

**NC Grange Mutual Insurance Company**

Greensboro, North Carolina

**Report on Limited-Scope Examination**

As of December 31, 2013

## NC Grange Mutual Insurance Company

### Table of Contents

Report on Limited-Scope Examination	2
Company Background	4
Appointed Actuary	4
Scope of the Examination	4
Examination Procedures	4
Summary of Examination Objectives and Findings	5
Subsequent Events	7
Appendix A – Report Distribution	8

# NC Grange Mutual Insurance Company

## Report on Limited-Scope Examination

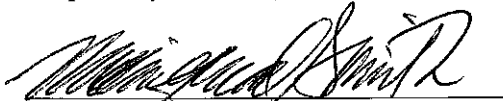
Honorable Wayne Goodwin  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

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 **NC Grange Mutual Insurance Company** (“Company”) as of December 31, 2013. The Department’s last full-scope examination was as of December 31, 2009. 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 5.

Respectfully submitted,




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

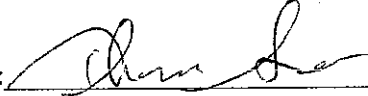
October 31, 2014

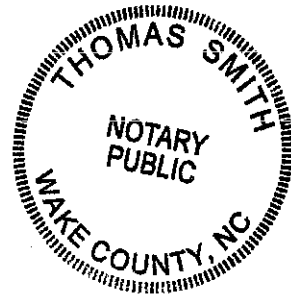
STATE OF NORTH CAROLINA  
COUNTY OF WAKE

Herb Maltba, 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: 11/5/2015  
Herb Maltba

Sworn and subscribed before me this 5 day of January, 2015.

Notary Public Signature:  Notary Public Seal:



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STATE OF NORTH CAROLINA  
COUNTY OF WAKE

Herb Maltba, 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: \_\_\_\_\_  
Herb Maltba

Sworn and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

Notary Public Signature: \_\_\_\_\_ Notary Public Seal:

# NC Grange Mutual Insurance Company

## Report on Limited-Scope Examination

As of December 31, 2013

### 1. Company Background

The Company was incorporated as a non-stock corporation on November 1, 1934, and commenced business in 1935, as the Grange Mutual Fire Insurance Association of North Carolina, Inc. The Company changed the location of its principal office from Raleigh, NC to Greensboro, NC in September 1947. On June 16, 1976, the Certificate of Incorporation was amended to enable the Company to write all insurance coverages that are permitted by the laws of North Carolina and to replace its 99-year period of existence with a perpetual period of existence. The Company writes property and casualty insurance only within the state of North Carolina and is licensed only in North Carolina. The Company offers several products designed to protect personal and business assets including home, farm, mobile home, tenant dwelling, equipment, church, and small business.

### 2. 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 GS § 58-10-150 and GS § 58-10-155. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the data of the loss and loss adjustment expense reserve provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for losses and loss adjustment expenses 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.

### 3. Scope of the Examination

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

- a) Bonds, Stocks and Cash
- b) Reserves for Losses
- c) Premiums
- d) Internal Controls Over Cash
- e) Reinsurance
- f) Review of Contracts and Agreements

### 4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Detailed reviews and verification of supporting documentation for balances reported;
- 2) Substantive testing of underlying data and transactions;
- 3) Detailed review of reinsurance contracts;
- 4) An actuarial review of the Company's reserves by the Department's Actuarial Services Division;
- 5) Independent confirmation of balances with third parties when possible; and
- 6) Other examination procedures deemed necessary to meet the established objectives.

# NC Grange Mutual Insurance Company

Report on Limited-Scope Examination

As of December 31, 2013

## 5. Summary of Examination Objectives and Findings

### a) Bonds, Stocks and Cash

- 1) Examination Objective: To verify the existence and valuation of bonds, preferred and common stocks and cash as reported in the Company's 2013 AS.

#### Findings

We noted no adverse findings with regards to the Company's reported balances for bonds, preferred and commons stocks and cash totaling \$11,135,322, \$254,022, \$6,256,104 and \$1,515,395 respectively, as of December 31, 2013.

- 2) Examination Objective: To verify whether the Company has an investment policy which is reviewed and approved by the Board of Directors ("Board"), and that the Company's investments are reviewed and approved by the Board in accordance with GS § 58-7-168.

#### Findings

Based on a review of the Board meeting minutes, the Company has an investment policy which was reviewed and approved by the Board. We also noted that the Company's investments were reviewed and approved by the Board in accordance with GS § 58-7-168.

### b) Reserves for Losses

- 1) Examination Objective: To review reserving assumptions and methodologies for reasonableness, appropriateness, and accuracy.

#### Findings

We noted no adverse findings regarding the reserving assumptions and methodologies used by the Company.

- 2) Examination Objective: To utilize the Department's actuary to perform an independent estimate of the reserves to determine their adequacy.

#### Findings

We noted no adverse findings during our review of the Company's reserves for losses and loss adjustment expenses totaling \$2,013,678, and \$184,037, respectively, as reported on the Statement of Liabilities, Surplus and Other Funds in the Company's 2013 AS.

- 3) Examination Objective: To verify the accuracy, completeness, and validity of the underlying data for direct losses paid and unpaid claims reported on Underwriting and Investment Exhibits, Part 2 and Part 2A of the Company's 2013 AS.

#### Findings

We noted no adverse findings during our review of the Company's direct losses paid and direct claims unpaid reported in the Company's 2013 AS totaling \$7,511,732 and \$2,646,322, respectively.

## NC Grange Mutual Insurance Company

Report on Limited-Scope Examination

As of December 31, 2013

### c) Premiums

- 1) Examination Objective: To verify the accuracy and completeness of written premium as of December 31, 2013.

#### Findings

There were no adverse findings in relation to premiums written totaling \$19,172,679, as reported on the Underwriting and Investment Exhibit, Part 1 of the Company's 2013 AS.

- 2) Examination Objective: To verify the collectability of Uncollected Premium and Agents' Balances in the Course of Collection, and Deferred Premium and Agents' Balances and Installments Booked but Deferred and Not Yet Due as of December 31, 2013.

#### Findings

We noted no adverse findings regarding the collectability of Uncollected Premium and Agents' Balances in the Course of Collection and Deferred Premiums and Agents' Balances Booked but Deferred and Not Yet Due totaling \$397,011 and \$843,381, respectively, as reported in the Company's 2013 AS.

- 3) Examination Objective: To verify the accuracy of amounts reported as advance and unearned Premiums.

#### Findings

We noted no adverse findings with the reported balances of Advance and Unearned Premiums totaling \$421,570 and \$8,688,347, respectively, in the Company's 2013 AS.

- 4) Examination Objective: To verify commissions payable were properly valued and included in the year-end liability.

#### Findings

We noted no adverse findings regarding the liability for commissions payable totaling \$635,832 as reported in the Company's 2013 AS.

### d) Internal Controls over Cash

- 1) Examination Objective: To determine whether internal controls over cash procedures have been implemented by the Company and that the Company continues to utilize an external consultant for review of its cash transactions.

#### Findings

We noted that the procedures implemented for cash control activities appear to be in place. However, we recommend that the Company document a formal process narrative related to the implemented controls over cash and include a procedure which requires documented approval or feedback from external consultant regarding the review performed.



# NC Grange Mutual Insurance Company

Report on Limited-Scope Examination

As of December 31, 2013

## e) Reinsurance

- 1) Examination Objective: To determine that the Company is monitoring its reinsurance program, and to verify the accuracy of the retention amounts recorded based on the provisions within the executed reinsurance agreements.

### Findings

We noted no adverse findings during our review of the Company's reinsurance program regarding the accuracy of retention amounts and monitoring procedures.

- 2) Examination Objective: To obtain an understanding of the Company's current catastrophe reinsurance coverage and briefly summarize the current terms of executed catastrophe reinsurance agreements.

### Findings

We noted that the Company retains 100% of the first \$1 million on a catastrophe event up to 168 hours. The reinsurer is to pay 100% up to \$30 million.

## f) Review of Contracts and Agreements

- 1) Examination Objective: To determine whether contracts and agreements approved by the Department are still in effect and current, and whether any arrangements with affiliated and unaffiliated entities exist, for which no written agreement is in place.

### Findings

We noted no adverse findings with regard to the Company's contracts and agreements during our review.

## 6. Subsequent Events

- 1) Effective January 1, 2014, the Company increased its retention limits on its reinsurance program from \$175,000 to \$225,000.

**NC Grange Mutual Insurance Company**

**Report on Limited-Scope Examination**

**Appendix A – Report Distribution**

Catherine Wells, Secretary/Treasurer  
PO Box 9558  
Greensboro, NC 27429

Robert Caldwell, President  
PO Box 9558  
Greensboro, NC 27429

James Betts, Chairman of the Board of Directors  
PO Box 9558  
Greensboro, NC 27429