



**Carolina Farmers Mutual Insurance Company**

**Asheboro, North Carolina**

**Combined Examination Report**

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**Part I - Report on Financial Examination**

**Part II – Report on Market Conduct Examination**

**Carolina Farmers Mutual Insurance Company**

**Asheboro, North Carolina**

**Report on Financial Examination**

**As of December 31, 2015**

# **Carolina Farmers Mutual Insurance Company**

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# **Carolina Farmers Mutual Insurance Company**

## **Report on Financial 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 financial examination of Carolina Farmers Mutual Insurance Company ("Company") as of December 31, 2015. The examination covered the period January 1, 2012 through December 31, 2015, and the period subsequent up to the date of this examination report. The Department's last examination was as of December 31, 2011.

This examination was performed using the Department's single-state, risk-focused examination approach. The primary purpose of a risk-focused examination is to review and to evaluate an insurer to assist in assessing and monitoring its financial condition. The scope of this examination, as specified on page 4, includes a review, in coordination with the financial analysis process, of the Company's practices and procedures, its corporate and accounting records, details of certain transactions, which may include significant estimates made by the Company, and an evaluation of certain assets and liabilities reported in the Company's Annual Statement as of December 31, 2015. This report is not intended to communicate all matters of importance for an understanding of the Company's financial condition as of December 31, 2015. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
Agile Enterprise Section  
Financial Evaluation Division  
North Carolina Department of Insurance

October 21, 2016

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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: 11/16/2016  
Eileen Culliney

Sworn and subscribed before me this 16 day of November, 2016.

Notary Public Signature: [Signature] Notary Public Seal:

**Carolina Farmers Mutual Insurance Company**  
**Report on Financial Examination**  
**As of December 31, 2015**

**1. Company Background**

The Company is a mutual insurance company providing property and casualty coverage. It commenced business on January 1, 1893, and was incorporated on November 1, 1996. Effective October 31, 1996, the Company, formerly known as Farmers Mutual Businessmen's Insurance Company of Randolph County, changed its name to Carolina Farmers Mutual Insurance Company and also changed from a county farm mutual to a limited assessable statewide mutual insurance company licensed in North Carolina. On January 1, 2000, Mecklenburg Farmers Mutual Fire Insurance Company merged with the Company. Carolina Farmers Mutual Insurance Company is the surviving entity. The Company writes premiums in North Carolina only.

**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 reserves for the losses and loss adjustment expenses 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 loss and loss adjustment expense obligations of the Company.

**3. Scope of the Examination**

The scope of this examination includes a review of the following areas relative to the 2015 Annual Statement:

- a) Cash and Investments
- b) Premiums and Underwriting
- c) Losses and Reserves
- d) Operations

**4. Examination Procedures**

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Substantive testing of underlying data and transactions;
- 3) Analytical procedures and recalculation of account balances;
- 4) Review of the Company's underwriting practice and procedures;
- 5) Review of the Company's contracts and agreements;
- 6) Actuarial review of the Company's reserves by the Department's Actuarial Services Division;
- 7) Other examination procedures deemed necessary to meet the established objectives.

**Carolina Farmers Mutual Insurance Company**  
**Report on Financial Examination**  
**As of December 31, 2015**

**5. Summary of Examination Objectives and Findings**

**a) Cash and Investment**

- 1) Examination Objective: To verify the accuracy and existence of cash and short term investments, totaling \$2,772,887, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy and existence of common stock, totaling \$3,387,147, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 3) Examination Objective: To review whether the Board of Directors ("Board") demonstrates proper oversight over the Company's investments to ensure compliance with applicable laws and regulations.

Findings: No adverse findings were noted.

- 4) Examination Objective: To verify whether the real estate investment of properties held for the production of income, totaling \$1,045,283 and properties held for sale, totaling \$750,188, as reported in the Company's Annual Statement as of December 31, 2015, are being properly classified and valued in accordance with SSAP 40R.

Findings: No adverse findings were noted.

**b) Premiums and Underwriting**

- 1) Examination Objective: To verify the accuracy and completeness of direct written premiums, totaling \$3,936,480, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy of unearned premiums, totaling \$1,956,741, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy of advance premiums, totaling \$125,679, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 4) Examination Objective: To review whether the Company's underwriting and pricing guidelines are appropriate, resulting in adequate premium rates.

Findings: No adverse findings were noted.



**Carolina Farmers Mutual Insurance Company**  
**Report on Financial Examination**  
**As of December 31, 2015**

**c) Losses and Reserves**

- 1) **Examination Objective:** To verify the completeness and accuracy of losses paid, totaling \$1,382,577, as reported in the Company's Annual Statement as of December 31, 2015.

**Findings:** No adverse findings were noted.

- 2) **Examination Objective:** To review the reasonableness and adequacy of unpaid losses and loss adjustment expenses, totaling \$459,081 and \$173,385, respectively, as reported in the Company's Annual Statement as of December 31, 2015.

**Findings:** No adverse findings were noted.

**d) Operations**

- 1) **Examination Objective:** To verify that the Company has sufficient personnel in place to adequately segregate duties that would support an effective internal control system and that the Board demonstrates proper oversight.

**Findings:** The Company currently has a Board of six directors, which is in violation of GS § 58-8-15. The Company is directed to comply with GS § 58-8-15 by electing a Board of not less than seven directors and to amend its ByLaws regarding the minimum number of directors to be consistent with GS § 58-8-15.

- 2) **Examination Objective:** To verify that the Company has a succession plan in place to address the replacement of key staff positions.

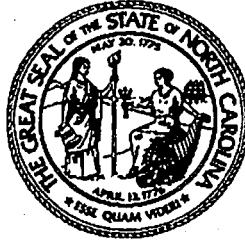
**Findings:** No adverse findings were noted.

- 3) **Examination Objective:** To verify that the Company has a formal written Information Technology ("IT") Security Policy or an IT Business Continuity and Disaster Recovery Plan.

**Findings:** No adverse findings were noted.

**Carolina Farmers Mutual Insurance Company**  
**Report on Financial Examination**  
**Appendix A – Report Distribution**

**Thomas P. Frazier, President**  
**515A West Salisbury Street**  
**Asheboro, NC 27203**



Report on

**Market Conduct Examination**

of the

**Carolina Farmers Mutual Insurance Company**

**Asheboro, North Carolina**

by Representatives of the

**North Carolina Department of Insurance**

as of

**October 17, 2016**

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Raleigh, North Carolina  
October 17, 2016

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

**Carolina Farmers Mutual Insurance Company (NAIC #10720)**  
NAIC Exam Tracking System Exam Number: NC-NC131-7  
Asheboro, North Carolina

hereinafter generally referred to as the Company, at the Company's home office located at 515-A West Salisbury Street, Asheboro, North Carolina, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on September 12, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through October 14, 2016. All comments made in this report reflect conditions observed during the period of the examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, and solely consisted of an examination of the Company's practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

## EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Company's procedures and practices in the following area:

*Underwriting Practices – Farmowners: Rating errors.*

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site [www.ncdoi.com](http://www.ncdoi.com) by clicking "Insurance Industry" then "Legislative Services" under "Other Divisions".

This examination identified various statutory violations. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations does not constitute acceptance of such violations. Examination report findings that do not reference specific insurance laws, regulations or bulletins are presented to improve the Company's practices and provide consumer protection.

## **MARKETING**

### **Policy Forms and Filings**

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following lines of business:

- Homeowners
- Farmowners

Policy form filings for the homeowners and farmowners lines of business were made to the Department by the Company, and by American Association of Insurance Services on behalf of the Company.

The provisions stipulated under Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section 1102(10)(f) exempt the Company from having to submit rate filings to the Department. The Company promulgates its own rates.

## **UNDERWRITING PRACTICES**

### **Overview**

The Company's marketing in North Carolina is directed to personal and commercial lines of business. The Company provided the examiners with listings of the following types of active policies for the period under examination:

- Homeowners
- Farmowners

A random selection of 238 policies was made from a total population of 867. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

#### Homeowners

The Company provided a listing of 682 homeowners policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Company's homeowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

#### Farmowners

The Company provided a listing of 185 farmowners policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Company's farmowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of its company rating manual as 13 policies reviewed contained 14 rating errors. The rating errors consisted of the following:

- The form factor for form ML-2 was not applied to 13 policies.
- A deviation was incorrectly applied to one policy with a Coverage A limit less than the specified minimum coverage amount.



The rating errors resulted in 13 overcharges and one undercharge to the insureds. At the request of the examiner, refunds in the amount of \$1,024.24, including interest, were issued by the Company for the overcharges.

As a result of not applying the form factor for form ML-2, the examiner requested that the Company conduct a self-audit. The Company identified 13 additional policies (including multiple policy terms) resulting in overcharges in the amount of \$743.04, including interest. All overcharges were returned to the policyholders prior to the conclusion of the exam.

#### **COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Company is directed to update its rating procedures for the farmowners line of business to include the form factor for ML-2 policies, or include wording in its rating manual that eliminates use of the factor. Care should also be taken to make certain that all deviations and policy debits and credits conform to the specifications contained within the company rating manual.

#### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Carolina Farmers Mutual Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through October 14, 2016.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Company's operations in the areas of marketing and underwriting practices.

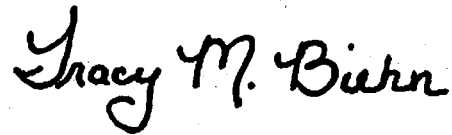
Respectfully submitted,



James P. McQuillan, CPCU, AIT, MCM  
Examiner-In-Charge

**Market Regulation Division  
State of North Carolina**

**I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.**

A handwritten signature in black ink that reads "Tracy M. Biern". The signature is written in a cursive style with a large initial 'T' and 'B'.

**Tracy M. Biern, MBA, MCM, LPCS  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina**