

**REPORT ON EXAMINATION
OF
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF SALEM COUNTY
AS OF DECEMBER 31, 2018
NAIC COMPANY CODE 13854**

**FILED
MAY 20, 2020
COMMISSIONER
OF
BANKING & INSURANCE**

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

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April 30, 2020

Honorable Marlene Caride
Commissioner of Department of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625-0325

Commissioner:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey and as adopted by the National Association of Insurance Commissioners ("NAIC"), a comprehensive risk focused examination has been made of the books, records and financial condition of

Farmers Mutual Fire Insurance Company of Salem County
125 W. Broadway
Salem, New Jersey 08079
NAIC Company Code 13854

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter referred to as the "Company" or "Farmers of Salem". The following examination report as to the condition of the Company is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, conducted a risk-focused financial condition examination (the “Examination”) of Farmers Mutual Fire Insurance Company of Salem County, for the period of January 1, 2014 to December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The Examination was conducted pursuant to the authority granted by N.J.S.A. 17:23-22 and was last examined as of December 31, 2013.

The Examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (the “Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. This is accomplished by obtaining information about the Company including: corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

The Certified Public Accounting (“CPA”) firm of Baker Tilly Virchow Krause, LLP (“Baker Tilly”) provided an unqualified audit opinion on the fair presentation of the Company's year-end financial statements based on statutory accounting principles for the reporting year period ending December 31, 2018. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain Baker Tilly work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no findings disclosed in the prior examination report.

COMPANY HISTORY

Farmers Mutual Fire Insurance Company of Salem County was incorporated under a special act of the New Jersey State Legislature on March 6, 1851 and commenced business on that date. In 1998, the Company was affiliated with the Mutual Service Office for the Commercial Automobile Line of Business in the State of New Jersey. The Company explained in their Plan of Operation that their marketing effort will be directed toward retail store, servicing and installation, small contractor, church vehicles, and private passenger type owned by a business.

The Company sold its affiliate - Salem Insurance Company - to C.B.I.P. Management, Inc. on January 12, 2005. As part of the sale, the Company had to initiate the following closing documents with Salem Insurance Company:

1. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Salem Insurance Company being the Reinsurer.
2. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Farmers Mutual Fire Insurance Company of Salem County being the Reinsurer.
3. Loss Portfolio Transfer Reinsurance Contract issued to Salem Insurance Company by Farmers Mutual Fire Insurance Company of Salem County.
4. Indemnity Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County.

The Company completed the sale of Salem Insurance Company in 2009. Salem Insurance Company changed its name to Progressive Garden State Insurance Company.

The Company's Charter and Certificate of Authority have been amended numerous times since incorporation. At December 31, 2018, the Certificate of Authority authorized the Company under N.J.S.A. 17:17-1 to write the following lines of business: "a", "b", "e", "j", "k", "l", and "o".

The principal office of the Company is located at 125 West Broadway, Salem, New Jersey 08079. Mr. James R. Doherty, President of the Company, was appointed as the registered agent for the Company.

TERRITORY AND PLAN OF OPERATION

The Company is a mutual property and casualty insurance company providing homeowners and commercial insurance coverages, including workers' compensation. The Company's commercial policies are primarily with "main street" commercial operations and small contractors. At December 31, 2018, the Company was licensed and authorized to transact

business in New Jersey, Maryland, Delaware, Pennsylvania, and Virginia. The Company conducts business actively in New Jersey, Maryland, and Pennsylvania. New Jersey offerings are homeowners, combination dwelling and personal umbrella. The commercial offerings are business owner policy, specialty contractors, commercial auto, commercial multiple peril, other liability, fire, workers' compensation and commercial umbrella.

All underwriting, accounting and administrative business is conducted from the Company's office located at 125 West Broadway, Salem, New Jersey 08079. The Company employs approximately 52 full and part-time employees.

The Company has approximately 337 agents in New Jersey, Maryland, and Pennsylvania. All marketing efforts are directed through its agency force.

A summary of gross direct premiums written over the past five years is presented below:

<u>Year</u>	<u>Gross Direct Premiums Written</u>
2014	\$45,050,660
2015	\$47,386,988
2016	\$48,774,959
2017	\$50,084,342
2018	\$52,723,955

Gross direct premiums written in 2018 were allocated among the following lines of business:

<u>Line of Business Written</u>	<u>Gross Direct Premiums Written</u>
Fire	\$ 4,207,674
Allied Lines	2,462,596
Homeowners Multiple Peril	28,497,807
Commercial Multiple Peril	6,700,683
Inland Marine	791,503
Workers' Compensation	1,310,562
Other Liability-Occurrence	3,561,515
Products Liability-Occurrence	24,264
Commercial Auto Liability	3,222,840
Auto Physical Damage	734,425
Burglary and Theft	1,242
Boiler and Machinery	1,208,844

The Company maintains various service agreements with vendors who are not affiliated with the Company. These include the following:

Non-Custody Investment Agency Agreement

This agreement, dated September 1, 1993, between Farmers of Salem and Wilmington Trust Company outlines that the Company has transferred its securities to a financial institution in New Jersey but specifies the Company retains the investment management services of Wilmington Trust Company.

System and Program Purchase Agreement

This agreement, dated August 7, 2006, between Farmers of Salem and Creditron Corporation allows the Company to use the Creditron Scanning System to process premium receivables.

Investment Advisory Agreement

This agreement, entered into on July 28, 2008, between Farmers of Salem and Confluence Investment Management LLC maintains an investment advisory agreement by the Company with Confluence Investment Management LLC. In this agreement, the Company requests that Confluence Investment Management LLC act as investment advisor as to the portfolios of Large Cap Value and Equity Income Fund held by the Company.

Private Advisor Agreement

This agreement is between Confluence Investment Management LLC, Wells Fargo, and Farmers of Salem. This agreement allows Confluence Investment Management, LLC to provide investment management services to Wells Fargo on behalf of the Company.

Master Subscription Agreement

This agreement is between Clearwater Analytics, LLC and Farmers of Salem. The agreement allows the Company to access accounting, compliance, performance services to manage its investment portfolio. Additionally, the agreement allows the Company, to use NAIC Reports that assists the Company in the completion of quarterly and annual NAIC statutory accounting packages including Schedule D, Schedule DA, and Schedule E.

Co-Marketing Agreement with Plymouth Rock

This co-marketing agreement allows Farmers of Salem and Plymouth Rock to provide to New Jersey residents additional savings on their homeowners and auto insurance policies.

Recovery Services Agreement

This agreement, entered into on March 1, 2015, is between Razor Technology and Farmers of Salem. Razor Technology provides Backup as a Service (“BaaS”) and Disaster Recovery as a Service (“DRaaS”) for all of Farmers of Salem’s mission-critical servers with unlimited storage. The agreement also allows for On Call Restoration of Data as well as offsite Disaster Recovery Facilities.

These facilities contain all hardware (e.g., computers, phones, printers) necessary for 20 employees to function.

CyberScout

The Company offers the ability for all homeowners policyholders and employees of the Company, at no charge, to use the services of CyberScout in the event that an individual homeowners policyholder or employees of the Company identity are stolen. This service assists in the process to regain the person's identity.

The Company conducts its everyday business operations from its statutory home and main administrative office located at 125 West Broadway, Salem, New Jersey 08079. These operations include underwriting and claims handling, among others. The Company uses independent adjusters to physically inspect all claims for property damage, with few exceptions. The independent adjusters, in turn, report to an in-house staff adjuster, who reviews their report to confirm that coverage is being properly interpreted, and a proactive approach is taken to settle the claim. Each in-house staff adjuster has an authority limit. Management approves all payments over the adjuster's authority level. In addition, if the claim reserve is (1) over his/her authority level, or (2) if the claim involves unusual circumstances, or (3) if a suit is filed, a manager reviews the file regularly to confirm that proper procedures are being followed. All denial letters are also approved by management to ensure that claims are not being improperly denied.

The Company also uses independent adjusters to investigate all liability claims, with few exceptions. The independent adjusters will report to an in-house adjuster, who ensures proper coverage interpretation, and directs the course of the investigation when necessary. Once the investigation is complete, the in-house adjuster takes back handling of the file, to either defend, or settle, the claim.

Management approves all claim payments before checks are issued. Security procedures have been put in place that limits access to the check entering and printing functions, and to ensure an audit trail.

Commercial Auto and Workers' Compensation claims are handled by PMA Management Group ("PMAMG") through a third party claims administrative services agreement. PMAMG will send monthly reports to the Company detailing the activity on the workers' compensation and commercial auto claims for the month. This activity is inputted into the SCIPS system.

Guy Carpenter, the Company's reinsurance intermediary, handles auditing of the workers' compensation claims.

CORPORATE RECORDS

The Company’s By-laws stipulate that the annual meeting of the policyholders of the Corporation shall be held on the first Thursday in March in each year, at an hour to be named in the notice of the meeting. Special meetings for any purpose or purposes may be called by the Chairman or a Vice Chairman, or by resolution of the Board of Directors, and may be held at such place, within or outside the State of New Jersey, as deemed appropriate. Directors shall hold regular meetings at least four times a year, and there shall be at least one regular meeting during each calendar quarter.

A review of the minutes of the Board of Directors indicated that transactions and events of the Company overall are adequately reviewed and supported.

MANAGEMENT AND CONTROL

The business of the Company is governed by the Company’s Board of Directors (“the Board”). The Board will consist of a number of directors of not less than seven nor more than eleven, each of whom must be a policyholder of the Corporation. The number of Directors to be elected at the annual meeting shall be established by the Board by resolution adopted by a majority vote of all existing Directors, no later than 60 days prior to the annual meeting. The term of office of Directors shall be three years or until their successors have been elected. A majority of the whole number of Directors shall constitute a quorum for the transaction of business, and a majority vote of the quorum shall be sufficient to take Board action. The Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each Committee shall consist of two or more Directors of the Corporation.

The following were the Directors of the Company as of December 31, 2018:

<u>Director</u>	<u>Location</u>	<u>Occupation</u>
William C. DeCinque	125 West Broadway Salem, NJ 08079	Retired. Insurance Company Executive
William C. Horner	125 West Broadway Salem, NJ 08079	Lawyer
David A. Culver	125 West Broadway Salem, NJ 08079	Consultant
Robert R. McHarness	125 West Broadway Salem, NJ 08079	Retired Banker

<u>Director</u>	<u>Location</u>	<u>Occupation</u>
Robert E. Swartz	125 West Broadway Salem, NJ 08079	Certified Public Accountant, Ford Scott & Associates
Lee C. Williams, Jr.	125 West Broadway Salem, NJ 08079	President of South Jersey Farmers Exchange
John D. Burke	125 West Broadway Salem, NJ 08079	Title Agency President

All directors were independent directors; therefore, the Company was determined to be in compliance with N.J.S.A. 17:27A-4(d)(3).

Article III, Sections 1 and 2 of the Company's By-laws provides for the appointment and election of officers. The following officers were appointed and serving at December 31, 2018:

<u>Officer</u>	<u>Title</u>
William C. DeCinque	Chairman of the Board
John D. Burke	Vice-Chairman
James R. Doherty	President and Chief Executive Officer
William A. Dine	Senior Vice-President Corporate Operations
Thomas P. Cornish	Vice-President and Treasurer
Laurie Konzelmann	Vice-President – Claims
Kim M. Lorenzini	Vice-President – Marketing and Business Development
Timothy Davis	Vice-President – Information Technology
James E. Reagan	Assistant Vice President – Product Management
William C. Horner	Secretary

Officer
Jeanette M. Gerlack

Title
Assistant Board Secretary

Committees

The By-laws state that the Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each committee shall consist of two or more directors of the Corporation. The following Committees were appointed and serving at December 31, 2018:

Executive Committee

William C. DeCinque, Chairman
William C. Horner
John D. Burke

Budget and Auditing Committee

Robert R. McHarness, Chairman
Robert E. Swartz
John D. Burke

Planning Committee

William C. Horner, Chairman
Lee C. Williams, Jr.
David A. Culver

Finance/Investment Committee

Robert E. Swartz, Chairman
Robert R. McHarness
William C. Horner

Employee Benefits Committee

David A. Culver, Chairman
John D. Burke
Lee C. Williams, Jr.

The Executive Committee recommends the benefits of the management, evaluates the management, and proposes the nominations to the Board of Directors.

The Budget and Audit Committee recommends appointment of the independent auditor, meets with the independent auditor, and reviews proposed budgets with management, along with other duties in accordance with N.J.S.A. 17:27A-4(d)(4).

The Planning Committee is responsible for reviewing the status of the Company within the industry and for recommending strategic initiatives to improve its competitive position.

The Finance/Investment Committee is responsible for the prudent management and investment of Company assets.

The Employee Benefits Committee is to oversee the compensation of the Company's executive officers. In doing so, this Committee shall evaluate and recommend compensation for the Company's CEO, Vice Presidents, and Board to the Board for approval.

REINSURANCE

The Company's reinsurance program is managed through Guy Carpenter and Company, Inc. of Philadelphia, PA., a licensed reinsurance intermediary pursuant to N.J.S.A. 17:22E-2.

Each year a reinsurance program is offered which results in the Company updating previously executed contracts or new contracts being issued.

The Company was the named party to these reinsurance treaties in effect at December 31, 2018:

Casualty (Liability) Program

Casualty First Excess of Loss Reinsurance

Covering: Casualty Business other than Workers' Compensation and Employers' Liability:

Coverage: Section A – Workers' Compensation and Employers' Liability: \$700,000 in excess of \$300,000 ultimate net loss, each loss occurrence.

Section B – Casualty: \$800,000 in excess of \$300,000 ultimate net loss, each loss occurrence.

Section C – Basket: \$300,000 in excess of \$300,000 ultimate net loss, each loss occurrence.

Casualty Second Excess of Loss Reinsurance

Covering: All Casualty Lines.

Coverage: \$2,000,000 in excess of \$1,100,000 ultimate net loss, each loss occurrence.

Casualty Facultative Reinsurance

Covering: Casualty Business Comprehensive Personal Liability, Farm owners comprehensive Personal Liability, Commercial General Liability and Farm owners Commercial General Liability.

Coverage: 100% of \$1,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence, each policy.

Umbrella Program

Umbrella Facultative

Covering: Personal and Farm.

Coverage: 95% Quota Share of first \$1,000,000 of loss. 100% of \$4,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence.

Covering: Commercial Umbrella Liability.

Coverage: 100% of \$5,000,000 in excess of \$5,000,000 ultimate net loss, each loss occurrence.

Property Program

First Property Per Risk Excess of Loss Reinsurance

Covering: All business classified by the Company as Property.

Coverage: \$700,000 in excess of \$300,000 ultimate net loss, each loss, each risk.

Occurrence Limit: \$2,100,000 any one loss occurrence.

Second Property Per Risk Excess of Loss Reinsurance

Covering: All business classified by the Company as Property.

Coverage: \$4,000,000 in excess of \$1,000,000 ultimate net loss, each loss, each risk.

Occurrence Limit: \$12,000,000 any one loss occurrence.

Property Facultative Binding Authority

Covering: All business classified by the Company as Property.

Coverage: Cessions to this Contract shall be limited to an amount equal to 40 times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$50,000 and to a maximum cession hereunder of \$2,000,000 on any one risk covered hereunder.

Property Catastrophe Excess of Loss

Covering: All business classified by the Company as Property.

<u>Layer</u>	<u>Coverage</u>
1 st	\$3M in excess of \$2M
2 nd	\$5M in excess of \$5M
3 rd	\$10M in excess of \$10M
4 th	\$40M in excess of \$20M
5 th	\$5M in excess of \$60M

Property Catastrophe MRB Regional Reciprocal CAT Pool

Covering: All business classified by the Company as Property.

Coverage: 100% of \$5M in excess of \$80M net loss, each occurrence.

Other Reinsurance Agreements

Equipment Breakdown Quota Share

Covering: Policies classified by the Company as Equipment Breakdown, including such coverage when written as part of a package Policy.

Coverage: 100% Quota Share of all business classified by the Company as Equipment Breakdown.

Workers' Compensation Excess of Loss

Covering: Workers' Compensation and Employers' Liability (including Workers' Compensation and Employers' Liability written in conjunction with Homeowners Policies).

Coverage: 1st Layer - \$9,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence.

2nd Layer - \$10,000,000 in excess of \$10,000,000 ultimate net loss, each loss occurrence.

Employment Practices Liability

Covering: Policies classified by the Company on EPL Coverage Form.

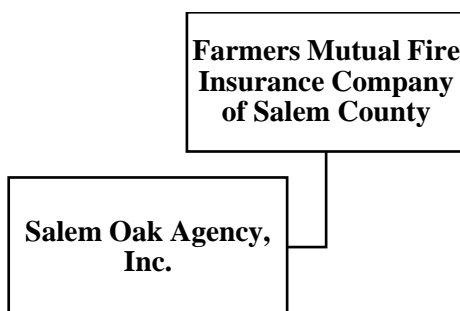
Coverage: 100% of the Company's liability for loss (including defense costs) not to exceed \$250,000 (\$1,000,000 for referral EPL Coverage) each wrongful employment act, subject to annual aggregate limit not to exceed \$250,000 (\$1,000,000 for referral EPL Coverage).

Data Compromise

- Covering: Policies classified by the Company on Data Compromise Coverage Form.
- Coverage: 100% of the Company's liability for loss not to exceed \$250,000 annual aggregate per Policy for Response Expenses and \$250,000 annual aggregate per Policy for Defense and Liability.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

As at December 31, 2018, the Company was a member of an Insurance Holding Company System in accordance with N.J.S.A. 17:27A. An organizational chart of this system follows:



A review indicated that the holding company filings were made for the period under examination by Farmers Mutual Fire Insurance Company of Salem County as registrant to the requirements and standards under N.J.S.A. 17:27A-3.

INTERCOMPANY AGREEMENTS

The Company had the following Intercompany Agreements as of December 31, 2018:

Federal Income Tax Sharing Agreement

The agreement is between Farmers of Salem and its subsidiary Salem Oak Agency, Inc. dated September 1, 2008.

The Agreement defines the method by which the federal income tax liability is to be allocated between the parties and the manner in which such allocated liability will be paid. The allocation of taxes is based upon separate tax returns with current credit for net losses. Payments with respect to such taxable year shall be made as follows:

At the end of each taxable year to which Farmers of Salem files its Consolidated Return, a) it is determined that the actual Separate Tax Liability or Additional Amount for such taxable period exceeds the aggregate amount of any deposits paid for that tax year, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed, b) it is determined that the actual deposit paid for such taxable period exceeds the actual Separate Tax Liability or Additional Amount for such taxable period, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed.

Under no circumstances will any of the insurance subsidiaries pay more tax or receive less of a refund on a consolidated basis than it would pay or receive on a separate company basis.

Agreement between Farmers of Salem and Salem Oak Agency, Inc.

Salem Oak Agency, Inc. is designated as an "Agent" and Farmers of Salem as "Company". The operations shall be conducted by the personnel and using the facilities of the Company. The Fixed Costs to cover equipment and office space will be \$1,500 per month. The Variable cost to cover the Company personnel will be based on the activities. All direct expenses of the Agent paid by the Company will be billed by the Company. Nothing said above will create a relationship of employer and employee.

POLICY ON CONFLICTS OF INTEREST

The Company has a questionnaire regarding conflicts of interest in which the officers and directors are informally required to disclose any possible conflict. This questionnaire is to be completed each year before the first Board of Directors meeting. Upon review of the conflict of interest questionnaire, it was determined that the Company had no conflicts of interest.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

At December 31, 2018, the Company and its affiliate Salem Oak Agency Inc. are named insureds on a Financial Institution Bond underwritten by Travelers Casualty and Surety Company of America. The bond provides the Company, along with its affiliate Salem Oak Agency Inc., a single loss limit of liability of \$1,000,000 with a single loss deductible of \$25,000 for various risks covered under the policy.

The review of the amount of fidelity coverage carried in this policy (on both an aggregate and single loss limit of liability) was determined by this examination to be adequate, as measured by the NAIC's formula and exposure index.

The Company also maintains business property and liability insurance coverage designed to protect its assets from perils associated with conducting its business. The following insurance policies were in force as of December 31, 2018:

- Business Owners Policy - with Franklin Mutual Insurance Company
- Commercial Umbrella Liability Policy - with Franklin Mutual Insurance Company
- Commercial Automobile Policy - with New Jersey Manufactures
- Workers' Compensation and Employers Liability Policy - with New Jersey Manufacturers

POLICY FORMS AND UNDERWRITING PRACTICES

The Company has policy forms for the following programs:

- Personal Lines Program
- Business Owners Program
- Commercial Property Program
- Commercial Liability Program
- Commercial Auto Program
- Umbrella Liability Program

The Company uses Mutual Service Office policy forms. The Company has underwriting manuals for each line of business that the Company writes. The underwriting guidelines of the Company are tailored for each line of business.

ACCOUNTS AND RECORDS

The Company uses SunGard software to prepare the general ledger entries and trial balance. SunGard became the new vendor for the Company in August of 2010.

The Company's Premium and Loss systems are recorded in the Small Company Insurance Processing System (“SCIPS”) processing system.

Premium receipts are recorded through the SCIPS system. All checks are scanned through the Company check scanning system called Creditron. An uploaded file from Creditron is created to post to the individual accounts in SCIPS. Payments are also accepted online by credit card or Automated Clearing House (“ACH”). These files also uploaded into SCIPS. All payments for the insured’s policies are recorded against the Accounts Receivable account in the general ledger.

Interest receipts are deposited to the appropriate general ledger accounts through SunGard software.

Checks are issued on all claims in compliance with the Unfair Claims Practices Act. Pictures of damage are required for all property files. Proof of Loss is required for property claim payments over \$5,000. Pictures are required for liability files as appropriate, which is inclusive of almost every file. A release is obtained for almost all liability claims. However, on rare occasion, depending on the scope and nature of the liability claim, the release requirement is waived.

All settlements reached with insureds or claimants by the Company's independent adjusters are subject to company approval. All loss payment requests submitted by independent adjusters are reviewed by the Claims Examiner to confirm the settlement is appropriate based on coverage available and scope of damage. All Claims Examiners have authority levels. Any payment request that exceeds their individual authority must be reviewed with the Claims Vice President or Assistant Claims Manager before issuance.

Payments to adjusters for expenses require an invoice. A copy of the adjuster invoice is maintained in the claim file as documentation. Farmers of Salem requires each adjuster to include an itemized invoice which the Company can use to evaluate the expenses charged on all billings other than the flat fee schedule.

The Claims Examiner is responsible for setting adequate reserves and making payment request within their authority limits. The Company's Claims Clerks enter the checks into the computer system. If the reserve on the file is not adequate, the system generates a message that must be reviewed by the Claims Examiner or Claims VP, before they can proceed.

The Company's Claims Vice President, Assistant Claims Manager, and Claims Specialist are the only members of the Claims Department who can approve checks for release in the computer system. The physical payment request is reviewed against the amount entered in the computer system to ensure accuracy. Spot checks of the claims files are done during the approval process. All claim checks require two signatures.

A copy of the payment request and printed check is scanned into the claim file for documentation.

Commissions to the Company's agents are paid monthly. Commissions are paid based on the effective date of the written premium. Before commissions are paid to individual agents, the written premium for the month is reconciled against the agent's total written premium shown on their commission statements. Commission checks and ACH payments are approved and issued by the Accounting Department.

TREATMENT OF POLICYHOLDERS

The Company's complaint log for complaints filed with the New Jersey Department of Banking and Insurance for the years 2014 through 2018 were reviewed. The review of these complaint logs determined that the treatment of complainants, the record keeping of complaints, and the response time by the Company was in compliance with N.J.S.A. 17:29B-4(10).

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company could adequately recover from a system failure or business disruption in a timely fashion.

The Company's Business Continuity Plan, which includes a Disaster Recovery Plan, was reviewed by Risk and Regulatory Consultant and approved by the New Jersey Banking and Insurance Office of Solvency Regulation Field Insurance examination team.

The Company has made provisions for the succession of officers in its By-laws.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position as of December 31, 2018, (Exhibit A) and the results of its operations for the five-year period ending December 31, 2018, (Exhibit B), including capital and surplus (Exhibit C).

Exhibit A - Balance Sheet as of December 31, 2018

Comparative Statement of Assets

Liabilities, Surplus and Other Funds at December 31, 2018

Exhibit A

Assets:	Current Examination at 12/31/18	Balance per Company at 12/31/18	<u>Note</u>
Bonds	\$93,400,519	\$93,400,519	1
Common stocks	43,263,151	43,263,151	1
Real estate			
Properties occupied by the company	213,003	213,003	
Properties held for the production of income	109,473	109,473	
Cash, cash equivalents & short term investments	12,604,520	12,604,520	
Investment income due and accrued	666,105	666,105	
Uncollected premium and agents' balances	654,079	654,079	
Deferred premiums and agents' balances	6,422,256	6,422,256	
Amounts recoverable from reinsurers	378,527	378,527	
Electronic data processing equipment and software	6,185	6,185	
Aggregate write-ins for other than invested assets	444,057	444,057	
Total Assets	\$158,161,875	\$158,161,875	
Liabilities:			
Losses	\$33,614,003	\$33,614,003	2
Loss adjustment expenses	9,343,851	9,343,851	2
Commissions payable, contingent commissions	1,406,003	1,406,003	
Other expenses	764,209	764,209	
Taxes, licenses and fees	191,164	191,164	
Current federal and foreign income taxes	797,092	797,092	
Net deferred tax liability	1,094,597	1,094,597	
Unearned premium	26,606,104	26,606,104	
Advance premium	772,460	772,460	
Ceded reinsurance premiums payable	1,671,314	1,671,314	
Amounts withheld or retained by company for account of others	452,208	452,208	
Total Liabilities	\$76,713,005	\$76,713,005	
Capital and Surplus:			
Surplus notes	\$2,800,000	\$2,800,000	
Unassigned funds (surplus)	78,648,870	78,648,870	
Surplus as regards policyholders	\$81,448,870	\$81,448,870	
Total Liabilities and Surplus and Other Funds	\$158,161,875	\$158,161,875	

Exhibit B – Statement of Operating Results for the Five-Year Period Ending December 31, 2018

Underwriting and Investment Exhibit

for the five year period ending December 31, 2018

Exhibit B

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Underwriting Income</u>					
Premiums earned	\$35,311,795	\$37,957,282	\$39,556,508	\$40,656,233	\$42,100,734
Deductions:					
Losses incurred	16,404,237	17,529,549	20,086,992	19,095,883	19,700,433
Loss adjustment expenses incurred	4,025,193	4,499,421	4,884,982	4,972,410	4,945,226
Other underwriting expenses incurred	12,653,574	13,546,437	14,010,973	14,226,000	14,830,661
Aggregate write-ins for underwriting deductions	0	0	0	0	0
Total underwriting deductions	<u>\$33,083,004</u>	<u>\$35,575,407</u>	<u>\$38,982,947</u>	<u>\$38,294,293</u>	<u>\$39,476,320</u>
Net underwriting income (loss)	<u>\$2,228,791</u>	<u>\$2,381,875</u>	<u>\$573,561</u>	<u>\$2,361,940</u>	<u>\$2,624,414</u>
<u>Investment Income</u>					
Net investment income earned	\$1,455,041	\$1,534,996	\$1,698,935	\$1,764,010	\$1,997,444
Net realized capital gains	539,200	1,775,978	1,065,339	607,851	2,075,518
Net investment gain	<u>\$1,994,241</u>	<u>\$3,310,974</u>	<u>\$2,764,274</u>	<u>\$2,371,861</u>	<u>\$4,072,962</u>
<u>Other income</u>					
Net gain or loss from agents' or premium balances charged off	(\$64,056)	(\$35,632)	(\$55,335)	(\$78,642)	(\$47,438)
Finance and service charges not included in premiums	370,298	424,486	429,672	424,218	429,769
Aggregate write-ins for miscellaneous income	0	0	0	0	0
Total other income	<u>\$306,242</u>	<u>\$388,854</u>	<u>\$374,337</u>	<u>\$345,576</u>	<u>\$382,331</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$4,529,274	\$6,081,703	\$3,712,172	\$5,079,377	\$7,079,707
Dividends to policyholders	0	0	0	0	0
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$4,529,274	\$6,081,703	\$3,712,172	\$5,079,377	\$7,079,707
Federal and foreign income taxes incurred	<u>1,421,517</u>	<u>1,345,134</u>	<u>760,650</u>	<u>1,403,966</u>	<u>1,056,000</u>
Net income	<u><u>\$3,107,757</u></u>	<u><u>\$4,736,569</u></u>	<u><u>\$2,951,522</u></u>	<u><u>\$3,675,411</u></u>	<u><u>\$6,023,707</u></u>

Exhibit C – Changes in Capital and Surplus for the Five-Year Period Ending December 31, 2018

CAPITAL AND SURPLUS

for the five year period ending December 31, 2018

Exhibit C

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus Account					
Net income or (loss)	\$3,107,757	\$4,736,569	\$2,951,522	\$3,675,411	\$6,023,707
Change in net unrealized capital gains or losses	1,633,097	(1,992,061)	1,519,130	6,781,072	(5,496,156)
Change in net deferred income tax	196,039	175,066	89,523	(1,322,824)	193,706
Change in non-admitted assets	(44,499)	(100,831)	(99,275)	113,198	(49,269)
Change in surplus notes	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>
Change in Surplus as regards to policyholders for the year	\$4,692,394	\$2,618,743	\$4,260,900	\$9,046,857	\$471,988
Surplus December 31 previous year	<u>60,357,989</u>	<u>65,050,383</u>	<u>67,669,126</u>	<u>71,930,026</u>	<u>80,976,882</u>
Surplus December 31 current year	<u><u>\$65,050,383</u></u>	<u><u>\$67,669,126</u></u>	<u><u>\$71,930,026</u></u>	<u><u>\$80,976,882</u></u>	<u><u>\$81,448,870</u></u>

NOTES TO FINANCIAL STATEMENTS

(NOTE 1) – BONDS, STOCKS & STATUTORY DEPOSITS

The Company reported an admitted asset for bonds and common stocks of \$93,400,519 and \$43,263,151 respectively at December 31, 2018. These amounts will be accepted as stated by this examination.

The following is a list of deposits as of December 31, 2018, for states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of a particular state. The securities held are either US Treasury Notes or a specific security and are in the following carrying amounts for the indicated states:

<u>State</u>	<u>Carrying Value</u>
New Jersey	\$152,067
Virginia	<u>\$258,300</u>
Total	<u><u>\$410,367</u></u>

(NOTE 2) – LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's reported liabilities at December 31, 2018, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to \$33,614,003 and \$9,343,851, respectively.

Christopher P. Maher, FCAS, MAAA, President of Maher Associates, Inc., appointed by the Board of Directors, rendered an opinion that claims unpaid and loss adjustment expense reserves recorded as of December 31, 2018, made a reasonable provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements.

NJDOBI contracted with Risk and Regulatory Consulting, LLC, to review the Company's loss reserves and actuarial liabilities and the examination actuarial consultants determined the recorded amounts were reasonably stated. The Property and Casualty Actuarial Unit of the NJDOBI, Office of Solvency Regulation performed a review and evaluation of the outstanding gross and net loss and loss adjustment expense reserves. This review determined the year-end loss provisions established by the Company were reasonably stated.

CONCLUSION

The undersigned hereby certifies that an examination has been made of Farmers Mutual Fire Insurance Company of Salem County and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,



Joshua J. Johnson, CFE
Examiner-in-Charge

Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:




Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

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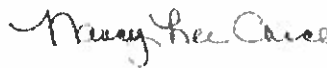
I, Joshua J. Johnson, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Farmers Mutual Fire Insurance Company of Salem County in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,



Joshua J. Johnson, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila Tkacs, on this
7th day of May, 2020.



Notary Public of New Jersey

My commission expires: July 2025