

Piedmont Mutual Insurance Company

Statesville, North Carolina

Combined Examination Report

Part I - Report on Limited-Scope Examination

Part II – Report on Market Conduct Examination

Piedmont Mutual Insurance Company

Statesville, North Carolina

Report on Limited-Scope Examination

As of December 31, 2015

Piedmont Mutual Insurance Company

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Piedmont Mutual Insurance Company

Report on Limited-Scope Examination

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted a limited-scope examination of **Piedmont Mutual Insurance Company** (“Company”) as of December 31, 2015. The Department’s last full-scope examination was as of December 31, 2011. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2015 Annual Statement.

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2015 Annual Statement as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2015. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2015. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



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

June 30, 2016

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Venus Ang, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: *Venus Ang* Date: 8/18/16
Venus Ang

Sworn and subscribed before me this 18 day of August, 2016.

Notary Public Signature: *Djiddade B. Muhavi* Notary Public Seal:



Piedmont Mutual Insurance Company
Report on Limited-Scope Examination
As of December 31, 2015

1. Company Background

Piedmont Mutual Insurance Company was incorporated in 1992 and commenced business in 1993 as a non-assessable mutual insurance company operating in North Carolina. Effective January 1, 2006, the Company amended its charter and became a limited assessable mutual insurer. The Company specializes in low to moderate dwelling coverages for both standard and non-standard risks. On May 1, 2013, the Company merged with Lincoln Mutual Insurance Company ("Lincoln") and consolidated its operation with Lincoln's business. As a result of this merger, LMI Agency, Inc. ("LMI") became a wholly-owned subsidiary of the Company. In 2015, the Company sold a portion of LMI's policies to a third party, along with its office building and furniture and fixtures.

2. Appointed Actuary

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the reserves of the losses and loss adjustment expenses provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all loss and loss adjustment expense obligations of the Company.

3. Scope of the Examination

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

- a) Premiums and Underwriting
- b) Claims and Reserves
- c) Related Party Transactions
- d) Operations

4. Examination Procedures

The examination procedures performed during this examination included the following:

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

Piedmont Mutual Insurance Company
Report on Limited-Scope Examination
As of December 31, 2015

5. Summary of Examination Objectives and Findings

a) Premiums and Underwriting

- 1) Examination Objective: To verify the accuracy and completeness of direct written premiums, totaling \$2,684,839, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy of unearned premiums, totaling \$991,461, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy and collectability of premiums receivable, totaling \$258,510, which includes uncollected premiums of \$146,019 and deferred premiums of \$112,491, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 4) Examination Objective: To verify the accuracy of advance premiums, totaling \$58,539, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 5) Examination Objective: To verify that advance premiums, totaling \$58,539, are being properly reported in the Company's new policy administration system and that all unreconciled amounts in previous years have been written off.

Findings: No adverse findings were noted.

- 6) Examination Objective: To verify that the Company's underwriting and pricing guidelines are appropriate, resulting in adequate premium rates.

Findings: No adverse findings were noted.

b) Claims and Reserves

- 1) Examination Objective: To verify the completeness and accuracy of claims paid, totaling \$577,972, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review the reasonableness and adequacy of unpaid losses and loss adjustment expenses, totaling \$211,710 and \$34,270, respectively, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

Piedmont Mutual Insurance Company
Report on Limited-Scope Examination
As of December 31, 2015

c) Related Parties

- 1) **Examination Objective:** To verify the accuracy and valuation of Real Estate, totaling \$61,121, as reported in the Company's Annual Statement as of December 31, 2015.

Findings: No adverse findings were noted.

- 2) **Examination Objective:** To verify that the sale of LMI buildings and furnishings is an arm's-length transaction.

Findings: No adverse findings were noted.

- 3) **Examination Objective:** To verify that Affiliated Receivable, totaling \$0 is being properly reported.

Findings: No adverse findings were noted.

- 4) **Examination Objective:** To verify that the Company is properly identifying related parties.

Findings: No adverse findings were noted.

d) Operations

- 1) **Examination Objective:** To verify that the Company's Board of Directors has demonstrated proper oversight as it relates to internal controls over financial reporting.

Findings: No significant adverse findings were noted.

- 2) **Examination Objective:** To verify that the Company has future plans for LMI and to determine whether LMI is actively writing business for the Company.

Findings: No adverse findings were noted.

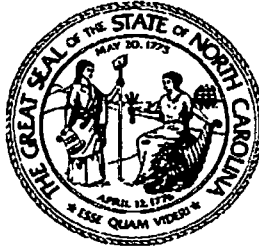
- 3) **Examination Objective:** To verify that the Company submitted all contracts and agreements that are subject to the Department's review and approval.

Findings: No adverse findings were noted.

Piedmont Mutual Insurance Company
Report on Limited-Scope Examination
Appendix A – Report Distribution

Robert Piper II, President
1705 Davie Avenue
Statesville, NC 28677

Eugene Nimocks Haigh, Vice President and Assistant Treasurer
1705 Davie Avenue
Statesville, NC 28677



Report on
Market Conduct Examination

of the

Piedmont Mutual Insurance Company
Statesville, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

September 28, 2016

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Raleigh, North Carolina
September 28, 2016

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

Honorable Commissioner:

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

Piedmont Mutual Insurance Company (NAIC #17335)
NAIC Exam Tracking System Exam Number: NC-NC131-3
Statesville, North Carolina

hereinafter generally referred to as the Company, at the Company's home office located at 1705 Davie Avenue, Statesville, North Carolina and at the North Carolina Department of Insurance (Department) office located at 11 South Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on June 20, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through September 26, 2016. All comments made in this report reflect conditions observed during the period of the examination.

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

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

EXECUTIVE SUMMARY

This market conduct examination revealed no concerns with Company procedures and practices in the areas of marketing and underwriting.

All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking "Insurance Industry" then "Legislative Services" under "Other Divisions".

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina does not constitute acceptance of such violations.

MARKETING

Policy Forms and Filings

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

- Dwelling Fire
- Homeowners

Policy form filings for the Dwelling Fire and Homeowners lines of business were made to the Department by the Company.

The provisions stipulated under 11 NCAC 10.1102(10)(f) exempt the Company from having to submit rate filings to the Department. The Company's rates/rules for its homeowners line of business are based in part upon the North Carolina Rate Bureau (NCRB) and the American Association of Insurance Services programs. The Company's rates/rules for its dwelling fire program are based in part upon the NCRB and the Insurance Services Office program.

UNDERWRITING PRACTICES

Overview

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

- Dwelling Fire
- Homeowners

A random selection of 238 policies was made from a total population of 1,623. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the

appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Dwelling Fire

A random selection of 119 policies was made from a population of 579. Risk placement and rates were determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

Homeowners

A random selection of 119 policies was made from a total population of 1,044. The Company's Homeowners policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Department has no comments, recommendations or directives for the Company as of this report.

CONCLUSION

An examination has been conducted on the market conduct affairs of Piedmont Mutual Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through September 26, 2016.

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

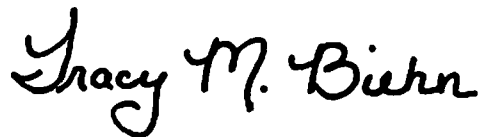
In addition to the undersigned, Pat Murphy, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

Handwritten signature of Brooke Hinnant in black ink.

Brooke Hinnant, MCM
Acting Examiner-In-Charge
Market Regulation Division
State of North Carolina

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

Handwritten signature of Tracy M. Biehn in black ink.

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