

**EXAMINATION REPORT**

**OF**

**FFVA MUTUAL INSURANCE COMPANY**

**MAITLAND, FLORIDA**

**AS OF**

**DECEMBER 31, 2014**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

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April 15, 2016

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of

FFVA Mutual Insurance Company  
800 Trafalgar Court, Suite 200  
Maitland, Florida 32751

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covered the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on November 18, 2015 to November 20, 2015. The fieldwork commenced on November 23, 2015 and concluded as of April 15, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (*Handbook*). The Handbook requires that the examination is planned and performed 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes 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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

### **Corporate Governance**

The Company was not in compliance with Section 628.261, Florida Statutes, which requires the Company to notify the Office in writing of any change of personnel among the directors or principal officers of the insurer within 45 days of such change.

### **Prior Examination Findings**

There were no material financial findings or significant exceptions noted during the examination as of December 31, 2009.

## **COMPANY HISTORY**

### **General**

The Company commenced business on August 21, 1956 as a self-insurer's fund providing workers' compensation coverage for the agricultural community and association members in Florida with the name Florida Fruit and Vegetable Association Self Insurers Fund. On September 1, 1996, the Company was converted from a self-insurer's fund to a domestic non-assessable mutual insurance company with a new name, FFVA Mutual Insurance Company.

Concurrent with this conversion, on September 1, 1996, the Company began reporting to the Office.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Workers' Compensation insurance coverage in Florida on August 21, 1956, and in the additional states of Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee and Alabama as of December 31, 2014.

Certificates of Authority were observed for all of the licensed jurisdictions. In compliance with Section 624.430(1), Florida Statutes, the Company's Exhibit of Premiums Written from the 2014 Annual Statement reflected that business was written in all licensed jurisdictions.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

## **Dividends**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its policyholders in 2014 and 2013 in the amounts of \$7,516,233 and \$7,299,962, respectively.

## **Capital Stock and Capital Contributions**

The Company is a non-assessable mutual insurance company; therefore, Capital Stock was not issued and control of the Company is maintained by its policyholders.

## **Surplus Notes**

The Company issued a floating rate Surplus Note in the amount of \$12,000,000 on May 22, 2003 to INCapS Funding I, Ltd, with Wilmington Trust Company serving as the indentured trustee. The Company may, at its option, redeem the Surplus Note, in whole or in part, on any interest payment date on or after May 2008.

The Surplus Note had subordination terms such that payments of principal, premium and interest were subordinate to the prior payment in full of all policy claims and senior indebtedness of the Company. The Office approved the issuance of the Surplus Note and must also approve any payments of interest and principal. Interest paid year-to-date and since inception totaled \$525,809 and \$8,382,538, respectively. The Surplus Note has a final maturity date of May 23, 2033.

## **Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual Policyholders meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown on the following page.

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Morgan Henderson Roe Baja, Florida	Missionary Mission to the World
Charles Thomas Ranson Vero Beach, Florida	Retired Graves Brothers Company
Peter Stuart Harlee, Jr. Palmetto, Florida	President Harlee Farms, Inc.
Leslie Woodrow Dunson, III Winter Haven, Florida	President Dunson Harvesting, Inc.
Robert Charles Barrett Orlando, Florida	Attorney and Partner Rissman, Barrett, Hurt, etc, P.A.
Glen Roy Rogers Mount Dora, Florida	President Zellwin Farms Company
Michael Joseph Stuart Sanford, Florida	Chief Executive Officer Florida Fruit & Vegetable Association
Craig Menzl Orlando, Florida	CEO & President FFVA-AIM, Inc.
Kerry Roland Gubics Westlake, Ohio	Partner Cohen & Company, Ltd.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

## Senior Officers

<b>Name</b>	<b>Title</b>
Craig Menzl	CEO & President
Alan Ernest Hair	Secretary/Treasurer, CFO

## **Committees**

The Company's Board appointed internal committees in accordance with Section 607.0825, Florida Statutes. The required Audit Committee was established pursuant to Section 624.424(8)(c), Florida Statutes. All of the Directors noted on the previous page were also members of the Audit Committee as of December 31, 2014.

## **Affiliated Companies**

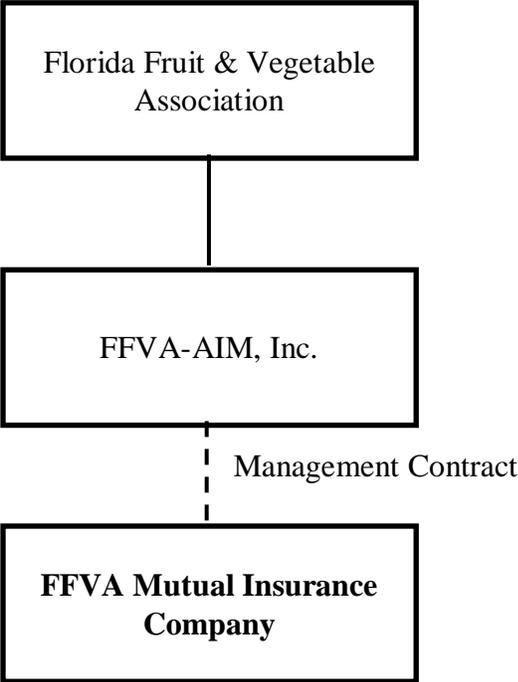
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The most recent holding company registration statement was filed with the Office on February 26, 2016 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The Company was organized as a mutual insurance company, and thus, had no parent company or subsidiaries. However, it is affiliated with FFVA-AIM, Inc. through a management contract. FFVA-AIM, Inc. is a wholly owned subsidiary of the Florida Fruit and Vegetable Association (FFVA).

**FFVA MUTUAL INSURANCE COMPANY**

**Organizational Chart**

**December 31, 2014**



The following agreements were in effect between the Company and its affiliates:

### **Management Agreement**

The Company is party to a Management Agreement with FFVA-AIM, effective January 1, 1996. Per agreement terms, FFVA-AIM is solely responsible for managing and administering the affairs of the Company, which includes, but is not limited to, marketing, underwriting, billing, collection, claims administration, termination and reinstatement of members, safety and loss prevention, excess insurance, issuance of evidence of coverage, accounting, regulatory reporting, investment, auditing, budgeting and general administration. Annual base management fees are calculated at 13% of earned standard premium of \$60,000,000 and below and 11.5% of earned standard premium over \$60,000,000 plus \$7,800,000. Fees incurred under this agreement during 2014 amounted to \$15,350,000.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states:

Florida	Alabama	Georgia	Kentucky
Mississippi	North Carolina	South Carolina	Tennessee

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes. The Company maintained a claims procedure manual

that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3.a., Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

The Company had an agreement with Willis Re to serve as its reinsurance broker. Willis Re negotiated all in force reinsurance treaties on behalf of the Company.

### **Assumed**

The Company assumes an immaterial amount of reinsurance from the National Workers Compensation Reinsurance Pool (NCCI).

### **Ceded**

The Company was party to a Workers' Compensation Excess of Loss reinsurance treaty with Everest Reinsurance Company, Partner Reinsurance Company of the U.S., Safety National Casualty Corporation and Technology Insurance Company, Inc., brokered by Willis Re. The agreement was effective January 1, 2014 through December 31, 2014. Per treaty terms, the Company retains \$1,000,000 for first excess of loss and \$2,000,000 for second excess of loss.

The Company was party to a Workers' Compensation Catastrophe Excess of Loss reinsurance treaty with ACE Property & Casualty Insurance Company, Renaissance Reinsurance, Ltd., Swiss Reinsurance America Corporation and Tokio Millennium Re, Ltd. The agreement was effective January 1, 2014 through December 31, 2014. Per treaty terms, The Company retains \$10,000,000.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Maitland, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with The Bank of New York, executed on July 9, 2004. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

The Company maintained a custodial agreement with SunTrust Bank, executed on August 12, 2003. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

Averett, Warmus Durkee audited the Company's statutory basis financial statements annually for all years of the examination period, 2010, 2011, 2012, 2013 and 2014, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Phillip McMurray, CISSP, CISA, AES and Tom Hayden, CIS, AES of Risk & Regulatory Consulting, LLC (RRC) performed the review and evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law.

State	Description	Par Value	Market Value
FL	USFI, 5.00%, 10/01/23	\$ 500,000	\$ 603,020
FL	USFI, 4.00%, 08/01/24	520,000	574,907
FL	USFI, 5.00%, 01/01/26	485,000	564,026
FL	USFI, 4.25%, 02/01/18	150,000	162,563
FL	USFI, 4.318%, 04/01/18	500,000	538,085
FL	USFI, 4.867%, 09/01/18	500,000	548,020
FL	USFI, 4.355%, 02/01/19	125,000	133,968
FL	USFI, 5.25%, 04/01/20	500,000	557,620
FL	USFI, 5.25%, 07/01/20	500,000	573,310
FL	USFI, 5.30%, 10/01/23	500,000	571,285
FL	USFI, 5.125%, 02/01/24	125,000	140,469
FL	USFI, 5.71%, 07/01/24	500,000	607,320
FL	USFI, 0.75%, 10/31/17	<u>200,000</u>	<u>198,406</u>
TOTAL FLORIDA DEPOSITS		\$5,105,000	\$5,772,999
GA	Pearland, Texas	\$ 90,000	\$ 94,403
GA	Cash/MM	10,000	10,000
NC	Cash/MM	<u>200,036</u>	<u>200,036</u>
TOTAL OTHER DEPOSITS		<u>\$ 300,036</u>	<u>\$ 304,439</u>
TOTAL SPECIAL DEPOSITS		<u>\$5,405,036</u>	<u>\$6,077,438</u>

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

**FFVA Mutual Insurance Company**

**Assets**

**December 31, 2014**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$172,983,163		\$172,983,163
Stocks:			
Preferred	14,263,575		14,263,575
Common	45,206,385		45,206,385
Real Estate:			
Properties			
occupied by Company	2,605,916		2,605,916
Cash and Short-Term Investments	29,736,749		29,736,749
Investment income due and accrued	1,362,167		1,362,167
Agents' Balances:			
Uncollected premium	2,549,044		2,549,044
Deferred premium	29,567,306		29,567,306
Accrued retrospective premium	1,203,805		1,203,805
Reinsurance recoverable	967,016		967,016
Net deferred tax asset	7,121,486		7,121,486
Aggregate write-in for other than invested assets	200,444		200,444
	<hr/>		<hr/>
Totals	<u>\$307,767,057</u>	<u>\$0</u>	<u>\$307,767,057</u>

**FFVA Mutual Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	\$100,903,253		\$100,903,253
Loss adjustment expenses	19,052,245		19,052,245
Commissions payable	4,115,101		4,115,101
Other expenses	1,098,816		1,098,816
Taxes, licenses and fees	713,977		713,977
Current federal income taxes	16,935		16,935
Unearned premiums	39,248,555		39,248,555
Advance premium	1,994,716		1,994,716
Policyholders dividends	432,099		432,099
Ceded reinsurance premiums payable	218,991		218,991
Amounts withheld by company	1,221,717		1,221,717
Provision for reinsurance	350,636		350,636
Payable for securities	396,257		396,257
<b>Total Liabilities</b>	<b>\$169,763,298</b>	<b>\$0</b>	<b>\$169,763,298</b>
Surplus notes	\$12,000,000		\$12,000,000
Unassigned funds (surplus)	126,003,759		126,003,759
<b>Surplus as regards policyholders</b>	<b>\$138,003,759</b>	<b>\$0</b>	<b>\$138,003,759</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$307,767,057</b>	<b>\$0</b>	<b>\$307,767,057</b>

**FFVA Mutual Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2014**

**Underwriting Income**

Premiums earned		\$105,271,411
	<b>Deductions:</b>	
Losses incurred		\$51,613,570
Loss expenses incurred		12,886,417
Other underwriting expenses incurred		28,576,332
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$93,076,319</u>
Net underwriting gain or (loss)		\$12,195,092

**Investment Income**

Net investment income earned		\$4,046,957
Net realized capital gains or (losses)		11,176,496
Net investment gain or (loss)		<u>\$15,223,453</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$148,139)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		47,481
Total other income		<u>(\$100,658)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$27,317,887
Dividends to policyholders		<u>7,516,233</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$19,801,654
Federal & foreign income taxes		<u>138,800</u>
Net Income		<u><u>\$19,662,854</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$123,184,452
Net Income		\$19,662,854
Change in net unrealized capital gains or losses		(1,532,297)
Change in net deferred income tax		(6,322,639)
Change in non-admitted assets		3,058,026
Change in provision for reinsurance		(46,636)
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$14,819,307</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$138,003,759</u></u>

**FFVA Mutual Insurance Company**  
**Comparative Analysis of Changes in Surplus**  
**December 31, 2014**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2014, per Annual Statement	\$138,003,759
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$138,003,759

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

Milliman USA was appointed by the Board and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office's consulting actuary, David Wolfe, ACAS, MAAA of Risk & Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$138,003,759 exceeded the minimum of \$16,154,941 required by Section 624.408, Florida Statutes.

## **SUMMARY OF RECOMMENDATIONS**

### **Corporate Governance**

We recommend that the Company notify the Office in writing within 45 days of any change in Officer or Director, including additions and removals in compliance with Section 628.261, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FFVA Mutual Insurance Company** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$138,003,759, which exceeded the minimum of \$16,154,941 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Alea P. Talbert-Pence, CFE, CIA, Manager & Examiner-in-Charge, Dean L. Cross, CFE, CPA, Supervisor & Participating Examiner, Phil McMurray, CISSP, CISA, AES, Director & IT Specialist, Tom Hayden, CISA, AES, Manager & IT Specialist, Deborah Rosenberg, FCAS, MAAA, Manager & Consulting Actuary, and David Wolfe, ACAS, MAAA, Consulting Actuary of Risk & Regulatory Consulting, LLC, also participated in the examination. Members of the Office who participated in the examination include Connie Hare, AFE, CFE (Fraud) Financial Examiner/Analyst Supervisor, Examination Manager and Casey Hengstebeck, Reinsurance/Financial Specialist, Participating Examiner.

Respectfully submitted,



Lamar Downs, CPA  
Deputy Chief Examiner  
Florida Office of Insurance Regulation