

First Benefits Insurance Mutual, Inc.

Raleigh, North Carolina

Report on Limited-Scope Examination

As of December 31, 2013

First Benefits Insurance Mutual, Inc.

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First Benefits Insurance Mutual, Inc.

Report on Limited-Scope Examination

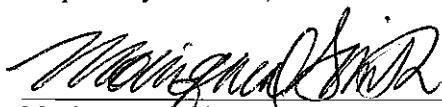
Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

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 a limited-scope examination of **First Benefits Insurance Mutual, Inc.** (“Company”) as of December 31, 2013. The Department’s last full-scope examination was as of December 31, 2008. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2013 Annual Statement (“AS”).

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2013 AS as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2013. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2013. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 4.

Respectfully submitted,



Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 6, 2015

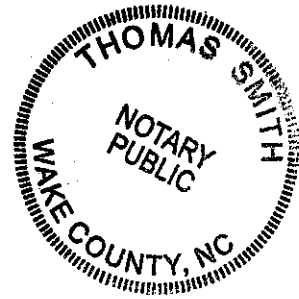
STATE OF NORTH CAROLINA
COUNTY OF WAKE

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

Signature: Eileen Culliney Date: 3/6/15
Eileen Culliney

Sworn and subscribed before me this 6 day of March, 2015.

Notary Public Signature: Thomas Smith Notary Public Seal:



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1. Company Background

The North Carolina Retail Merchants Association formed the NC Retail Self-Insurance Fund ("NCRSIF") in 1992 as a self-insured workers compensation fund. In 2007, the NCRSIF was converted to a mutual insurance company and renamed First Benefits Insurance Mutual, Inc. The Company was incorporated on November 19, 2007 and commenced business on January 1, 2008. It is licensed to write worker's compensation insurance in the state of North Carolina.

2. Scope of the Examination

The scope of this examination was limited to the following area relative to the 2013 AS:

- 1) Premiums and underwriting

3. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Analytical procedures and recalculation of account balances;
- 3) Substantive testing of underlying data and transactions;
- 4) Review of the Company's underwriting and marketing;
- 5) Other examination procedures deemed necessary to meet the established objectives.

4. Summary of Examination Objectives and Findings

- 1) Examination Objective: To verify the accuracy and completeness of the Company's total direct written premium totaling \$18,378,188 at December 31, 2013.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy of the direct written premium totaling \$15,982,156 reported in the Company's Quarterly Statement as of September 30, 2014, Schedule T, Exhibit of Premiums Written.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the proper valuation of the Company's unearned premiums totaling \$4,276,147 at December 31, 2013.

Findings: No adverse findings were noted.

- 4) Examination Objective: To verify the proper valuation of the Company's unearned premiums totaling \$6,839,109 at September 30, 2014.

Findings: No adverse findings were noted.

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- 5) Examination Objective: To verify the proper valuation of the Company's uncollected premiums and agents' balances in the course of collection at December 31, 2013.

Findings: Based on our review, we noted that the Company's gross uncollected premiums and agents' balances in the course of collection totaling \$3,793,938 at December 31, 2013, appeared to be understated by \$132,244. We also noted that the non-admitted portion totaling \$1,023,928 appeared to be overstated by \$825,402. An examination adjustment was made for the net understatement noted in the Company's premiums receivable totaling \$957,646. Refer to the Summary of Examination Adjustments.

- 6) Examination Objective: To verify the proper valuation of the Company's advance premium totaling \$953,462 at December 31, 2013.

Findings: No adverse findings were noted.

- 7) Examination Objective: To determine whether member credits are properly returned to the policyholder or escheated in accordance with GS §116B, Article 4.

Findings: It is noted that an estimated \$45,424 or 10% of the policyholder credit balance reported of \$456,954 in 2013 has remained outstanding for three years or more. The Company is directed to return the credits to the policyholders or escheat the credits in accordance with GS §116B, Article 4.

- 8) Examination Objective: To verify that policies are being written in accordance with the Company's established underwriting guidelines.

Findings: We tested a sample of policies for compliance with the Company's established underwriting guidelines noting no adverse findings.

- 9) Examination Objective: To determine whether the Board of Directors approves underwriting and marketing guidelines.

Findings: Based on our review, the Board of Directors appears to approve the Company's underwriting and marketing guidelines.

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 Appendix A – Impact of Examination Adjustments

5. Summary of Examination Adjustments

	As of December 31, 2013	
	Net Admitted	
	Assets	Surplus
<u>As originally reported to the Department</u>	\$ 30,405,041	6,619,761
a. Uncollected premiums and agents' balances in the course of collection	957,646	957,646
<u>As adjusted</u>	\$ 31,362,687	7,577,407

a. To increase uncollected premium and agents' balances in the course of collection. (See Examination Objective 5)

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Appendix B – Report Distribution

Mr. Todd Baitsholts, Treasurer
First Benefits Insurance Mutual, Inc.
P.O. Box 1951
Raleigh, NC 27602

Mr. Andy Ellen, President
First Benefits Insurance Mutual, Inc.
P.O. Box 1951
Raleigh, NC 27602

Mr. Murchinson “Bo” Biggs, Chairman of the Board of Directors
First Benefits Insurance Mutual, Inc.
P.O. Box 1951
Raleigh, NC 27602