 2016. The Company is directed to execute conflict of interest forms annually pursuant to North Carolina Administrative Code Title 11 Chapter 11C.0117.
- b. The Company is not in compliance with GS 116B Escheats and Abandoned Property. GS 116B requires unclaimed property holders to report and remit unclaimed property to the Department of State Treasurer on an annual basis after a dormancy period is met. The Company is directed to comply with this requirement.
- c. The Company did not settle the payments due to Alamance Farmers' Mutual Insurance Company timely in accordance with its Producer Agreement. This issue was also noted during the

Department's prior examination. The Company is directed to comply with the settlement provisions of the agreement to ensure timely settlement.

COMPANY HISTORY

In 1901, Farmers Mutual Fire Insurance Association of Edgecombe County was incorporated and commenced writing business in the State of North Carolina ("State") as a county farm mutual authorized to write in six contiguous counties within North Carolina. In 1962, the Company adopted its current name through filing an Article of Amendment with the State.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The President of the Company presides at all meetings of the Board of Directors ("Board") and meetings of the policyholders of the Company. The President has the authority to call meetings of the policyholders and the Board at any time deemed necessary. The bylaws specify that the number of directors shall be not less than seven nor more than eleven and that the policyholders elect the directors for three-year terms at the annual meeting in April.

The following individuals served as directors as of December 31, 2018:

Name	Location	Principal Occupation
Berry Anderson Jr.	Tarboro, North Carolina	Retired
Averette Lamm	Wilson, North Carolina	President, Towe Insurance Services, Inc.
Alvis Coleman	Kenly, North Carolina	Owner, Farm Management Services
Benjamin Shingleton III	Stantonsburg, North Carolina	President, Shingleton Farms, Inc.
Linwood Vick	Wilson, North Carolina	Owner, Vick Family Farms
Maxie Coker Jr.	Tarboro, North Carolina	Chief Banking Officer, First Carolina Bank
Joseph Eagles, Jr.	Macclesfield, North Carolina	Self-employed

The Board established an Underwriting Committee and an Audit Committee to act on behalf of the Company and the following individuals served on committees as of December 31, 2018:

Underwriting Committee

Berry Anderson Jr.
Alvis Coleman
Benjamin Shingleton III
Linwood Vick
Maxie Coker Jr.
Joseph Eagles Jr.

Audit Committee

Alvis Coleman
Benjamin Shingleton III
Maxie Coker Jr.

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a President, Vice President and a Secretary-Treasurer.

The following individuals served as officers of the Company as of December 31, 2018:

Name	Title
Averette Lamm	President
Joseph Eagles, Jr.	Vice President
Maxie Coker Jr.	Secretary-Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure 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 was not in compliance with its policy and procedures for disclosure of conflicts of interest. (Refer to the Summary of Significant Findings.)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On June 26, 2018, the Company amended its Bylaws to change the number of directors from not less than 6, to not less than 7.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company maintains a statutory deposit in North Carolina only.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond with coverage totaling \$100,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is authorized to provide property insurance coverage to residents of Edgecombe, Greene, Nash, Pitt, Wayne, and Wilson Counties in the State of North Carolina. The Company is currently transitioning out of Greene County.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the four-year period ended 2018:

Year	Net Admitted Assets	Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2018	\$1,922,324	\$1,277,459	\$1,409,341	\$708,054	(\$99,064)
2017	\$2,089,809	\$1,436,199	\$1,586,480	\$772,071	\$226,505
2016	\$1,852,988	\$1,185,896	\$1,678,611	\$858,171	\$146,860
2015	\$1,543,081	\$1,000,699	\$1,708,817	\$841,400	(\$269,567)

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

Property Excess of Loss Reinsurance

The Company has a two-layer property excess of loss reinsurance contract with various subscribing reinsurers (“Reinsurers”) effective January 1, 2018, whereby the Company cedes all policies classified by the Company as fire, allied lines, inland marine and property sections of commercial multiple peril, homeowner’s multiple peril, and farmowner’s multiple peril.

Under the first layer, the Company retains the first \$35,000 of each loss, each and every risk. The Reinsurers will then indemnify the Company for the amount of loss in excess of \$35,000 each loss, each and every risk. The limit of liability to the Reinsurers will not exceed \$65,000 each loss, each and every risk, subject to an occurrence limitation of \$195,000.

Under the second layer, the Company retains the first \$100,000 of each loss, each and every risk. The Reinsurers will then indemnify the Company for the amount of loss in excess of \$100,000 each loss, each and every risk. The limit of liability to the Reinsurers will not exceed \$500,000 each loss, each and every risk, subject however, to an occurrence limitation of \$1,500,000.

Property Catastrophe Excess of Loss Reinsurance

The Company has a four-layer property catastrophe excess of loss reinsurance contract with the Reinsurers, effective January 1, 2018, whereby the Company cedes all policies classified by the Company as fire, allied lines, inland marine and property sections of commercial multiple peril, homeowner's multiple peril, and farmowner's multiple peril

Under the first layer, the Company retains the first \$175,000 of an ultimate net loss, for any one loss occurrence. The Reinsurers will then be liable for the amount of ultimate net loss in excess of \$175,000 any one loss occurrence, but the limit of liability of the Reinsurers will not exceed 100% of \$325,000 with respect to any one loss occurrence.

Under the second layer, the Company retains the first \$500,000 of an ultimate net loss, for any one loss occurrence, inclusive of underlying catastrophe reinsurance. The Reinsurers will then be liable for the amount of ultimate net loss in excess of \$500,000 any one loss occurrence, but the limit of liability of the Reinsurers will not exceed 100% of \$500,000 with respect to any one loss occurrence.

Under the third layer, the Company retains the first \$1,000,000 of an ultimate net loss, for any one loss occurrence, inclusive of underlying catastrophe reinsurance. The Reinsurers will then be liable for the amount of ultimate net loss in excess of \$1,000,000 any one loss occurrence, but the limit of liability of the Reinsurers will not exceed 100% of \$2,000,000 with respect to any one loss occurrence.

Under the fourth layer, the Company retains the first \$3,000,000 of an ultimate net loss, for any one loss occurrence, inclusive of underlying catastrophe reinsurance. The Reinsurers will then be liable for the amount of ultimate net loss in excess of \$3,000,000 any one loss occurrence, but the limit of liability of the Reinsurers will not exceed 100% of \$4,000,000 with respect to any one loss occurrence.

In 2018 and 2017, the Company ceded premiums totaling \$741,468 and \$841,657, respectively, to Reinsurers under these contracts.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for comparative purposes only.

Edgecombe Farmers Mutual fire Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2018	2017 <i>(unexamined)</i>
Bonds	\$947,986	\$898,536
Common stocks	256,134	343,369
Cash and short-term investments	223,800	443,032
Properties occupied by the company	43,545	44,619
Total cash and invested assets	1,471,465	1,729,556
Investment income due and accrued	7,549	6,401
Premiums and agents' balances in course of collection	234,636	274,895
Reinsurance recoverable	76,361	16,570
Federal income tax recoverable	100,640	-
Net deferred tax asset	21,921	18,602
Electronic data processing equipment and software	2,703	3,399
Section II profit sharing bonus	7,049	40,386
Total admitted assets	\$1,922,324	\$2,089,809

Edgecombe Farmers Mutual Fire Insurance Company
Statutory Statement of Liabilities and Surplus
December 31,

	2018	2017 <i>(unexamined)</i>
Losses	\$32,169	\$20,746
Loss adjustment expenses	56,730	17,207
Commissions payable, contingent commissions and other similar charges	14,450	14,591
Other expenses	12,889	1,783
Taxes, licenses and fees	1,180	996
Federal income tax liability	-	41,792
Unearned premiums	490,741	530,922
Advance premium	20,019	19,621
Ceded reinsurance premiums payable	6,082	(5,423)
Amounts withheld or retained by company for account of others	2,148	2,108
Section II liability	8,457	9,267
Total Liabilities	644,865	653,610
Unassigned funds	1,277,459	1,436,199
Total surplus	1,277,459	1,436,199
Total Liabilities and Surplus	\$1,922,324	\$2,089,809

Edgecombe Farmers Mutual Fire Insurance Company
Statutory Statement of Operations
December 31,

	2018	2017 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$708,054	\$772,071
Deductions		
Losses incurred	460,151	219,282
Loss adjustment expenses incurred	162,034	102,028
Other underwriting expenses incurred	334,897	323,844
Total underwriting deductions	957,082	645,154
Net underwriting gain(loss)	(249,028)	126,917
Investment Income		
Net investment income earned	20,069	8,214
Net realized capital gains	3,786	21,842
Net investment gain	23,855	30,056
Other Income		
Net loss from agents' or premium balances charged off		
Finance and service charges not included in premiums	87,184	98,968
Commission on section II premiums	38,485	72,237
Total other income	125,669	171,205
Federal income taxes incurred	(440)	101,673
Net Income(Loss)	(\$99,064)	\$226,505

Edgecombe Farmers Mutual Fire Insurance Company
Statutory Statement of Surplus
December 31,

	Year	Prior Year <i>(unexamined)</i>
Surplus, beginning of year	\$ 1,436,199	\$1,185,896
Surplus increases(decreases):		
Net Income (Loss)	(99,064)	226,505
Change in net unrealized capital gains or (losses)	(42,058)	56,501
Change in net deferred income tax	24,803	(2,005)
Change in non-admitted assets	(42,421)	(30,698)
Change in surplus as regards policyholders for the year	(158,740)	250,303
Surplus, end of year	\$1,277,459	\$1,436,199

Edgecombe Farmers Mutual Fire Insurance Company
Statutory Statement of Cash Flow
December 31,

	2018	2017 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$720,684	\$776,095
Net investment income	22,838	15,141
Miscellaneous income	125,669	171,205
Total	869,191	962,441
Benefit and loss related payments	508,519	157,406
Commissions, expenses paid and aggregate write-ins	446,259	428,039
Federal income taxes paid	141,992	114,453
Total	1,096,770	699,898
Net cash from (used by) operations	(227,579)	262,543
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	246,901	208,138
Cost of investments acquired	256,816	210,077
Net cash (used by) investments	(9,915)	(1,939)
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash (applied)provided	18,262	(39,194)
Net cash from (used by) financing and miscellaneous sources	18,262	(39,194)
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(219,232)	221,410
Cash and short-term investments, beginning of year	443,032	221,622
Cash and short-term investments, end of year	\$223,800	\$443,032

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Nonadmitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "nonadmitted" and are charges against surplus.

Unpaid loss & loss adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets

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

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$947,986		\$947,986
Common stocks	256,134		256,134
Properties occupied by the company	43,545		43,545
Cash and short-term investments	223,800		223,800
Total cash and invested assets	1,471,465		1,471,465
Investment income due and accrued	7,549		7,549
Premiums and agents' balances in course of collection	234,636		234,636
Reinsurance recoverable	76,361		76,361
Federal income tax recoverable	100,640		100,640
Net deferred tax assets	87,474	65,553	21,921
Electronic data processing equipment and software	2,703		2,703
Furniture and equipment	46,743	46,743	-
Section II profit sharing bonus	7,049		7,049
Total admitted assets	\$2,034,620	\$112,296	\$1,922,324

Reinsurance Activity

The Company has excess of loss reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Beach Re Limited as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2018	2017
Direct and written	\$1,409,341	\$1,586,480
Ceded written	741,468	841,657
Net written	667,873	744,823
Direct earned	1,492,910	1,626,062
Ceded earned	(784,856)	(853,991)
Net earned	\$708,054	\$772,071

The Reinsurers share in the risks at different percentage shares as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview section.

Summary of Reserves

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

	Current Year	Prior Year
Reserve for losses and loss adjustment expenses, beginning of year	\$37,953	\$25,237
Add:		
Provision for losses and loss adjustment expenses, current year	614,681	293,152
Change in estimated losses and loss adjustment expenses, prior years	7,504	28,158
Total incurred	622,185	321,310
Deduct:		
Losses and loss adjustment expenses paid, current year	541,578	265,0614
Losses and loss adjustment expenses paid, prior year	29,260	43,533
Total paid	571,239	308,954
Reserve for losses and loss adjustment expenses, end of year	88,899	37,953
Increase in reserve for losses and loss adjustment expenses	\$ 50,946	\$12,716

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, 2018 and 2017, the liability for losses and loss adjustment expenses was reduced by \$191,018 and \$55,200, respectively, for amounts to be recovered from reinsurers.

Surplus

The following, in conjunction with the Statutory Statement of Surplus, represents the changes in the Company's surplus since the Department's last examination as of December 31, 2014:

	2016	2015
Surplus, beginning of year	\$1,000,699	\$784,243
Surplus increases (decreases):		
Net income(loss)	146,860	(269,567)
Change in net unrealized capital gain	33,461	6,934
Change in net deferred income tax	(5,365)	574
Change in nonadmitted assets	10,241	478,206
Change in provision for reinsurance	-	309
Change in surplus as regards policyholders for the year	185,197	216,456
Surplus, end of year	\$1,185,896	\$1,000,699

SUBSEQUENT EVENTS

On August 22, 2019, Joseph Eagles, Jr. resigned as vice president and as a director of the Company.

Edgecombe Farmers Mutual Fire Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Averette Lamm, President
409 West Wilson, Street
Tarboro, North Carolina 27886

Maxie Coker Jr., Secretary-Treasurer
409 West Wilson, Street
Tarboro, North Carolina 27886

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$120,000.

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

Respectfully submitted,



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

April 29, 2020

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, 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: Robert Armbruster Date: 4-30-2020

Sworn and subscribed before me this 30th day of April, 2020.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

