



# **Mississippi Insurance Department**

**Report of Examination**

**of**

**SOUTHERN FARM BUREAU CASUALTY  
INSURANCE COMPANY**

**as of**

**December 31, 2015**

## TABLE OF CONTENTS

Examiner Affidavit .....	1
Salutation .....	2
Scope of Examination .....	3
Comments and Recommendations of Previous Examination .....	3
History of the Company .....	3
Corporate Records .....	5
Management and Control .....	5
Stockholders .....	5
Board of Directors .....	5
Committees .....	7
Officers .....	9
Conflict of Interest .....	9
Holding Company Structure .....	9
Organizational Chart .....	10
Affiliated and Related Party Transactions .....	12
Fidelity Bond and Other Insurance .....	14
Pensions, Stock Ownership and Insurance Plans .....	14
Territory and Plan of Operation .....	14
Growth of Company .....	15
Mortality and Loss Experience .....	16
Reinsurance .....	16
Accounts and Records .....	18
Statutory Deposits .....	19
Financial Statements .....	20
Introduction .....	20

Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory .....	21
Summary of Operations - Statutory.....	22
Reconciliation of Capital and Surplus - Statutory .....	23
Reconciliation of Examination Adjustments to Surplus .....	24
Market Conduct Activities .....	25
Commitments and Contingent Liabilities .....	25
Subsequent Events .....	25
Comments and Recommendations.....	26
Acknowledgment .....	27

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION**

State of Mississippi,

County of Madison,

R. Dale Miller, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Southern Farm Bureau Casualty Insurance Company as of December 31, 2015.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Southern Farm Bureau Casualty Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

*R. Dale Miller*  
Examiner's Signature

Subscribed and sworn before me by R. DALE MILLER on this 14<sup>TH</sup> day of JUNE, 20 17.

(SEAL)

*Debbie Byrd*  
Notary Public



My commission expires 9-10-2018 [date]



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.ms.gov

MAILING ADDRESS  
Post Office Box 79  
Jackson, MS 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 576-2568

June 12, 2017

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2015, of the affairs and financial condition of:

**SOUTHERN FARM BUREAU CASUALTY INSURANCE COMPANY**

1800 East County Line Road  
Ridgeland, Mississippi 39157

License #	NAIC Group #	NAIC #	FEETS #	MATS #
7700932	0483	18325	18325-MS-2015-3	MS-MS099-5

This examination was commenced in accordance with Miss. Code Ann. §83-5-201 *et seq.* and was performed in Ridgeland, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed our full-scope financial examination of Southern Farm Bureau Casualty Insurance Company (“SFBCIC” or “Company”). The last examination covered the period of January 1, 2008 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015.

We conducted our examination in accordance with 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 risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Miss. Code Ann. §83-5-201 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 separately communicated to other regulators and/or the Company.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments and/or recommendations made by the Mississippi Insurance Department (“MID”) examination team in the previous examination report, which covered the period from January 1, 2008 through December 31, 2010.

## **HISTORY OF THE COMPANY**

In 1947, the Farm Bureau Federations located in the states of Arkansas, Florida, Mississippi and Texas organized individual investment corporations for the purpose of organizing the Company. On September 25, 1947, the Company was formed under the laws of the State of Mississippi as a as a property and casualty insurance company, with business commencing on September 30, 1947. Subsequently, the Louisiana, South Carolina and Colorado Farm Bureau Federations

acquired equal shares of the Company's capital stock and Florida sold its interest back to the Company.

Through December 31, 2008, the outstanding shares of SFBCIC were owned by the Farm Bureau Federations in the states of Arkansas, Colorado, Louisiana, Mississippi, South Carolina and Texas. Each entity held 666.6 shares or 16.67% of the 4,000 authorized shares of SFBCIC. The Texas parties withdrew from SFBCIC as of December 31, 2008, and surrendered its 666.6 shares of stock in exchange for shares of SFBCIC's wholly owned subsidiary operating in the State of Texas formed for purposes of the withdrawal. Because of the withdrawal of the Texas parties, SFBCIC and its remaining shareholders desired to amend the Articles of Association, the Bylaws and the Amended Membership Treaty under which it had operated. On December 14, 2009, the Treaty was terminated and a new organization structure for the Company was created (the "original reorganization"). Subsequent to the original reorganization, there were 10,428,000 shares of \$1 par value common stock authorized and 1,082,842 issued. Of the issued shares, 2,640 shares were voting shares and 1,080,202 were non-voting shares which were owned by the following shareholders:

- Arkansas Casualty Investment Corporation,
- Colorado Farm Bureau Investment Company,
- FFBF Investment Corporation,
- Louisiana Farm Bureau Investment Corporation,
- Mississippi Farm Bureau Holding Corporation and
- South Carolina Farm Bureau Investment LLC

(collectively referred to as the "Investment Companies"). The Investment Companies were majority owned by their respective Farm Bureau Federation/Organization ("Farm Bureau Organization").

Effective February 3, 2015, SFBCIC's ownership structure underwent another change whereby a new holding company, named Southern Casualty Holding Company ("SCHC"), was inserted between SFBCIC and its previous shareholders as part of a reorganization. The 2015 reorganization was done for regulatory purposes and did not impact the financial condition, e.g., the capital and surplus of SFBCIC remained the same immediately before and after the reorganization. In connection with the 2015 reorganization, the previous shareholder agreements between SFBCIC, the Farm Bureau Organizations and the Investment Companies were terminated and new shareholder agreements between SCHC, the Farm Bureau Organizations and the Investment Companies were entered into with substantially the same terms as the original shareholders agreement.

Subsequent to the 2015 reorganization, SFBCIC had 1,082,842 issued and outstanding shares of one class of common stock, all of which was owned exclusively by SCHC. The Investment Companies owned the following number of SCHC shares, which was the exact same number each investment company owned of existing shares in SFBCIC prior to the 2015 reorganization.

Shares Outstanding	Investment Companies						Total
	Arkansas	Colorado	Florida	Louisiana	Mississippi	South Carolina	
Class A	220	220	220	220	220	220	1,320
Class B	370,765	1,316	--	321,893	229,104	157,124	1,080,202
Class C	550	--	--	440	220	110	1,320
Total	371,535	1,536	220	322,553	229,544	157,454	1,082,842

## **CORPORATE RECORDS**

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Stockholders, Board of Directors (“Board”) and various committees, as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action, which included the approval and support of the Company’s transactions and events, as well as the review of the audit and examination report. In connection with the aforementioned 2015 reorganization, the Company’s Bylaws and Articles were amended and restated effective February 3, 2015.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

As of December 31, 2015, the Company had 2,000,000 shares of \$1 par value common stock authorized with 1,082,842 shares issued and outstanding. All issued and outstanding shares were voting shares. SCHC owned 100% of the shares issued and outstanding. The Company paid the following amounts as dividends to stockholders during the examination period.

2011	\$5,467,010
2012	\$52,800
2013	\$16,295,430
2014	\$16,295,430
2015	\$11,381,220

### **Board of Directors**

The Articles of Incorporation and Bylaws vest the management and control of the Company’s business affairs with the Board. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2015, were as follows:



<b>Name and Residence</b>	<b>Year Elected/Appointed</b>	<b>Principal Occupation</b>
Ronald Roy Anderson Chairman of the Board Ethel, Louisiana	1985	Farmer and President of Louisiana Farm Bureau Federation
John Lawrence Hoblick, Sr. Vice Chairman of the Board DeLeon Springs, Florida	2000	Farmer and President of Florida Farm Bureau Federation
Jon Harrison Carroll Moro, Arkansas	2014	Farmer
Joe Wayne Christian Jonesboro, Arkansas	2014 and 2010-2012	Farmer
Carlyle Wallace Currier Molina, Colorado	2011	Farmer
Thomas Michael Freeze Keo, Arkansas	2014	Fish Farmer
Donald Hubert Gant Merigold, Mississippi	2007	Farmer
Ben Martin Gramling II Gramling, South Carolina	1997	Agri-business/Development
Gregory Joseph Gravois Vacherie, Louisiana	2012	Farmer
Jim Toney Harper Cheneyville, Louisiana	2010	Farmer
Rich Edward Hillman II Carlisle, Arkansas	2009	Farmer and Vice President of Arkansas Farm Bureau Federation
Steve Allen Johnson Bowling Green, Florida	2015	Citrus Grower/Cattle Rancher
Theodore Hastings Kendall IV Bolton, Mississippi	2011	Farm Manager
Billy Regionald Magee Mt. Olive, Mississippi	2010 and 1999-2007	Farmer

David Michael McCormick Union Church, Mississippi	2015	Farmer and President of Mississippi Farm Bureau Federation
Michael Gerard Melancon Breaux Bridge, Louisiana	2015	Sugar Cane Farmer
Harold Gene Pharr Lincoln, Arkansas	2014	Farmer
Clinton Willie Sease Lexington, South Carolina	2009	Farmer
Donald James Shawcroft Alamosa, Colorado	2010	Farmer and President of Colorado Farm Bureau
Leo Carl Sutterfield, Jr. Mtn. View, Arkansas	2015 and 2010- 2012	Banker and Farmer
Harry Randal Veach Manila, Arkansas	2004	Farmer and President of Arkansas Farm Bureau Federation
Scott McDonald Wiggers, Jr. Winnsboro, Louisiana	2010	Farmer
David Melton Winkles, Jr. West Columbia, South Carolina	1998	Farmer and President of South Carolina Farm Bureau
Linda Zaunbrecher Gueydan, Louisiana	1993	Farmer

### **Committees**

During the period covered by this examination, the following Board appointed committees were utilized by the Company to carry out certain specified duties: Audit Committee, Compensation Committee, Executive Committee and Investment Committee.

#### **Audit Committee:**

The Audit Committee had six members, all of whom were outside directors, which met the requirements set forth by the Model Audit Rule. The Audit Committee's responsibilities included reviewing the audit report prepared by the outside accounting firm and making recommendations to the Board regarding the audit report and the selection of an outside accounting firm. The Audit Committee was also responsible for overseeing the Company's compliance with the Annual Financial Reporting Model Regulation and for making sure

management established, implemented, and monitored the system of internal controls over financial reporting.

Compensation Committee:

The Compensation Committee was comprised of the Presidents from each of the Farm Bureau Federations. The Chairman of the Board was also the Chairman of the Compensation Committee. The Compensation Committee duties included reviewing and making recommendations to the Board with respect to compensation and to perform such other duties as appropriate for the committee or as delegated by the Board.

Executive Committee:

The Executive Committee consisted of the Presidents from each of the Farm Bureau Federations who serve on the Board. The Chairman of the Board was also the Chairman of the Executive Committee. The Executive Committee had the power to exercise, conduct and control the business of the Company between meetings of the Board. The Executive Committee had the sole and exclusive power and authority to declare additional dividends.

Investment Committee:

The Investment Committee was comprised of Board and non-Board members; however, one member of the committee must be the Chairman of the Board. The committee delegated to the Investment Department the authority to transact the routine day-to-day investment duties including, but not limited to, the sale, purchase, and transfer of stocks, bonds, securities, and other investments, both real and personal. The Investment Committee reported to the Board regarding the condition of the funds, securities and investments of the Company.

The following members served on the committees mentioned above at December 31, 2015.

<b>Audit</b>	<b>Compensation</b>
John Lawrence Hoblick, Sr., Chairman	Ronald Roy Anderson, Chairman
Ronald Roy Anderson	John Lawrence Hoblick, Sr.
David Michael McCormick	David Michael McCormick
Donald James Shawcroft	Donald James Shawcroft
Harry Randall Veach	Harry Randall Veach
David Melton Winkles, Jr.	David Melton Winkles, Jr.

<b>Executive</b>	<b>Investment</b>
Ronald Roy Anderson, Chairman	Dennis Ray Griffin, Chairman
John Lawrence Hoblick, Sr.	Ronald Roy Anderson
David Michael McCormick	Thomas Herndon Arthur

Donald James Shawcroft	Judith Goodwin Blackburn
Harry Randall Veach	Dave Bruce Stipe
David Melton Winkles, Jr.	Robert Duff Wallace

## **Officers**

The senior officers of the Company as of December 31, 2015 were:

<b>Name of Officer</b>	<b>Number of Years with Company</b>	<b>Title</b>
Robert Duff Wallace	31	President and Chief Executive Officer
Dennis Ray Griffin	36	Senior Vice President – Chief Financial Officer
Steven Walter Ingram	32	Senior Vice President – Legal and Secretary
Judith Goodwin Blackburn	34	Senior Vice President and Treasurer
John Russell McCollough	19	Senior Vice President – Actuary
Jack Carlton Williams, Jr.	39	Senior Vice President – State Manager MS
Blaine Vernon Briggs	29	Senior Vice President – State Manager LA
Steven Clay Murray	34	Senior Vice President
David Leon Moore	26	Senior Vice President – State Manager AR
William O’Neil Courtney	30	Senior Vice President – State Manager SC
Jerry Joseph Keating, Jr.	30	Senior Vice President – State Manager CO
Geoffrey Alan Mercer	30	Senior Vice President – Technology

## **Conflict of Interest**

The Company had formal procedures whereby disclosures were made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with their official duties.

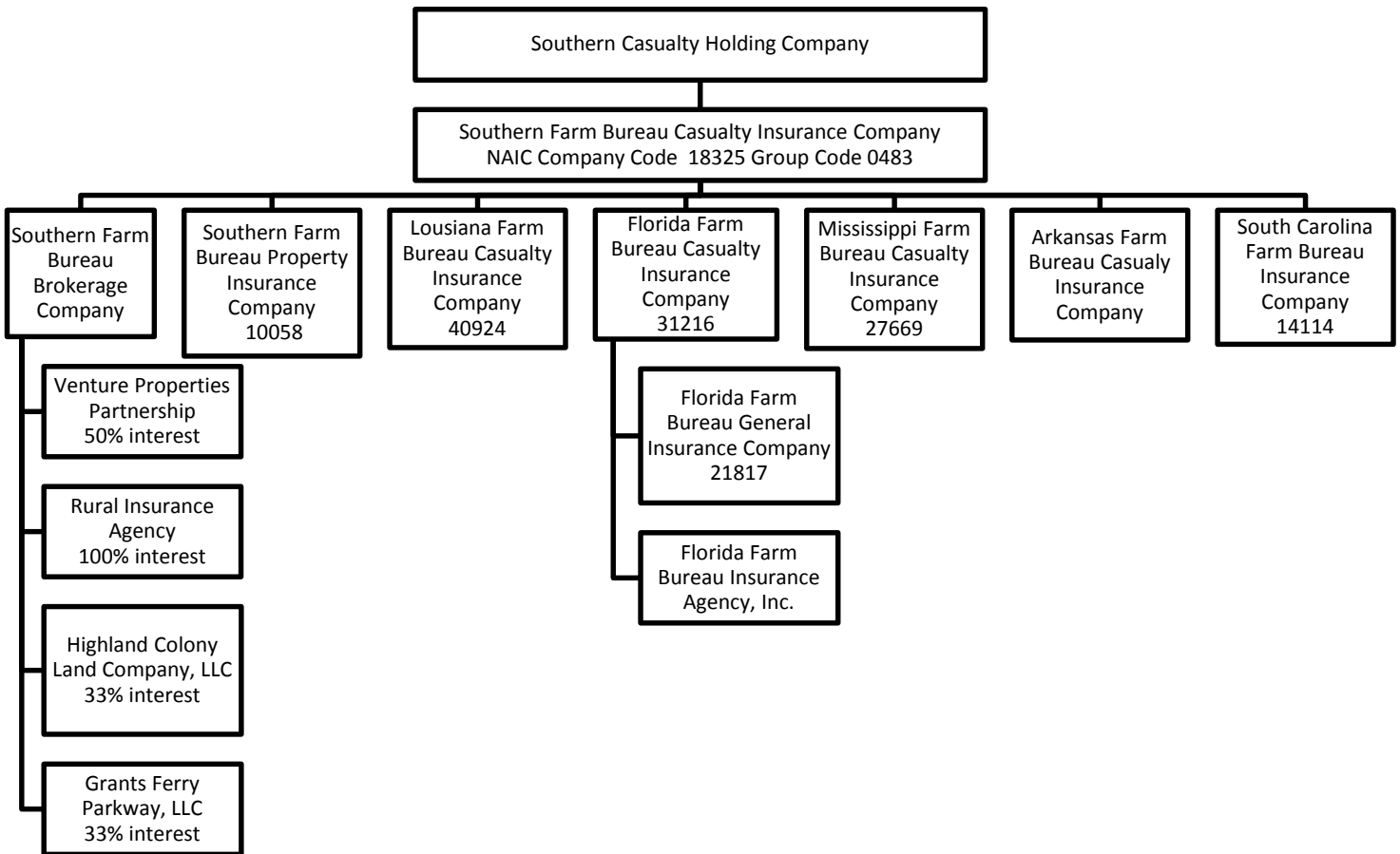
## **HOLDING COMPANY STRUCTURE**

During the time period covered by this examination, the Company reported as a member of an insurance company holding system as defined by Miss. Code Ann. §83-6-1. Holding Company

Registration Statements, for the period under examination, were filed with the MID in accordance with Miss. Code Ann. §83-6-5 and §83-6-9.

**Organizational Chart**

The organizational chart below displays the identities of the members of the holding company structure that included the Company, and is followed by a brief description of the Company’s other subsidiaries and interests.



SCHC was reported as the ultimate controlling person in the Holding Company Registration Statement filed with the MID as of December 31, 2015. SCHC was formed in 2015 for the sole purpose of holding all of the voting stock of the Company, the lead insurer in the group.

Below is a description of the Company’s wholly owned subsidiaries at December 31, 2015:

**Southern Farm Bureau Brokerage Company** (“SFBBC”), a noninsurance company, was formed primarily for conducting certain investment and reinsurance brokerage activities. The company did not invest on behalf of SFBCIC but in its own name. No cross guarantees with the parent exist for any of the activity of this company. Rural Insurance Agency, a wholly owned

subsidiary of SFBBC, was a noninsurance company brokerage operation that provided an outlet for placing business for customers in Mississippi which its affiliates, SFBCIC and MFBCIC, did not wish to write. SFBBC also owned 33% of the membership interest of Highland Colony Land Company, LLC, 33% of the membership interest of Grants Ferry Parkway, LLC, and 50% of the partnership interest of Venture Properties, all of which were non-insurance companies.

**Southern Farm Bureau Property Insurance Company** (“SFBPIC”) was formed in 1994 as a wholly owned subsidiary of SFBCIC to write property and casualty reinsurance for associated Farm Bureau companies in the Southeastern United States. Effective January 1, 2007, SFBPIC no longer conducted any active underwriting activities and essentially became inactive. The sole reinsurance activities consisted of runoff associated with reinsurance contracts entered into and terminated prior to January 1, 2007. No new contracts have been executed subsequent to January 1, 2007.

**Louisiana Farm Bureau Casualty Insurance Company** (“LFBCIC”) was incorporated on February 16, 1981, under the laws of the State of Louisiana, and its principal business was providing casualty insurance coverage (principally automobile) and processing claims in the State of Louisiana.

**Florida Farm Bureau Casualty Insurance Company** (“FFBCIC”) was incorporated in Florida on April 16, 1974, under the laws of the State of Florida. Its principal business, in association with its wholly owned subsidiary, Florida Farm Bureau General Insurance Company, was providing casualty insurance coverage (principally automobile, property and general liability) in the State of Florida. FFBCIC was also the parent of Florida Farm Bureau Agency, Inc., a noninsurance company brokerage operation that provided an outlet for placing business for customers in Florida which its parent did not wish to write.

**Mississippi Farm Bureau Casualty Insurance Company** (“MFBCIC”) was incorporated on May 19, 1986, under the laws of the State of Mississippi, and its principal business was providing casualty insurance coverage (principally automobile and homeowner) and property coverage in the State of Mississippi. Also, MFBCIC was an authorized surplus lines writer in various other states.

**Arkansas Farm Bureau Casualty Insurance Company** (“AFBCIC”) was incorporated on February 6, 2004, under the laws of the State of Arkansas and its principal business purpose was providing casualty insurance in the State of Arkansas. At the report date, this company was inactive.

**South Carolina Farm Bureau Insurance Company** (“SCFBIC”) was incorporated on February 11, 2011, under the laws of the State of South Carolina to provide casualty insurance, primarily private passenger automobile. Effective April 1, 2014, SFBCIC purchased 100% of the company’s outstanding common stock from South Carolina Farm Bureau Mutual Insurance Company. SCFBIC began writing business during 2015.

## **Affiliated and Related Party Transactions**

The Company's transactions with its related parties were reviewed and the following items were deemed notable for purposes of this report.

The Company, along with its subsidiaries and affiliates, filed a consolidated federal income tax return. The method of allocation among the companies was made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated return. Intercompany tax balances were settled annually in the subsequent year.

Surplus debentures of related companies were purchased by SFBCIC to strengthen the issuer's financial position. These investments are carried at cost and reported as other invested assets. Repayment of the surplus debentures (including interest) and certificates was permitted when and if the issuing company met certain surplus requirements and required approval of the domiciliary Insurance Department of the issuing company. Below are the surplus debentures held as of December 31, 2015:

On December 22, 2005, Louisiana Farm Bureau Mutual Insurance Company ("LA Mutual") issued a \$15,000,000 surplus note to SFBCIC with an interest rate of 4.70% per annum. The note was for a twenty year term with interest due annually. LA Mutual retired \$1,000,000 of the principal balance during the exam period reducing the principal balance owed to \$14,000,000 at December 31, 2015.

On April 19, 2006, MFBCIC issued a \$25,000,000 surplus note to SFBCIC with an interest rate equal to the interest payable on twenty year U.S. Treasury Bonds as of the date of the note. The interest rate was adjusted every second anniversary date and at December 31, 2015, the stated interest rate was 3.27%. The note was for a twenty year term with interest due annually. The principal balance owed was \$25,000,000 at December 31, 2015.

On March 29, 2013, South Carolina Farm Bureau Mutual Insurance Company issued a \$12,500,000 subordinated surplus note to SFBCIC with an interest rate of 6.00% per annum. The note was for a twenty year term with interest due annually. The principal balance owed was \$12,500,000 at December 31, 2015.

On May 4, 2013, Rural Insurance Agency issued a line of credit agreement and promissory note to SFBCIC for an advancement up to \$10,000,000 with all funds advanced under the line of credit to accrue interest at a floating interest rate equal to the prime lending rate as published by the Wall Street Journal adjusted on the first business day following any increase in the rate. The principal balance owed was \$6,167,000 at December 31, 2015.

As part of the 2009 original reorganization which was approved by the MID, SFBCIC issued notes to certain shareholders in 2009. Each note bore interest at 8.00% based upon a 365-day year, with interest and principal paid annually on December 1st of each year until the last

schedule payment to be made on December 1, 2019. The notes were non-collateralized. The principal balances owed on these notes at December 31, 2015, were as follows:

<b>Party</b>	<b>Outstanding Principal Balance at 12/31/15</b>
Arkansas Casualty Investment Corporation	\$ 6,101,683
Colorado Farm Bureau Investment Company	\$ 771,461
Louisiana Farm Bureau Investment Corporation	\$ 1,421,682
South Carolina Farm Bureau Investment LLC	\$ 1,624,367
<b>Total</b>	<b>\$ 9,919,193</b>

The Company had a management contract with SFBPIC, its wholly owned subsidiary, in which SFBCIC provided services to the subsidiary in the areas of legal, accounting, claims, underwriting, information services, etc. In return, SFBCIC received \$150,000 in 2015 as compensation for services rendered.

The Company had joint expense allocation agreements with MFBCIC, its wholly owned subsidiary, and the mutual companies in the states of Arkansas, Colorado, Louisiana, and South Carolina. Joint expenses allocated under this agreement were those expenses which were for the mutual benefit of the companies. All joint overhead expenses were allocated pursuant to the formula prescribed in one of the following four categories: loss adjustment expense, information system expense, other routine/reoccurring joint expenses and other expenses. Under the terms of the agreements, the joint expenses were paid by SFBCIC and subsequently reimbursed by MFBCIC and the mutual companies. The total amount of joint expenses reimbursed to the Company for 2015 was \$62,035,709.

The Company had expense allocation agreements with MFBCIC and FFBCIC in which certain home office expenses were allocated to the subsidiaries each month. This allocation was performed because of the support functions that the Company performed in the areas of legal, accounting, claims, underwriting, information services, etc., for the subsidiaries. Under the terms of the agreements, the expenses are paid by SFBCIC and subsequently reimbursed by the subsidiaries. The total amount of expenses reimbursed to the Company for 2015 was \$5,639,622.

The Company had licensing agreements with the various Farm Bureau Federations in the states of Arkansas, Mississippi, Louisiana, and South Carolina to use the "Farm Bureau" name and logo in connection with selling, placing and underwriting of property and casualty insurance products and services in the various states. In return, the Company paid royalty fees ranging from 0.97% to 1.04% per year on adjusted direct premiums written, less premiums collected from residual market pool policyholders and dividends declared by the licensees. Payments made by the Company under these arrangements for 2015 were \$8,384,324.

The Company had administrative service agreements with the various Farm Bureau Federations or their subsidiaries in the states of Arkansas, Mississippi, Louisiana, and South Carolina by which the Farm Bureau Federations or their subsidiaries agreed to provide services or furnish facilities to the Company based on the terms of the agreements. Although the services provided



varied state by state, such services included telephone switchboard services, printing services, accounting services, equipment usage, telephone services as well as stationary and postage, secretarial and support staff and supplies not normally furnished by the Company. Payments made by the Company under this arrangement for 2015 were \$1,602,249.

The Company had agreements with other Farm Bureau companies and related mutual insurance companies that provided for the rental of office facilities, equipment, automobiles, data processing as well as the allocation of certain operating and underwriting expenses. Management believed that such agreements were beneficial to SFBCIC in providing operating efficiency and prompt service to policyholders.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company was insured under various insurance policies to protect its interests. In particular, the Company maintained directors and officers coverage, professional liability coverage, electronic and computer crime coverage, and fidelity coverage. The Company had a financial institution bond with a \$5,000,000 single loss limit of liability and a fiduciary liability policy with a \$10,000,000 single loss limit of liability which exceeded the NAIC's suggested minimum amount for fidelity coverage.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided a noncontributory retirement plan, a 401(k) plan, a flexible spending plan, as well as various insurance coverages, which included group term life, medical and dental, accidental death, long-term disability and worker's compensation. Provisions were made within the financial statements for obligations in regard to the benefits and welfare programs provided.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2015, the Company was authorized to transact the following lines of business in the State of Mississippi:

Accident & Health	Home/Farm Owners
Automobile Physical Damage/Liability	Inland Marine
Boiler and Machinery	Ocean Marine
Casualty/Liability	Plate Glass
Fidelity	Surety
Fire/Allied Lines	

The Company was a multi-line regional property and casualty insurance company and operated through decentralized operations in the following six states: Arkansas, Colorado, Florida, Louisiana, Mississippi and South Carolina. The Company specialized in personal lines, primarily casualty insurance coverages with an emphasis on private passenger auto and farm general liability coverages.

The Company issued automobile business in the states of Arkansas, Louisiana and South Carolina with a small portion of assigned risk policies directly written in Mississippi. Further, the Company assumed automobile business from Farm Bureau mutual companies in the States of Colorado, Louisiana and South Carolina in addition to their wholly owned subsidiaries, LFBCIC, MFBCIC and SCFBIC.

### **GROWTH OF COMPANY**

	2015	2014	2013	2012	2011
Total admitted assets	\$ 2,150,348,235	\$ 2,094,549,775	\$ 1,998,252,554	\$ 1,899,237,304	\$ 1,804,797,311
Total liabilities	\$ 832,515,076	\$ 818,927,076	\$ 762,376,373	\$ 738,127,271	\$ 740,544,283
Surplus as regards policyholders	\$ 1,317,833,159	\$ 1,275,622,699	\$ 1,235,876,184	\$ 1,161,110,033	\$ 1,064,253,028
Net cash from operations	\$ 17,618,019	\$ 60,492,792	\$ 48,808,368	\$ 65,085,735	\$ 11,893,246
Total adjusted capital	\$ 1,317,833,159	\$ 1,275,622,699	\$ 1,235,876,181	\$ 1,161,110,033	\$ 1,064,253,028
Authorized control level risk-based capital	\$ 78,487,044	\$ 80,983,325	\$ 83,424,380	\$ 79,054,646	\$ 77,848,338
Direct premiums written	\$ 244,322,059	\$ 243,932,514	\$ 241,672,557	\$ 235,884,988	\$ 238,048,118
Assumed premiums written	\$ 632,967,068	\$ 633,487,872	\$ 620,009,437	\$ 600,876,031	\$ 589,641,258
Ceded premiums written	\$ 38,994,949	\$ 35,768,181	\$ 35,854,201	\$ 33,739,389	\$ 33,665,957
Net premiums written	\$ 838,294,178	\$ 841,652,205	\$ 825,827,793	\$ 803,021,630	\$ 794,023,419
Net underwriting gain (loss)	\$ (36,409,751)	\$ 3,198,606	\$ (2,593,358)	\$ 39,550,052	\$ (39,655,834)
Net investment gain	\$ 41,223,306	\$ 44,834,143	\$ 18,158,682	\$ 40,363,006	\$ 43,545,379
Net income (loss)	\$ 9,770,801	\$ 50,691,929	\$ 36,446,908	\$ 70,782,990	\$ 10,338,391
Return on equity	0.7%	4.0%	2.9%	6.1%	1.0%
Net loss ratio	83.9%	79.5%	80.3%	74.3%	85.0%
Expense ratio	20.3%	20.0%	19.8%	20.7%	19.9%
Investment yield	2.0%	2.0%	2.1%	2.3%	2.7%
Liquidity ratio	58.1%	57.3%	54.9%	55.6%	59.4%

## **MORTALITY AND LOSS EXPERIENCE**

The MID contracted with Merlinos & Associates, Inc. to review the actuarial analysis supporting the Company's carried loss and loss adjustment expense reserves. Based on the examination actuarial evaluation, the Company's estimates for gross and net unpaid loss and loss adjustment expenses appeared to be reasonably stated in all material respects.

## **REINSURANCE**

The Company had various reinsurance agreements with their wholly owned subsidiaries and other related companies. Historically, the Company's reinsurance program has been for SFBCIC to retain the casualty exposures and the Farm Bureau entities in the respective states to retain the property exposures, regardless of which company issued the policy.

### Assumed:

At December 31, 2015, SFBCIC assumed the following lines of business from its related parties:

- 100% of automobile business written by MFBCIC, LFBCIC, SCFBIC and the mutual companies in the states of Louisiana, South Carolina and Colorado.
- 100% of umbrella policies written by MFBCIC and the mutual companies in the states of Louisiana, South Carolina, Arkansas and Colorado.
- 100% of flood exposure written by MFBCIC, FFBCIC, LFBCIC and the mutual company in the State of South Carolina.
- The ultimate net loss for Section II Liability in excess of \$750,000 written by MFBCIC and the mutual companies in Arkansas, Colorado and Louisiana. Section II Liability (also referred to as excess casualty) was the portion of the general liability coverage provided in a package policy that also offers property insurance.

In addition, SFBCIC provided aggregate excess of loss expense ratio reinsurance agreements ("Loss Ratio Plans") to the mutual companies in the states of Louisiana, South Carolina and Arkansas. Through the Loss Ratio Plans, the Company reimbursed the mutual companies for loss and defense and cost containment expenses for the accident year to which the agreement applied (accident year being the same as the term of the agreement) if the loss and defense and cost containment ratio exceeded a percentage (attachment point), as specified in the agreement. If the attachment point was reached, the Loss Ratio Plan would pay losses and defense and cost containment expenses until the amount paid reached the maximum coverage limit, at which point losses and defense and cost containment expenses would again be the mutual companies' responsibility. Both the threshold amount and limit amount may vary each year.

At the examination date, the principle companies with which business was assumed and the respective premium amounts assumed for year ended 2015 were as follows:

Ceding Company	Assumed Premiums
Florida Farm Bureau Casualty Insurance Company	\$ 5,476,000
Louisiana Farm Bureau Casualty Insurance Company	\$ 216,395,000
Mississippi Farm Bureau Casualty Insurance Company	\$ 212,769,000
South Carolina Farm Bureau Insurance Company	\$ 11,133,000
Colorado Farm Bureau Mutual Insurance Company	\$ 34,919,000
Farm Bureau Mutual Insurance Company of Arkansas	\$ 14,362,000
Louisiana Farm Bureau Mutual Insurance Company	\$ 30,121,000
South Carolina Farm Bureau Mutual Insurance Company	\$ 107,782,000

Ceded:

The Company limited the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk with other insurers or reinsurers, either on an automatic basis, under general reinsurance contracts known as “treaties,” or by negotiation for substantial individual risks. The Company maintained various forms of reinsurance on essentially all lines. Ceded reinsurance was treated as the risk and liability of the assuming companies.

The liabilities for losses and loss adjustment expenses at December 31, 2015 were reduced for reinsurance ceded of approximately \$12,336,000. These amounts would represent a liability of the Company if the reinsurers were unable to meet their obligation for existing unpaid losses ceded under reinsurance agreements.

At the examination date, the principle reinsurers and respective premium amounts ceded for year ended 2015 and total amounts recoverable at December 31, 2015, were as follows:

Assuming Company	Ceded Premiums	Recoverable
Platinum Underwriters Reinsurance Inc.	\$ 180,000	\$ -
Transatlantic Reinsurance Company	\$ 90,000	\$ -
American Agricultural Insurance Company	\$ 15,813,000	\$ 12,943,000
Partner Re US	\$ 90,000	\$ -
Berkley Insurance Company	\$ 90,000	\$ -
National Flood Insurance Program	\$ 22,732,000	\$ 13,468,000

For the Company’s umbrella exposures that were either written directly by SFBCIC or written by a related Farm Bureau entity and 100% ceded to SFBCIC, the Company had the following reinsurance agreements in place at December 31, 2015:

- An umbrella excess of loss agreement with a \$500,000 retention for umbrella policies with limits of \$1,000,000 to \$5,000,000.
- A facultative reinsurance agreement for umbrella policies with limits of \$6,000,000 to \$10,000,000 and a retention of \$5,000,000 which was subject to the umbrella excess of loss reinsurance agreement previously discussed.

- A separate umbrella quota share reinsurance agreement regarding Colorado exposures that applied to umbrella policies with limits of \$1,000,000 up to \$5,000,000 with SFBCIC retaining 10% of the first \$1,000,000.

For the Company’s primary casualty lines of business (automobile liability, general liability and farm environmental liability) that are either written directly by SFBCIC or written by a related Farm Bureau entity and ceded to SFBCIC, the Company had a liability excess of loss reinsurance agreement with a \$750,000 retention for each loss event at December 31, 2015. The 2015 reinsurance structure had six layers, with aggregate limits applying only to layers 4-6.

<b>Layer</b>	<b>Retention</b>	<b>Occurrence Limit</b>
1	\$ 750,000	\$ 2,500,000
2	\$ 3,250,000	\$ 4,500,000
3	\$ 7,750,000	\$ 5,000,000
4	\$ 12,750,000	\$ 5,000,000
5	\$ 17,750,000	\$ 5,000,000
6	\$ 22,750,000	\$ 7,250,000
All layers		\$ 29,250,000

During 2015, all of the direct and assumed flood exposure was ceded 100% to the National Flood Insurance Program. In addition, the Company retroceded 50% of the premium and exposure under each of the four Loss Ratio Plan agreements.

## **ACCOUNTS AND RECORDS**

The Company utilized a computerized accounting system on which general ledger information was maintained. Detailed general ledger information was traced to the trial balance and the December 31, 2015 annual statement, without material exception.

The primary data center was housed at the Company and hosted a number of applications for SFBCIC and its subsidiaries through the use of a Mainframe computer. The Company was responsible for physical security, computer operations including, backups and disaster recovery over the Mainframe and the applications which resided on it. In 2014, numerous enterprise-wide systems were implemented on a Microsoft Windows platform. Detailed premium and loss information was maintained at the Farm Bureau state offices and was periodically uploaded to the Company’s mainframe for financial reporting.

The Company was audited annually by an independent CPA firm.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §83-19-31(2). The following chart displays the Company's deposits at December 31, 2015.

<b>Description</b>	<b>State Deposited</b>	<b>Par Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
State Bond	Mississippi	\$ 2,000,000	\$ 2,022,371	\$ 2,177,820
Total Held in Mississippi		<u>2,000,000</u>	<u>2,022,371</u>	<u>2,177,820</u>
State Bond	Arkansas	175,000	178,818	186,359
State Bond	South Carolina	200,000	220,571	238,398
Total Held in all Other States		<u>375,000</u>	<u>399,389</u>	<u>424,757</u>
<b>Total Held</b>		<u>\$ 2,375,000</u>	<u>\$ 2,421,760</u>	<u>\$ 2,602,577</u>

**SOUTHERN FARM BUREAU CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**  
**EXAMINATION AS OF DECEMBER 31, 2015**

**Introduction**

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory at December 31, 2015, a Summary of Operations - Statutory for year ended December 31, 2015, a Reconciliation of Capital and Surplus - Statutory for examination period ended December 31, 2015, and a Reconciliation of Examination Changes to Surplus - Statutory at December 31, 2015.

## Statement of Admitted Assets, Liabilities, Surplus and Other Funds – Statutory December 31, 2015

### Admitted Assets

Bonds	\$	1,029,042,617
Common stocks		735,284,819
Properties occupied by the company		12,820,224
Properties held for sale		1,850,969
Cash, cash equivalents and short-term investments		89,062,259
Other invested assets		59,388,036
Receivables for securities		126,440
Investment income due and accrued		12,423,458
Uncollected premiums and agents' balances in the course of collection		3,187,564
Deferred premiums, agents' balances and installments booked but deferred and not yet due		103,777,506
Amounts recoverable from reinsurers		267,102
Funds held by or deposited with reinsured companies		7,014,010
Current federal and foreign income tax recoverable and interest thereon		7,221,096
Net deferred tax asset		50,803,351
Electronic data processing equipment and software		4,930,783
Receivable from parent, subsidiaries and affiliates		20,410,570
Aggregate write-ins for other-than-invested assets		12,737,431
<hr/>		
Total admitted assets	\$	<b>2,150,348,235</b>

### Liabilities, Surplus and Other Funds

Losses	\$	317,611,003
Loss adjustment expenses		66,202,881
Commissions payable, contingent commissions and other similar charges		8,554,963
Other expenses		1,188,757
Taxes, licenses and fees		1,872,522
Borrowed money and interest thereon		9,984,415
Unearned premiums		241,327,710
Advance premium		8,913,398
Ceded reinsurance premiums payable		1,584,372
Amounts withheld or retained by company for accounts of others		37,041,666
Payable to parent, subsidiaries and affiliates		1,546,124
Derivatives		1,201,240
Aggregate write-ins for liabilities		135,486,025
<hr/>		
Total liabilities		<b>832,515,076</b>

Common capital stock		1,082,842
Gross paid in and contributed surplus		620,491
Unassigned funds (surplus)		1,316,129,826
<hr/>		

Surplus as regards policyholders		<b>1,317,833,159</b>
<hr/>		

Total liabilities and surplus as regards policyholders	\$	<b>2,150,348,235</b>
<hr/>		



**Summary of Operations – Statutory  
For the Examination Period Ended December 31, 2015**

**Underwriting Income**

Premiums earned \$ 833,606,188

**Deductions:**

Losses incurred 587,877,776

Loss adjustment expenses incurred 111,845,957

Other underwriting expenses incurred 170,292,206

Total underwriting deductions 870,015,939

Net underwriting gain (loss) (36,409,751)

---

**Investment Income**

Net investment income earned 37,560,201

Net realized capital gains (losses) less capital gains tax 3,663,105

Net investment gain 41,223,306

---

**Other Income**

Net loss from agents' or premium balances charged off (463,589)

Finance and service charges not included in premiums 71,308

Aggregate write-ins for miscellaneous income 3,573,116

Total other income 3,180,835

---

Net income before dividends to policyholders, after capital gains tax and  
before all other federal and foreign income taxes 7,994,390

Federal and foreign income taxes incurred (1,776,411)

---

Net Income \$ 9,770,801

---

**Reconciliation of Capital and Surplus – Statutory  
For the Examination Period Ended December 31, 2015**

	2015	2014	2013	2012	2011
Surplus as regards policyholders, beginning of the year	\$ 1,275,622,699	\$ 1,235,876,184	\$ 1,161,110,033	\$ 1,064,253,028	\$ 1,063,661,985
Net income	9,770,801	50,691,929	36,446,908	70,782,990	10,338,391
Change in net unrealized capital gains or (losses)	51,007,931	38,199,739	70,767,167	36,570,955	652,104
Change in net deferred income tax	10,761,116	5,502,061	(13,694,153)	(3,333,207)	17,905,612
Change in nonadmitted assets	(13,212,458)	(7,679,614)	923,369	500,151	(22,838,054)
Change in surplus notes	-	-	-	-	-
Dividends to stockholders	(11,381,220)	(16,295,430)	(16,295,430)	(52,800)	(5,467,010)
Change in liability for benefits	3,024,802	(21,780,275)	7,611,084	(7,611,084)	-
Recognition of transition liability under SSAPs 92 and 102	(7,760,512)	(8,891,895)	(10,992,794)	-	-
Surplus as regards policyholders, end of the year	\$ 1,317,833,159	\$ 1,275,622,699	\$ 1,235,876,184	\$ 1,161,110,033	\$ 1,064,253,028

**Reconciliation of Examination Adjustments to Surplus  
For the Examination Period Ended December 31, 2015**

There were no changes made to the assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2015. The surplus as regards policyholders, which totaled \$1,317,833,159 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included operations/management, complaint handling, producer licensing, underwriting and rating, and claims. No significant exceptions with regard to the limited procedures performed were noted.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

During and subsequent to the examination period, the Company was not involved in litigation outside the normal course of business.

## **SUBSEQUENT EVENTS**

The following changes in officers and directors were noted subsequent to the examination date. Effective February 15, 2016, the following Director changes occurred:

- Linda Zaunbrecher was replaced by Richard Bryan Fontenot
- Jon Harrison Carroll was replaced by Joe Carroll Thrash
- Clinton Willie Sease was replaced by George Newton Bryant
- Leo Carl Sutterfield, Jr., was replaced by Sherry Wren Felts
- David Melton Winkles, Jr., was replaced by Harry Legare Ott, Jr.
- Ben Martin Gramling II was replaced by William Keistler Coleman
- Harold Gene Pharr was replaced by Thomas Scott Jones

Effective May 16, 2016, Dennis Ray Griffin, Chief Financial Officer, was replaced by Judith Goodwin Blackburn. In addition, William Baxter Jones was named Senior Vice President – Claims. Ms. Blackburn's previous position, Treasurer, was not filled. Effective June 1, 2016, Steven Walter Ingram, Senior Vice President – Legal and Secretary, was replaced by Lydia Catherine Warren. Effective September 1, 2016, Richard Ross Sims was named Senior Vice President – Underwriting. Effective October 17, 2016, John Russell McCollough, appointed actuary, was replaced by Benjamin Jerome Kimmons to certify all loss reserves on its annual statement for year 2016 and thereafter.

As a result of a 2014 target exam of the Company, management identified and prepared a summary of all arrangements whereby services were provided to or from subsidiaries of SFBCIC or related parties which resulted in newly issued related party agreements subsequent to the examination date.

## **COMMENTS AND RECOMMENDATIONS**

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge:	R. Dale Miller, CPA, CFE, CFF
Supervising Examiner:	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Lead Actuary:	Robert P. Daniel, ACAS, MAAA
Lead IT Specialist:	David E. Mills, CISA, CTGA, CGEIT, MCSE
Examiner:	Andrea J. Harbison, CPA
Examiner:	Sharon L. Stuber, CPA
Examiner:	F. Taylor Phillips, CPA
Examiner:	Robin H. Brown, CFE
Examiner:	Daniel H. Bryde
Examiner:	Kenneth A. Cordell

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Examiner-in-charge