

REPORT ON EXAMINATION AS TO THE CONDITION OF

**FARMERS MUTUAL FIRE INSURANCE COMPANY
OF SALEM COUNTY**

ONE AVENUE OF THE ARTS, WILMINGTON DELAWARE 19801

AS OF DECEMBER 31, 2023

NAIC COMPANY CODE 13854

FILED

March 27, 2025

Commissioner

New Jersey Department

Of

Banking and Insurance

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

OFFICE OF SOLVENCY REGULATION

PO BOX 325

TRENTON, NJ 08625-0325

TEL (609) 292-7272

FAX (609) 292-6765

PHIL MURPHY

Governor

TAHESHA L. WAY

Lt. Governor

JUSTIN ZIMMERMAN

Commissioner

Ila Bhatnagar

Assistant Commissioner

March 24, 2025

Honorable Justin Zimmerman
Commissioner
Department of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the revised statutes of New Jersey N.J.S.A. 17:44B-27 an examination has been made of the assets, liabilities, methods of conducting business and other affairs of the:

Farmers Mutual Fire Insurance Company of Salem County
One Avenue of the Arts, Suite B, Wilmington, Delaware 19801
NAIC COMPANY CODE 13854

Hereinafter referred to as the "Company", or "Farmers of Salem".

SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter “NJDOBI” or “Department”) pursuant to the authority granted by N.J.S.A. 17:23-22.

The Department conducted a financial condition examination of the Farmers of Salem for the five-year period ending December 31, 2023, which included a review of material transactions and/or events occurring subsequent to the examination date. The examination addressed the period from December 31, 2018, the date of the last examination, to December 31, 2023.

The Department conducted the examination in accordance with the 2023 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires the NJDOBI to plan and perform a risk focused examination to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives, the NJDOBI obtained information regarding the Company’s corporate governance environment, identified, and assessed inherent risks to which it is exposed and evaluated the Company’s system of internal controls and procedures used to mitigate identified risks. The examination also included 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.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the risk focused approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

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 NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

Pursuant to the provisions of N.J.A.C. 11:2-26.4, an annual independent audit was performed by the CPA firm of Baker Tilly US, LLP (“BT”) for each of the years under examination and filed with the New Jersey Commissioner of Banking and Insurance. BT provided an unmodified audit opinion on regulatory basis of accounting in conformity with accounting practices prescribed or permitted by the National Association of Insurance Commissioners, Accounting Practices and Procedures Manual, and in conformity with accounting practices prescribed or permitted by the Department of the Company’s year-

end financial statements for the reporting year period ending December 31, 2023. 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.

HISTORY

Farmers of Salem 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 efforts will be directed toward retail stores, 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.

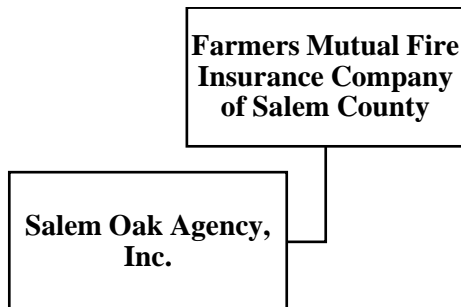
The Company completed the sale of Salem Insurance Company in 2009. Salem Insurance Company changed its name to Progressive Garden State Insurance Company.

The Company's Charter and Certificate of Authority have been amended numerous times since incorporation. At December 31, 2023, 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 One Avenue of the Arts, Suite B, Wilmington, Delaware 19801. Mr. James R. Doherty, President of the Company, was appointed as the registered agent for the Company.

HOLDING COMPANY SYSTEM

As of December 31, 2023, 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 of Salem as registrant to the requirements and standards under N.J.S.A. 17:27A-3.

The Company owns 100% of the outstanding common stock of Salem Oak Agency. The Company purchased 100 shares of Salem Oak Agency for \$5,000 on August 8, 2003. The Company received no stockholder dividends from Salem Oak Agency during the examination period.

The Company had the following Intercompany Agreements as of December 31, 2023:

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. 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 management and operations of the Agent 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 and should track with the premium level of the agent. All direct expenses of the agent paid by the Company will be billed by the Company to the agent.

During 2023, Salem Oak Agency wrote \$1,918,928 of premiums for the Company and the Company paid Salem \$349,984 in commissions related to those premiums. The Company charged salaries of \$1.2M including a fixed cost, plus direct expenses netting out approximately \$1.1M. Salem rents its office facilities from the Company; rent charged for each of the year ended December 31, 2023, was \$90,000.

The Company's asset value of Salem Oak Agency, Inc. as of December 31, 2023, was \$266,605 vs. \$129,187 at December 31, 2022. The entire value of \$266,605 for Salem Oak Agency, Inc. was non-admitted as of December 31, 2023. There were no amounts due to or from Salem Oak Agency as of December 31, 2023.

MANAGEMENT AND CONTROL

The Company has a Board of Directors and Committees that meet the requirements of N.J.S.A. 17:27A-4d (3) and (4). The following were the Directors of the Company serving as of December 31, 2023:

<u>Director</u>	<u>Occupation</u>
William C. DeCinque	Former Insurance Company Executive and Consultant
John T. Lenahan	Former Lawyer and co-owner of insurance agency
Edward J. Staggs	Former Insurance Company Executive
Robert R. McHarness	Former Bank CEO and President of Farmers of Salem
Robert E. Swartz	Former Partner in public accounting
Lee C. Williams, Jr.	President of South Jersey Farmers Exchange
John D. Burke	Title Agency President
Michael J. Fortunato	Lawyer in employment law
Christina Humphreys	Bank Executive

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, 2023:

<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
Jeremy Rielly	Vice-President Underwriting
Thomas P. Cornish	Chief Financial Officer
Laurie A. Konzelmann	Vice-President – Claims
Kim M. Lorenzini	Vice-President – Marketing and Business Development
Timothy Davis	Vice-President – Information Technology
Christina M. Hitchner	Vice-President – Salem Risk Associates

Loraine Lester	Assistant VP – Product and Underwriting Development
James E. Reagan	Vice President – Product and Regulatory Compliance
John T. Lenahan	Secretary

<u>Officer</u>	<u>Title</u>
Jeanette M. Gerlack	Assistant 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, 2023:

Executive Committee

William C. DeCinque, Chairman
John D. Burke
Robert E. Swartz
John T. Lenahan

Budget and Audit Committee

Christina Humphreys, Chairman
Robert R. McHarness
Robert E. Swartz

Planning Committee

John T. Lenahan, Chairman
Lee C. Williams, Jr.
John D. Burke

Finance/Investment Committee

Robert E. Swartz, Chairman
Robert R. McHarness
Michael Fortunato

Employee Benefits Committee

E. Jay Staggs, Chairman
John D. Burke
Lee C. Williams, Jr.

REINSURANCE

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

The Company was the named party to these reinsurance treaties in effect at December 31, 2023:

Property Program

First Property Per Risk Excess of Loss Reinsurance

Coverage: \$550,000 in excess of \$450,000 ultimate net loss, each loss, each risk.

Second Property Per Risk Excess of Loss Reinsurance

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

Semi- Automatic Excess of Loss Property Facultative

Covering: Policies classified as Habitational Property or Mixed Habitational Property.

Automatic Coverage: Maximum cession of \$15,000,000. Minimum retention of \$5,000,000.

Automatic Pro-rata Property Facultative Binding Authority

Covering: Property policies not covered under Semi-Automatic Property Facultative Program (non-Habitational Property/Mixed Habitational Property)

Coverage: Maximum cession of \$2,000,000. Minimum retention of \$50,000.

Property Catastrophe Excess of Loss

Covering: All business classified by the Company as Property.

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

Property Catastrophe MRB Regional Reciprocal CAT Pool

Covering: All business classified by the Company as Property.

Coverage: 100% of \$25M in excess of \$80M net loss, each occurrence.

Casualty Program

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

Casualty First Excess of Loss Reinsurance

Coverage: \$650,000 in excess of \$450,000 ultimate net loss, each loss occurrence

Casualty Second Excess of Loss Reinsurance

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, Farmowners Comprehensive Personal Liability, Commercial General Liability and Farmowners 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, Farm, and Commercial Umbrella Liability

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.

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.

Cyber Quota Share Reinsurance

Covering: All business classified by Company as Cyber Liability and Data Breach Response.

Coverage: 100% Quota Share.

Employment Practices Liability Reinsurance

Covering: Employment Practice Liability including defense costs

Coverage: 100% Quota Share.

Inland Flood, Water Back up, and Sum Discharge or Overflow Property Quota Share Reinsurance

Covering: Inland Flood or Water Back up Liability when endorsement is added on policies.

Coverage: 95% Quota Share.

CORPORATE RECORDS

The minutes of meetings of directors and committees adequately approved and supported the Company's transactions and events.

POLICY ON CONFLICTS OF INTEREST

The Company has statements of code of conduct and ethics policies in effect, which state the policy on conflict of interest. Acknowledgement of policy and signed questionnaires were reviewed for Officers and Directors as of December 31, 2023. Upon review of the conflict of interest questionnaires, no potential conflict of interests were reported or disclosed.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

At December 31, 2023, the Company is a name insured on a Financial Institution Bond underwritten by Travelers Casualty and Surety Company of America. The bond provides the Company with a single loss limit of liability of \$1,000,000 and a single loss deductible of \$25,000 for various risks covered under the policy. Based on the NAIC exposure index guidelines for minimum amounts of fidelity insurance, the amount of coverage for the Company is adequate.

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, 2023:

- Business Owners Policy including Commercial General Liability, Commercial Automobile Liability and a Commercial Umbrella Liability coverage with Hartford Underwriters Insurance Company
- Workers' Compensation and Employers Liability Policy - with New Jersey Manufacturers Insurance Company
- Flood Insurance Policy - with Wright National Flood Insurance Company
- Cyber Insurance Policy – with various insurers

EMPLOYEE WELFARE AND PENSION PLANS

The Board monitors and evaluates on a continuous basis the performance of the CEO, and the CEO, in turn, monitors and continually evaluates the performance of the other officers. All officers and non-officer employees are evaluated annually, and the evaluation results are a factor in the determination of increases in salaries. All officers are awarded a bonus annually based on company specific goals set by each officer and approved by the CEO. Each of the officer's goals are weighted and a portion of their bonus is based on company performance. The Board approves this bonus pool of money for the CEO to distribute to the officers based on a percentage level of their annual salary and performance of their goals.

In 2016, the Company began to sponsor a qualified 401(k) retirement savings plan on behalf of eligible employees. The Company matches employees' contributions by 100% of the first 2% of the employees' deferrals and 50% of the next 4% of the employees' deferrals. The Company's safe harbor matching contribution of 3% and matching of employees' contributions for the years ended December 31, 2023 and 2022 were \$360,075 and \$324,168, respectively.

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.

TERRITORY AND PLAN OF OPERATION

The Company is a mutual property and casualty insurance company providing personal and commercial insurance coverage. The Company's commercial policies are primarily

with "main street" commercial operations and small contractors. On December 31, 2023, 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, Pennsylvania, and Delaware. Personal lines include homeowners, combination dwelling, and personal umbrella. Commercial lines include business owner policy, special contractors, commercial auto, commercial multiple peril, other liability, fire, and commercial umbrella.

All underwriting, accounting and administrative business is conducted from the Company's office located at 1 Avenue of the Arts, Suite B, Wilmington, Delaware 19801. The Company employs approximately 66 full and part-time employees.

The Company has approximately 481 agents in New Jersey, Maryland, Pennsylvania, and Delaware. All marketing efforts are directed through its agency force.

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

<u>Year</u>	<u>Direct Premiums Written</u>
2019	\$55,435,636
2020	\$57,148,980
2021	\$61,317,975
2022	\$67,671,595
2023	\$84,721,359

Direct premiums written in 2023 were allocated among the following lines of business:

<u>Line of Business Written</u>	<u>Direct Premiums Written</u>
Fire	\$ 8,343,421
Allied Lines	1,317,317
Homeowners Multiple Peril	46,284,874
Commercial Multiple Peril	19,466,891
Inland Marine	956,021
Workers' Compensation	62,650
Other Liability-Occurrence	3,825,401
Products Liability-Occurrence	-20
Commercial Auto Liability	2,233,085
Auto Physical Damage	590,588
Boiler and Machinery	1,641,131

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 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, and performance services to manage its investment portfolio. Additionally, the agreement allows the Company to use NAIC Reports that assist the Company in the completion of quarterly and annual NAIC statutory accounting packages including Schedule D, Schedule DA, and Schedule E.

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.

Sebis

The agreement is between Sebis and Farmers of Salem. Sebis provides an outsourcing function for the printing and mailing all policyholders’ documents that are produced from the core operating system.

InsVista

This agreement, entered into on November 29, 2018, is between InsVista, LLC and Farmers of Salem. The agreement allows InsVista to receive, process, and send, on behalf of Farmers of Salem, certain mortgagee and lienholder notification transactions,

The Company conducts its everyday business operations from its statutory home and main administrative office located at 1 Avenue of the Arts, Suite B, Wilmington, Delaware 19801. 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 Finys system.

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

ADVERTISING

The Company maintains a website, www.farmersofsalem.com, and uses various electronic forms of printed advertising such as sales slicks or leave behinds for coverage highlights and comparisons and allows them to be used by agents through social media. The Company also uses billboards for branding and name recognition purposes. The Company advertises with Constant Contact to notify agents of rates, guidelines, or system changes. Advertising was reviewed and deemed to be in compliance with N.J.S.A.17:18-10.

TREATMENT OF POLICYHOLDERS

The Company maintains records of written complaints and has procedures in place for the resolution of those complaints. As such, the Company is deemed to be in compliance with N.J.S.A. 17:29B-4(10).

CONTINUITY OF OPERATIONS

The Company maintains a disaster recovery and business continuity program. The plan has processes required to restore critical systems and functions in the event of a disaster to continue its business operations whether at home office or remotely.

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

ACCOUNTS AND RECORDS

The Company uses SunGard software to prepare the general ledger entries and trial balance.

The Company's Premium and Loss systems are recorded in the Finys processing system.

Premium receipts are recorded through the Finys 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 Finys. Payments are also accepted online by credit card or Automated Clearing House ("ACH") directly in Finys. 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 handled by outside adjusters. Proof of Loss is required for property claim payments over \$5,000. Pictures are required for liability files as appropriate, which is almost every file. A Release is obtained for almost all liability claims. However, on rare occasions, depending on the scope and nature of the liability claim, the release requirement is waived.

All settlements reached with insureds or claimants by our independent adjusters are subject to company approval. All loss payment requests submitted by independent adjusters are reviewed by the in-house adjuster to confirm the settlement is appropriate based on coverage available and scope of damage. All in-house adjusters have authority levels. Any payment request that exceeds their individual authority must be reviewed with Claims Management before issuance.

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

In house adjusters enter claim payments, after reviewing the claim file and reports, and entering file notes.

Only the Vice President of Claims and the Property Claims Manager have authority to approve checks for release and printing from Finys. Spot checks of the claim files are done during the approval process. All claim checks require two signatures. Authorized signers are the President of Farmers and the Vice President of Claims. 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. ACH commission payments are approved and issued by the Accounting Department.

Custodial Agreements

Specific requirements related to an insurance company's utilization of systems for holding and transferring securities are included in the NAIC's *Model Act on Custodial Agreements and the use of Clearing Corporations* (Model # 295) and the NAIC's *Model Regulation on Custodial Agreements and the use of Clearing Corporations* (Model #298).

The Company has two (2) custodial or safekeeping agreements with Wells Fargo Advisors, LLC, that do not have and shall contain satisfactory safeguards and controls to comply with the aforementioned NAIC models, which include but are not limited to the following provisions requirements as quoted below:

“2. Custodial or safekeeping agreements with an agent, or clearing corporation meeting the requirements herein should contain satisfactory safeguards and controls, including but not limited to the provisions provided below. For the purpose of this guidance, an agent is a national bank, federal home loan bank, trust company or broker/dealer with an account in a clearing corporation, or a member of the Federal Reserve System. A clearing corporation is a corporation as defined in Article 8 of the Uniform Commercial Code that is organized for the purpose of effecting transactions in securities by computerized book-entry, including the Treasury/Reserve Automated Debt Entry Securities System (TRADES) and Treasury Direct book entry securities systems, except those securities issued under the laws of a foreign country.

a. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation or administrative action otherwise require a stricter standard, the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian;

c. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.”

Subsequently, on January 23, 2025, the Company amended its custodial agreements to comply with the provision requirements of the NAIC Models #295 and #298.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

<u>Exhibit - A</u>	Statement of Assets, Liabilities and Unassigned Funds as of December 31, 2023
<u>Exhibit - B</u>	Summary of Operations for the Five-Year Period Ended December 31, 2023
<u>Exhibit - C</u>	Surplus Account for the Five-Year Period Ended December 31, 2023

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
STATEMENT OF ASSETS, LIABILITIES AND UNASSIGNED FUNDS AS OF
DECEMBER 31, 2023

	Balance Per Examination <u>12/31/2023</u>	Balance Per Company <u>12/31/2023</u>	Examination Change	Notes
<u>Assets</u>				
Bonds	\$127,576,378	\$127,576,378	\$ -	1
Common Stocks	43,176,041	43,176,041	-	
Real Estate: Properties Occupied by Company	6,861,080	6,861,080	-	
Cash	5,751,035	5,751,035	-	
Aggregate write-ins for invested assets	<u>194,913</u>	<u>194,913</u>	-	
Subtotals, cash and invested assets	\$183,559,447	\$183,559,447 *	-	
Investment income due and accrued	884,503	884,503	-	
Uncollected premiums and agents' balances in the course of collection	1,156,317	1,156,317	-	
Deferred premiums, agents' balances and installments booked, and not	10,922,504	10,922,504	-	
Amount recoverables from insurers	432,217	432,217	-	
Current federal income tax recoverable	1,683,648	1,683,648	-	
Electronic data processing equipment and software	54,583	54,583	-	
Aggregate write-ins for other than invested assets	<u>396,287</u>	<u>396,287</u>	-	
 Total admitted assets	 <u>\$199,089,506</u>	 <u>\$199,089,506 *</u>	 <u>\$ -</u>	
* \$1 dollar off due to rounding effect				
<u>Liabilities</u>				
Losses	\$ 37,642,213	\$ 37,642,213	\$ -	2
Loss adjustment expenses	11,651,607	11,651,607	-	
Commissions payable and contingent commissions	2,204,547	2,204,547	-	
Other expenses	1,264,910	1,264,910	-	
Taxes, licenses and fees	323,352	323,352	-	
Net deferred tax liability	1,406,683	1,406,683	-	
Unearned premiums	43,475,150	43,475,150	-	
Advance premium	1,442,842	1,442,842	-	
Ceded reinsurance premiums payable	1,974,233	1,974,233	-	
Funds held by Company under reinsurance treaties	154,773	154,773	-	
Amounts withheld or retained by Company for account of others	<u>1,888,914</u>	<u>1,888,914</u>	-	
 Total liabilities	 <u>\$103,429,224</u>	 <u>\$103,429,224</u>	 <u>\$ -</u>	
Surplus Notes	2,200,000	2,200,000	-	
Unassigned funds	<u>93,460,281</u>	<u>93,460,281</u>	-	3
Total surplus as regards to policyholders	<u>\$ 95,660,281</u>	<u>\$ 95,660,281</u>	<u>\$ -</u>	
 Total liabilities and unassigned funds	 <u>\$199,089,505</u>	 <u>\$199,089,505</u>	 <u>\$ -</u>	

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
SUMMARY OF OPERATIONS FOR THE FIVE-YEAR PERIOD ENDED
DECEMBER 31, 2023

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Premiums earned	\$ 43,895,104	\$ 45,467,336	\$ 47,004,907	\$ 51,600,921	\$ 57,314,296
Losses incurred	21,473,094	27,397,929	23,991,894	30,599,977	41,306,644
Loss adjustment expenses incurred	5,267,731	5,701,089	5,915,102	6,034,924	7,032,160
Other underwriting expenses incurred	15,907,046	15,756,262	17,057,765	19,431,853	23,801,085
Total underwriting deductions	<u>\$ 42,647,871</u>	<u>\$ 48,855,280</u>	<u>\$ 46,964,761</u>	<u>\$ 56,066,754</u>	<u>\$ 72,139,889</u>
Net underwriting gain (loss)	<u>\$ 1,247,233</u>	<u>\$ (3,387,944)</u>	<u>\$ 40,146</u>	<u>\$ (4,465,833)</u>	<u>\$ (14,825,593)</u>
Net investment income earned	\$ 2,361,243	\$ 2,233,543	\$ 1,731,012	\$ 1,533,092	\$ 2,058,201
Net realized capital gains (losses)	<u>5,164,781</u>	<u>2,635,123</u>	<u>6,010,536</u>	<u>1,181,893</u>	<u>4,283,096</u>
Net investment gain (loss)	<u>\$ 7,526,024</u>	<u>\$ 4,868,666</u>	<u>\$ 7,741,548</u>	<u>\$ 2,714,985</u>	<u>\$ 6,341,297</u>
Net gain (loss) from agents' or premium balances charged off	\$ (23,081)	\$ (56,197)	\$ (92,810)	\$ (64,578)	(118,279)
Finance and service charges not included in premiums	426,635	412,920	361,555	303,082	272,450
Total other income	<u>\$ 403,554</u>	<u>\$ 356,723</u>	<u>\$ 268,745</u>	<u>\$ 238,504</u>	<u>\$ 154,171</u>
Net income before and after dividends and before taxes	\$ 9,176,811	\$ 1,837,445	\$ 8,050,439	\$ (1,512,344)	\$ (8,330,125)
Federal and foreign income taxes incurred	<u>906,062</u>	<u>(122,992)</u>	<u>151,151</u>	<u>(594,184)</u>	<u>(2,122,597)</u>
Net income	<u>\$ 8,270,749</u>	<u>\$ 1,960,437</u>	<u>\$ 7,899,288</u>	<u>\$ (918,160)</u>	<u>\$ (6,207,528)</u>

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
SURPLUS ACCOUNT FOR THE FIVE-YEAR PERIOD ENDED
DECEMBER 31, 2023

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Capital and surplus, December 31, prior year	<u>\$81,448,870</u>	<u>\$ 95,256,820</u>	<u>\$ 99,301,828</u>	<u>\$110,443,555</u>	<u>\$102,022,264</u>
Net income	\$ 8,270,749	\$ 1,960,437	\$ 7,899,288	\$ (918,160)	\$ (6,207,528)
Change in net unrealized capital gains (losses)	5,672,322	1,945,210	4,025,810	(7,355,326)	(565,020)
Change in net deferred income tax	24,145	125,479	(134,892)	28,087	588,957
Change in non-admitted assets	40,733	13,882	(648,479)	24,108	21,608
Change in surplus notes	<u>(200,000)</u>	<u>0</u>	<u>0</u>	<u>(200,000)</u>	<u>(200,000)</u>
Net change in capital and surplus for the year	<u>13,807,949</u>	<u>4,045,008</u>	<u>11,141,727</u>	<u>(8,421,291)</u>	<u>(6,361,983)</u>
Capital and surplus, December 31, current year	<u>\$95,256,819</u>	<u>\$ 99,301,828</u>	<u>\$110,443,555</u>	<u>\$102,022,264</u>	<u>\$ 95,660,281</u>

* \$1 dollar off due to rounding effect

NOTES TO FINANCIAL STATEMENTS

Note: 1

BONDS AND STOCKS

At December 31, 2023, the Company reported Bonds of \$127,576,378 and Common Stocks of \$43,176,041.

Note: 2

LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's reported liabilities at December 31, 2023, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to \$37,642,213 and \$11,651,607, respectively.

Therese A. Klodnicki, ACAS, MAAA, Principal Consulting Actuary of Advanced Analytics, appointed by the Board of Directors, rendered an opinion that claims unpaid and loss adjustment expense reserves recorded as of December 31, 2023, 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 INS Consultants, Inc., 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.

Note: 3

SURPLUS AS REGARDS POLICYHOLDERS

Unassigned Funds

During the examination period, net increases in unassigned funds were a result of operating results and other year over year changes in capital and surplus. The Company has not declared or paid dividends. The Company has not received or returned any capital.

Surplus Notes

During the examination period, the Company paid down its outstanding surplus notes in 2019, 2022 and 2023 for \$200,000 each. As of December 31, 2023, the total outstanding surplus note is \$2,200,000.

CONCLUSION

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

Respectfully Submitted,



Jan Pierre Santiago, CFE, CPA
Examiner-in-Charge
INS Consultants, Inc.

Under the supervision of:




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

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY

I, Jan Pierre Santiago, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2023, to the best of my information, knowledge, and belief.

Respectfully Submitted,



Jan Pierre Santiago, CFE, CPA
Examiner-in-Charge
INS Consultants, Inc.

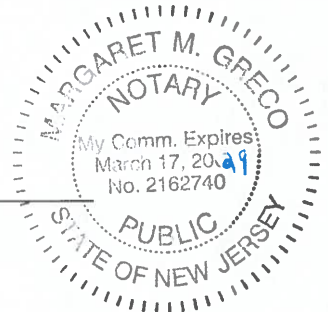
Under the supervision of:



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, Margaret M. Greco, on
this 26th day of March, 2025.



Notary Public of New Jersey

My commission expires: 3/17/2029

