

Rowan Mutual Fire Insurance Company

Salisbury, North Carolina

Report on Examination

As of December 31, 2017

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April 29, 2019

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

Rowan Mutual Fire Insurance Company

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 426 South Main Street, Salisbury, North Carolina.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. 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 Department’s most recent prior examination of the Company was as of December 31, 2012.

The purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (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 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 Handbook's risk-focused surveillance process and the following key functional activities were identified:

Cash & Investments
Premiums & Underwriting
Claims & Reserves
Reinsurance

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.

This examination report includes significant findings of fact and general information about the insurer 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.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were 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 the Company's 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 unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017.

SUMMARY OF SIGNIFICANT FINDINGS

1. Comments, Recommendations and Directives

- a. The Company's Board of Directors ("Board") did not approve the investments of the Company for the period under examination as required by GS § 58-7-168, The Company is directed to comply with GS § 58-7-168 regarding the Board review and approval of its investment transactions and to maintain meeting minutes documenting the Board's approval.
- b. The Company's Vice President receives commissions rather than a fixed salary as required by GS § 58-7-140, which states that "No officer or other person whose duty it is to determine the character of the risk, and upon whose decision the application shall be accepted or rejected by an insurance company, shall receive as any part of his compensation a commission upon the premiums, but his compensation shall be a fixed salary." The Company is directed to comply with GS § 58-7-140.

COMPANY HISTORY

The Company was incorporated in January 1, 1902, as a county mutual insurance company under GS § 58-7-75(5)(d). The Company is owned by the policyholders. The Company's home office is in Salisbury, North Carolina.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws for the Company specify that the number of directors shall be twelve. Directors are elected annually, at the annual meeting of members or by the written consent of the members, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2017:

Name	Location	Principal Occupation
Larry Poteat	Mount Ulla, NC	President/ Insurance Agent
Jerry Sides	Salisbury, NC	Vice President/ Insurance Agent
Rhonda Smith	Salisbury, NC	Secretary and Treasurer
Patsy Sexton	Mount Ulla, NC	Retired
Mary Lou Howe	Mount Ulla, NC	Retired
Jerry Waller	Woodleaf, NC	Retired
David Corriher	Mount Ulla, NC	Truck Driver
Bill Medley	Rockwell, NC	Self-Employed
Phyllis Cornelison	Salisbury, NC	Retired
William Snider	Woodleaf, NC	Retired Teacher
Phillip Kepley	Salisbury, NC	Retired
Phillip Sloop	Mount Ulla, NC	Retired

The Board established a Planning Committee to act on its behalf and the following individuals served on the Planning Committee as of December 31, 2017:

Planning Committee

Larry Poteat
 Jerry Sides
 Tom Snider
 Rhonda Smith

Officers

The Board, at its annual meeting, elects four officers: President, Vice President, Secretary and Treasurer.

The following individuals served as officers as of December 31, 2017:

Name	Title
Larry Poteat	President
Jerry Sides	Vice President
Rhonda Smith	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 policies and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board 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. Based on our review, it appears there have been no changes to the articles of incorporation or bylaws for the Company during the period under examination.

FIDELITY BONDS AND OTHER INSURANCE

The Company is the named insured under a business owner policy which provides employee dishonesty coverage up to a limit of \$100,000, which exceeds the minimum recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

The Company operates as a county farm mutual and is authorized to write fire and allied lines coverages within the following North Carolina counties: Rowan, Iredell, Stanley, Davie, Cabarrus and Davidson.

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	Total Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$1,854,993	\$1,561,150	\$694,519	\$541,653	(\$10,263)
2016	\$1,901,927	\$1,529,808	\$727,591	\$266,427	(\$32,611)
2015	\$1,881,600	\$1,562,448	\$713,038	\$264,435	(\$63,348)
2014	\$1,924,467	\$1,628,203	\$1,111,797	\$280,139	\$175,117
2013	\$1,731,482	\$1,680,710	\$738,333	\$216,906	(\$46,072)

ACTUARIAL OPINION

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.

In accordance with the NAIC Annual Statement Instructions, the Company applied for and was granted an automatic exemption from the annual requirement to obtain a Statement of Actuarial Opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017. The exemption is automatically granted if "an insurer has less than \$1,000,000 total direct plus

assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end.”

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

The Company has a property per risk excess of loss reinsurance contract, a property aggregate excess of loss reinsurance contract and a property facultative pro rata reinsurance contract (collectively referred to as “Reinsurance Contracts”), all of which are effective January 1, 2017. The Reinsurance Contracts have seven subscribing reinsurers (“Reinsurers”) that are rated A- or better. A summary of the coverage provided under the contracts is as follows:

Property Per Risk Excess of Loss Reinsurance

The Company retains \$25,000 of each loss, each and every risk for property business written. The Reinsurers are liable for the losses in excess of the Company’s retention up to \$975,000 for each loss, each and every risk, subject to an occurrence limitation of \$1,500,000. Retained losses under the Property Per Risk Excess of Loss Reinsurance contract are accumulated to satisfy the Aggregate Excess of Loss Reinsurance contract retention.

Aggregate Excess of Loss Reinsurance

The Company retains an aggregate ultimate net loss of 70% of net earned premiums for property business written. The Reinsurers are liable for aggregate ultimate net loss in excess of the Company’s retention up to 950% of net earned premiums. As of December 31, 2017, 70% of net earned premiums was \$379,157 and 950% of net earned premiums was \$5,145,703.

Property Facultative Pro Rata Reinsurance

The Company has a Property Facultative Pro Rata Reinsurance contract available for the cession of surplus liability over \$1,000,000, with a maximum cession of \$500,000 per risk. This contract was not used during 2017.

The Company ceded premiums totaling \$67,052 and \$447,189 in 2017 and 2016, respectively, under the Reinsurance 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, 2017. 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, 2016, are unexamined and are presented for comparative purposes only.

Rowan Mutual Fire Insurance Company
Statutory Statement of Admitted Assets
December 31, 2017

	2017	2016 <i>(unexamined)</i>
Bonds	\$1,649,128	\$1,649,141
Real estate properties occupied by the Company	16,977	11,055
Cash	120,633	139,356
Total cash and invested assets	1,786,738	1,799,552
Investment income due and accrued	946	945
Uncollected premiums and agents' balances in course of collection	10,932	12,047
Deferred premiums and agents' balances booked but deferred and not yet due	43,044	-
Amounts recoverable from reinsurers	-	76,118
Net deferred tax asset	10,639	7,207
Electronic data processing equipment and software	2,694	6,058
Total admitted assets	\$1,854,993	\$1,901,927

Rowan Mutual Fire Insurance Company
Statutory Statement of Liabilities, Policyholders' Surplus
December 31, 2017

	2017	2016 <i>(unexamined)</i>
Losses	\$30,321	\$24,550
Loss adjustment expenses	5,608	4,671
Commissions payable, contingent commissions and other similar charges	-	(21,428)
Other expenses	12,971	11,152
Unearned premiums	230,198	144,384
Advance premium	23,088	25,961
Ceded reinsurance premiums payable	(12,175)	178,998
Amounts withheld or retained by Company for account of others	3,832	3,831
Total Liabilities	293,843	372,119
Unassigned funds	1,561,150	1,529,808
Total Surplus	1,561,150	1,529,808
Total Liabilities and Surplus	\$1,854,993	\$1,901,927

Rowan Mutual Fire Insurance Company
Statutory Statement of Operations
December 31, 2017

	2017	2016 <i>(unexamined)</i>
Underwriting Income		
Premiums earned	\$541,653	\$266,427
Deductions		
Losses incurred	201,513	156,954
Loss adjustment expenses incurred	95,047	70,992
Other underwriting expenses incurred	211,197	35,408
Total underwriting deductions	507,757	263,354
Net underwriting gain	33,896	3,073
Investment Income		
Net investment income earned	(43,797)	(36,885)
Net realized capital losses	(4,539)	(330)
Net investment loss	(48,336)	(37,215)
Other Income		
Finance and service charges not included in premiums	3,654	-
Miscellaneous income	523	1,531
Total other income	4,177	1,531
Net Loss	(\$10,263)	(\$32,611)

Rowan Mutual Fire Insurance Company
Statutory Statement of Policyholders' Surplus
December 31, 2017

	2017	2016 <i>(unexamined)</i>
Surplus, beginning of year	\$1,529,808	\$1,562,448
Surplus increases (decreases):		
Net loss	(10,263)	(32,611)
Change in net deferred income tax	655	6,845
Change in non-admitted assets	2,777	(6,874)
Cumulative effect of changes in accounting principles	38,173	-
Change in surplus as regards policyholders for the year	31,342	(32,640)
Surplus, end of year	\$1,561,150	\$1,529,808

Rowan Mutual Fire Insurance Company
Statutory Statement of Cash Flow
December 31, 2017

	2017	2016 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$429,665	\$404,876
Net investment income	(43,296)	(36,545)
Miscellaneous income	4,177	1,531
Total	390,546	369,862
Benefit and loss related payments	119,624	283,441
Commissions, expenses paid and aggregate write-ins	282,060	138,783
Federal and foreign income taxes paid	-	(16,572)
Total	401,684	405,652
Net cash used by operations	(11,138)	(35,790)
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	400,000	469,711
Cost of investments acquired	410,950	469,200
Net cash from (used by) investments	(10,950)	511
Cash From Financing and Miscellaneous Sources		
Other cash provided	3,365	7,221
Net cash from financing and miscellaneous sources	3,365	7,221
Reconciliation of Cash and Cash Equivalents		
Net change in cash and cash equivalents	(18,723)	(28,058)
Cash and cash equivalents, beginning of year	139,356	167,414
Cash and cash equivalents, end of year	\$120,633	\$139,356

COMMENTS ON FINANCIAL STATEMENTS

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.

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.

Real estate occupied by the Company: Land is reported at cost. Real Estate is recorded at cost, net of accumulated depreciation. Depreciation on real estate is computed by the straight-line method over the useful lives of the properties.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Unpaid loss & loss adjustment expense: The reserves for unpaid losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet date, net of amounts recoverable pursuant to reinsurance agreements.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets at December 31, 2017:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$1,649,128		\$1,649,128
Real estate properties occupied by the company	16,977		16,977
Cash	120,633		120,633
Total cash and invested assets	1,786,738		1,786,738
Investment income due and accrued	946		946
Uncollected premiums and agents' balances in course of collection	10,932		10,932
Deferred premiums and agents' balances booked but not yet due	43,044		43,044
Net deferred tax asset	21,379	10,740	10,639
Electronic data processing equipment and software	2,694		2,694
Total admitted assets	\$1,865,733	\$10,740	\$1,854,993

Reinsurance Activity:

The Company has excess of loss 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 Guy Carpenter & Company, LLC as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks. The Company does not assume reinsurance business.

Direct and ceded premiums written and earned are as follows:

	2017	2016
Direct written	\$694,519	\$727,591
Ceded written	(67,052)	(447,189)
Net written	627,467	280,402
Direct earned	699,520	749,020
Ceded earned	(157,867)	(482,593)
Net earned	\$541,653	\$266,427

Effective January 1, 2017, the Company changed from facultative and treaty reinsurance contracts to excess of loss reinsurance contracts.

The Reinsurer shares in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview.

Summary of Reserves:

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

	2017	2016
Reserve for losses and loss adjustment expenses, beginning of year	\$29,221	\$95,731
Add:		
Provision for losses and loss adjustment expenses, current year	321,432	273,902
Change in estimated losses and loss adjustment expenses, prior years	(24,872)	(45,956)
Total incurred	296,560	227,946
Deduct:		
Losses and loss adjustment expenses paid, current year	285,504	244,681
Losses and loss adjustment expenses paid, prior year	4,348	49,775
Total paid	289,852	294,456
Reserve for losses and loss adjustment expenses, end of year	35,929	29,221
Increase in reserve for losses and loss adjustment expenses	\$6,708	(\$66,510)

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 \$6,666 and \$16,297, respectively, for amounts to be recovered from reinsurers.

Policyholders' Surplus:

The following, in conjunction with the Statutory Statement of Policyholders' Surplus, represents the changes in the Company's surplus since the Department's last examination as of December 31, 2012:

	2015	2014	2013
Surplus, beginning of year	\$1,628,203	\$1,682,559	\$1,727,186
Surplus increases (decreases):			
Net income (loss)	(63,348)	175,117	(46,072)
Change in net deferred income tax	4,014	13,396	(34)
Change in non-admitted assets	(6,421)	148	246
Correction to error prior period	-	-	1,233
Prior period adjustment	-	(243,017)	-
Change in surplus as regards policyholders for the year	(65,755)	(54,356)	(44,627)
Surplus, end of year	\$1,562,448	\$1,628,203	\$1,682,559

Contingencies and Commitments:

The Company does not have any pending legal proceedings arising from litigation, income taxes or other matters that could have a material effect on the financial position of the Company.

**Rowan Mutual Fire Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2017**

**Larry Poteat, President
426 South Main Street
Salisbury, North Carolina 28144**

**Jerry Sides, Vice President
426 South Main Street
Salisbury, North Carolina 28144**

**Rhonda Smith, Secretary and Treasurer
426 South Main Street
Salisbury, North Carolina 28144**

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, 2019

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:  Date: 4/29/2019
Robert Armbruster

Sworn and subscribed before me this 29th day of April, 2019.

Notary Public Signature: Jameka N Bell Notary Public Seal:

