



# **Mississippi Insurance Department**

**Report of Examination**

**of**

**SOUTHERN FARM BUREAU CASUALTY  
INSURANCE COMPANY**

**as of**

**December 31, 2020**

## 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 .....	8
Conflict of Interest .....	9
Holding Company Structure .....	9
Organizational Chart .....	9
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 .....	19
Statutory Deposits .....	19
Financial Statements .....	20
Introduction .....	20

Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory .....	21
Statement of Income - 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, 2020.
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 2nd day of June, 20 22.



April D. McDonald  
Notary Public

My commission expires October 10, 2024 [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 15, 2022

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, 2020, 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 #
7700932	0483	18325	18325-MS-2020-1

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, 2011 through December 31, 2015. This examination covers the period of January 1, 2016 through December 31, 2020. This examination was coordinated with Mississippi as the lead state and Arkansas, Florida, and Louisiana as participating states.

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, 2011 through December 31, 2015.

## **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 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	371,315	1,316	--	322,333	229,324	157,234	1,081,522
Total	371,535	1,536	220	322,553	229,544	157,454	1,082,842

Class C shares were automatically converted to Class B shares at the end of the reorganization transition period in December 2019. At December 31, 2020, there were 1,081,522 Class B shares and no Class C Shares outstanding.

## **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.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

As of December 31, 2020, the Company had 10,428,000 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.

2016	\$52,800
2017	\$52,800
2018	\$52,800
2019	\$52,800
2020	\$52,800

### **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, 2020, 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, LA	1985	Farmer and President of Louisiana Farm Bureau Federation
John Lawrence Hoblick, Sr. Vice Chairman of the Board DeLeon Springs, FL	2000	Farmer and President of Florida Farm Bureau Federation
Richard Bryan Fontenot Ville Platte, LA	2016	Farmer
Harry Legare Ott, Jr. Orangeburg, SC	2016	Farmer and President of South Carolina Farm Bureau
Carlyle Wallace Currier Molina, CO	2011	Rancher
Thomas Michael Freeze Keo, AR	2014-2018: 2020	Fish Farmer
Rodney Roscoe Land Mayo, FL	2020	Farmer
George Newton Bryant Easley, SC	2016	Farmer
Danny Russell Wright Waldron, AR	2018	Poultry Farmer
Louis Joseph Breaux, IV Kiln, MS	2019	Farm Manager
Richard Edward Hillman, II Carlisle, AR	2009	Farmer and President of Arkansas Farm Bureau Federation
Steve Allen Johnson Wauchula, FL	2015	Citrus Grower/Cattle Rancher
Theodore Hastings Kendall IV Bolton, MS	2011	Farm Manager
Constance Jean Hass Trinidad, CO	2020	Rancher

David Michael McCormick Union Church, MS	2015	Farmer and President of Mississippi Farm Bureau Federation
Michael Gerard Melancon Breaux Bridge, LA	2015	Sugar Cane Farmer
Donald James Shawcroft Alamosa, CO	2010	Farmer and President of Colorado Farm Bureau
William Keistler Coleman Blair, SC	2016	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, 2020.

<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
Richard Edward Hillman	Rich Edward Hillman
Donald James Shawcroft	Donald James Shawcroft
Harry Legare Ott, Jr.	Harry Legare Ott, Jr.

<b>Executive</b>	<b>Investment</b>
Ronald Roy Anderson, Chairman	Ronald Roy Anderson, Chairman
John Lawrence Hoblick, Sr.	John Lawrence Hoblick, Sr.
David Michael McCormick	Robert Duff Wallace
Rich Edward Hillman	Max Turner Courtney
Donald James Shawcroft	Thomas Herndon Arthur
Harry Legare Ott, Jr.	

## **Officers**

The senior officers of the Company as of December 31, 2020 were:

<b>Name of Officer</b>	<b>Number of Years with Company</b>	<b>Title</b>
Robert Duff Wallace	36	President and Chief Executive Officer
Max Turner Courtney	29	Senior Vice President – Chief Financial Officer
Richard Ross Sims	30	Senior Vice President – Chief Operating Officer
Lydia Catherine Warren	35	Senior Vice President – Legal and Secretary

Jerry Joseph Keating, Jr.	35	Senior Vice President – State Manager (MS)
Blaine Vernon Briggs	34	Senior Vice President – State Manager (LA)
Steven Clay Murray	39	Senior Vice President (Florida)
Kevin Eugene McKenzie	33	Senior Vice President – State Manager (Arkansas)
William O’Neil Courtney	35	Senior Vice President – State Manager (South Carolina)
Duane Burton Hardy	32	Senior Vice President – Claims
Laura Sorey Watkins	34	Senior Vice President – Human Resources

**Conflict of Interest**

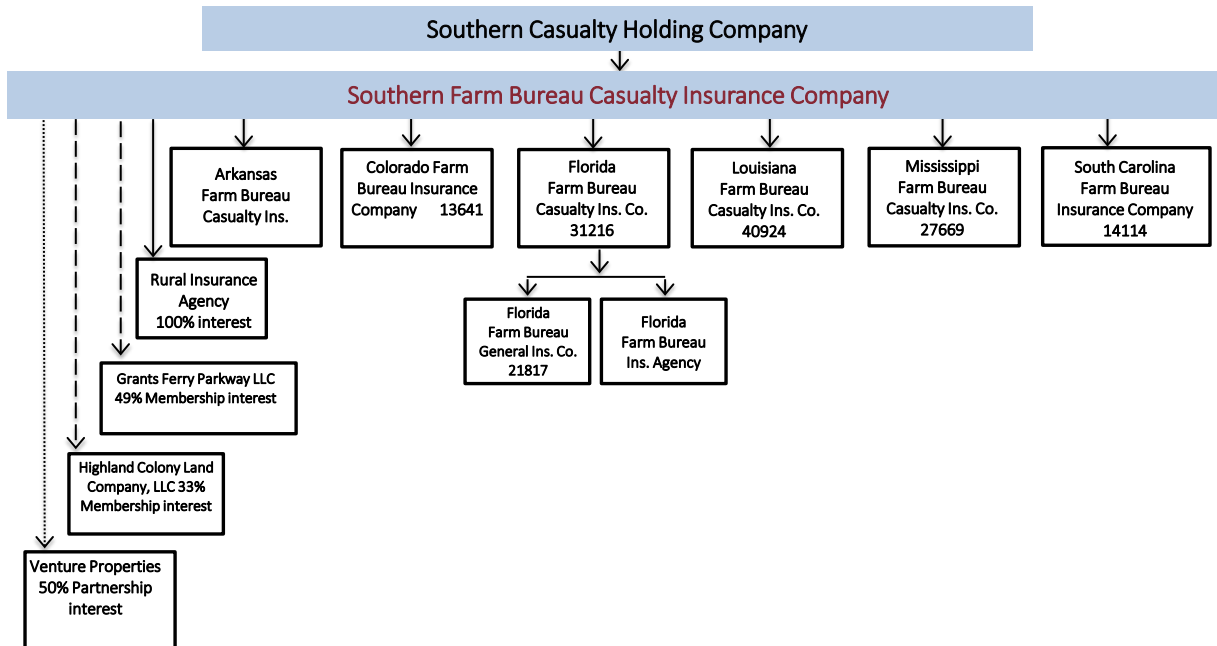
The Company had formal procedures whereby disclosures were made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with their official duties.

**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. For each year of the examination period, Holding Company Registration Statements 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, 2020. 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, 2020:

**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.

**Colorado Farm Bureau Insurance Company (“CFBIC”)** was demutualized and converted to a stock company effective July 1, 2019 thereby becoming a wholly owned subsidiary of SFBCIC. Its principal business was providing property and casualty insurance coverage in the State of Colorado.

**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 (“FFBGIC”), was providing property and 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 brokerage operation that provided an outlet for placing business for customers in Florida which its parent did not wish to write.

**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) in the State of Louisiana.

**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 property and casualty insurance coverage (principally automobile and homeowner) in the State of Mississippi. Also, the Company was an authorized surplus lines writer in various other states.

**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.

Below is a description of the Company’s wholly owned subsidiaries that were dissolved during the exam period:

**Southern Farm Bureau Brokerage Company** (“SFBBC”), in 1994, a noninsurance company was organized and incorporated in the state of Mississippi as a wholly owned subsidiary of SFBCIC. SFBBC was a noninsurance company formed primarily for conducting certain investment and reinsurance brokerage activities for the Southern Farm Bureau group. In 2020, SFBCIC’s management reviewed the group’s operations and organizational structure, and concluded that operational efficiencies and expense reductions could be achieved if SFBBC transferred its operations to SFBCIC. SFBBC’s Board approved the dissolution of the entity on October 9, 2020. On November 30, 2020, SFBBC ceased operations and transferred all assets and liabilities to SFBCIC, its parent and sole shareholder.

As a result of the dissolution of its former subsidiary, SFBBC, SFBCIC directly owns the following:

- 100% of all the issued and outstanding voting securities of Rural Insurance Agency
- 33% of the membership interest of Highland Colony Land Company, LLC
- 49% of the membership interest of Grants Ferry Parkway, LLC
- 50% of the partnership interest of Venture Properties

**Southern Farm Bureau Property Insurance Company** (“SFBPIC”) was formed in August 1994 as a wholly owned subsidiary of SFBCIC to write property and casualty reinsurance for certain associated Farm Bureau mutual companies in Arkansas, Mississippi, Louisiana, and South Carolina. SFBPIC ceased assumption of new business after 2005 and entered into a “dormant” state while managing run-off of outstanding claims related to the 2005 tropical storms and hurricanes. Effectively all outstanding claims that were assumed by SFBPIC were settled in 2011. As a way to eliminate operating costs, SFBCIC management sought permission from the MID to dissolve SFBPIC in 2019. On October 4, 2019, the MID approved the Articles of Dissolution, which terminated all operations and transferred all assets and liabilities to its parent, SFBCIC. SFBCIC realized a loss of \$21.1 million in investment income from the dissolution.

## **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 with related parties held as of December 31, 2020:

- 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, 2020, 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, 2020.
- 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 is for a twenty year term with interest due annually. LA Mutual retired \$1,000,000 of the principal balance during 2015 reducing the carrying value to \$14,000,000. During the exam period, an additional \$10,000,000 in principal payments were received by the Company leaving an outstanding principal balance of \$4,000,000 at December 31, 2020.
- On March 29, 2013, South Carolina Farm Bureau Mutual Insurance Company ("SC Mutual") 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. During the exam period, SC Mutual retired \$2,500,000 of the principal balance leaving an outstanding principal balance of \$10,000,000 at December 31, 2020.

As result of the dissolution of its former subsidiary, SFBBC, the following notes were assigned to SFBCIC in connection with the transfer of various levels of ownership in the following entities:

- Rural Insurance Agency note with an unpaid principal balance of \$1,800,000 at December 31, 2020.
- Brandon Land, LLC note with an unpaid principal balance of \$3,126,819 at December 31, 2020.

- Grants Ferry Parkway LLC note with an unpaid principal balance of \$822,750 at December 31, 2020.
- Shiloh Land, LLC note with an unpaid principal balance of \$2,826,052 at December 31, 2020.

On May 4, 2020, MFBCIC entered into a \$10,000,000 line of credit and promissory note with SFBCIC with an interest rate of 3.75%. The note has a maturity date of May 31, 2021. At December 31, 2020, there were no amounts outstanding on the note.

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. The notes were paid in full during 2019.

During 2019, as part of the demutualization and re-domestication of CFBCIC to become a wholly owned subsidiary of SFBCIC, the Company received an extraordinary dividend whereby nearly all assets and liabilities were transferred. The extraordinary dividend received by the Company had an approximate fair value and carrying value of \$41,000,000 and \$32,000,000, respectively.

The Company had joint expense allocation agreements with MFBCIC, its wholly owned subsidiary, and the mutual companies in the states of Arkansas, 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 2020 was \$33,685,793.

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 2020 was \$6,308,777.

The Company had licensing agreements with the various Farm Bureau Federations in the states of Arkansas, Colorado, Louisiana, Mississippi, 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 0.95% to 1.07% 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 this arrangement for 2020 were \$11,036,440. In addition, the Company maintained sponsorship agreements with these same Farm Bureau Federations to make single annual payments for SFBCIC's recognition as a corporate sponsor of certain Farm Bureau events



such as conventions, meetings, and fundraisers. Payments made by the Company under this arrangement for 2020 were \$625,915.

The Company had service and cost sharing agreements with the various Farm Bureau Federations or their subsidiaries in the states of Arkansas, Colorado, 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. Services and costs shared varied state by state. Payments made by the Company under this arrangement for 2020 were \$4,260,721.

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.

Additionally, the Company had reinsurance agreements in place with various subsidiaries and affiliates. These agreements are discussed further within the Reinsurance section of this report.

### **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 defined benefit 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, 2020, the Company was authorized to transact the following lines of business in the State of Mississippi:

Accident & Health  
 Automobile Physical Damage/Liability  
 Boiler and Machinery  
 Casualty/Liability  
 Fidelity  
 Fire/Allied Lines

Home/Farm Owners  
 Inland Marine  
 Ocean Marine  
 Plate Glass  
 Surety

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. The Company also assumed property business from CFBIC.

### **GROWTH OF COMPANY**

	2020	2019	2018	2017	2016
Total admitted assets	\$ 2,472,114,695	\$ 2,484,472,672	\$ 2,365,724,018	\$ 2,269,349,649	\$ 2,161,621,215
Total liabilities	\$ 1,015,124,355	\$ 1,031,149,153	\$ 970,361,682	\$ 931,483,402	\$ 874,185,224
Surplus as regards policyholders	\$ 1,456,990,340	\$ 1,453,323,519	\$ 1,395,362,336	\$ 1,337,866,247	\$ 1,287,435,991
Net cash from operations	\$ 81,102,254	\$ 118,443,214	\$ 98,302,739	\$ 28,354,554	\$ (13,337,519)
Total adjusted capital	\$ 1,456,990,340	\$ 1,453,323,519	\$ 1,395,362,336	\$ 1,337,866,247	\$ 1,287,435,991
Authorized control level risk-based capital	\$ 143,545,184	\$ 107,888,291	\$ 98,811,657	\$ 94,665,625	\$ 84,577,356
Direct premiums written	\$ 296,195,673	\$ 308,027,468	\$ 304,280,527	\$ 280,945,078	\$ 249,005,753
Premiums assumed	\$ 758,057,263	\$ 762,253,756	\$ 744,803,122	\$ 718,363,278	\$ 658,483,427
Premiums ceded	\$ 47,770,522	\$ 36,812,185	\$ 35,111,866	\$ 38,055,042	\$ 37,510,301
Net premiums written	\$ 1,006,482,414	\$ 1,033,469,039	\$ 1,013,971,783	\$ 961,253,314	\$ 869,978,879
Net underwriting gain (loss)	\$ 7,759,757	\$ 17,359,709	\$ (970,676)	\$ (33,842,088)	\$ (111,296,879)
Net investment gain	\$ 67,588,699	\$ 23,827,734	\$ 42,838,418	\$ 45,151,185	\$ 39,848,432
Net income (loss)	\$ 72,533,836	\$ 32,277,639	\$ 43,256,458	\$ 79,552,919	\$ (50,322,367)
Return on equity	5.0%	2.2%	3.1%	5.9%	-3.9%
Net loss ratio	79.5%	79.3%	81.3%	83.8%	92.2%
Expense ratio	20.0%	19.0%	18.5%	19.3%	20.5%
Investment yield	1.8%	1.9%	1.8%	1.8%	1.9%
Liquidity ratio	39.6%	56.8%	61.8%	62.5%	61.0%

## **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 as well as other related and non-related entities.

### Assumed:

At December 31, 2020, SFBCIC assumed 100% of the following lines of business from its affiliated and related entities:

- All premiums and exposures for automobile, farm liability, flood, and other general liability business written by MFBCIC through a multi-line agreement.
- All business written by SCFBIC through a multi-line agreement.
- All business written by CFBIC through a multi-line agreement.
- Automobile business written by LA Mutual.
- Automobile and other liability lines of business written by LFBCIC and SC Mutual.
- Farm liability and farm package policies, including endorsed limited farm pollution and equipment breakdown coverage written by SC Mutual and Farm Bureau Mutual Insurance Company of Arkansas, Inc. ("AR Mutual").
- Umbrella business written by MFBCIC, AR Mutual, LA Mutual, and SC Mutual net of facultative and other inuring reinsurance.
- Flood business written by LFBCIC and SC Mutual.
- Flood business written by FFBGIC that is retroceded by FFBCIC to the Company.

Additionally, for homeowner and other property lines business, the Company assumed the ultimate net loss for Section II Liability in excess of \$750,000 written by AR Mutual, LA Mutual, and SC Mutual. 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.

The Company also assumed business from American Agricultural Insurance Company ("AAIC") for various lines of business as well as mandatory assumptions from various states mandatory pools. In addition, the Company entered into Multiline Aggregate Excess of Loss and Expense Ratio Retrocessional Agreement with AAIC through which the Company assumed a portion of the loss and defense and cost containment expenses of the exposures carried by AR Mutual, LA Mutual, and SC Mutual.

At the examination date, the principle companies with which business was assumed and the respective premium amounts assumed for year ended 2020 were as follows:

Ceding Company	Assumed Premiums
Florida Farm Bureau Casualty Insurance Company	\$ 6,082,000
Louisiana Farm Bureau Casualty Insurance Company	\$ 249,391,000
Mississippi Farm Bureau Casualty Insurance Company	\$ 247,951,000
South Carolina Farm Bureau Insurance Company	\$ 121,125,000
Colorado Farm Bureau Insurance Company	\$ 73,916,000
Farm Bureau Mutual Insurance Company of Arkansas	\$ 9,358,000
Louisiana Farm Bureau Mutual Insurance Company	\$ 24,335,000
South Carolina Farm Bureau Mutual Insurance Company	\$ 8,629,000
American Agricultural Insurance Company	\$ 17,256,000

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, 2020 were reduced for reinsurance ceded of approximately \$14,583,000. 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 2020 and total amounts recoverable at December 31, 2020, were as follows:

Assuming Company	Ceded Premiums	Recoverable
Partner Re US	\$ 180,000	\$ -
Renaissance Reinsurance U.S. Inc.	\$ 240,000	\$ -
Transatlantic Reinsurance Company	\$ 180,000	\$ -
American Agricultural Insurance Company	\$ 23,041,000	\$ 11,763,000
National Flood Insurance Program	\$ 23,876,000	\$ 15,714,000
Factory Mutual Insurance Co.	\$ 253,000	\$ 280,000

For the Company’s umbrella exposures that were either written directly by SFBCIC or written by a related or associated Farm Bureau entity and 100% ceded to SFBCIC, the Company had the following reinsurance agreements in place at December 31, 2020:

- An umbrella excess of loss agreement with a \$1,000,000 retention for umbrella policies with limits of \$1,000,000 to \$5,000,000.
- A facultative reinsurance agreement for umbrella policies with limits of \$5,000,000 to \$15,000,000 and a retention of \$5,000,000 and \$10,000,000 which was subject to the umbrella excess of loss reinsurance agreement previously discussed.
- An 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 in place with a \$1,000,000 retention for each loss event at December 31, 2020. The 2020 reinsurance structure had five layers, with aggregate limits applying only to layers 4-5.

Layer	Retention	Per Occurrence Limit
1	\$ 1,000,000	\$ 2,500,000
2	\$ 3,500,000	\$ 5,000,000
3	\$ 8,500,000	\$ 5,000,000
4	\$ 13,500,000	\$ 7,500,000
5	\$ 21,000,000	\$ 9,000,000
All layers		\$ 29,000,000

During 2020, all of the direct and assumed flood exposure was ceded 100% to the National Flood Insurance Program.

Additionally, the Company, along with its wholly owned subsidiaries, had property and auto catastrophe excess of loss reinsurance agreements with an initial company retention of \$10 million and total coverage of \$1.05 billion in place at December 31, 2020.

Layer	Retention	Per Occurrence Limit
*Underlying	\$ 10,000,000	\$ 40,000,000
1	\$ 50,000,000	\$ 50,000,000
2	\$ 100,000,000	\$ 200,000,000
3	\$ 300,000,000	\$ 400,000,000
**Next Layer	\$ 700,000,000	\$ 200,000,000
Over Other Protections	\$ 900,000,000	\$ 150,000,000

\*The underlying layer includes a \$10 million aggregate annual deductible.

\*\*This layer includes a top and drop of \$50 million.

## 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, 2020 annual statement, without material exception. The Company was audited annually by an independent CPA firm.

The primary data center was housed at an outside location with the backup storage center located at the Home Office. The Company continues to have the mainframe in operation for some legacy systems but those systems are continually being transferred from the mainframe to the distributed network. The Company was responsible for physical security, computer operations including, backups and disaster recovery over the mainframe and distributed network servers, as well as the applications which resided on them.

## 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, 2020.

<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	\$ 2,284,656	\$ 2,519,940
Total Held in Mississippi		<u>2,000,000</u>	<u>2,284,656</u>	<u>2,519,940</u>
State Bond	Arkansas	175,000	185,506	206,623
State Bond	South Carolina	200,000	203,159	208,018
Total Held in all Other States		<u>375,000</u>	<u>388,665</u>	<u>414,641</u>
<b>Total of all States</b>		<u><u>\$ 2,375,000</u></u>	<u><u>\$ 2,673,321</u></u>	<u><u>\$ 2,934,581</u></u>

**SOUTHERN FARM BUREAU CASUALTY INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**  
**EXAMINATION AS OF DECEMBER 31, 2020**

**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, 2020, a Statement of Income - Statutory for year ended December 31, 2020, a Reconciliation of Capital and Surplus - Statutory for examination period ended December 31, 2020, and a Reconciliation of Examination Changes to Surplus - Statutory at December 31, 2020.

**Statement of Admitted Assets, Liabilities, Surplus and Other Funds – Statutory  
December 31, 2020**

<b>Admitted Assets</b>	
Bonds	\$ 1,286,467,688
Common stocks	797,902,361
Mortgage loans	2,792,304
Properties occupied by the company	16,540,523
Properties held for sale	266,327
Cash, cash equivalents and short-term investments	46,709,980
Other invested assets	66,236,808
Investment income due and accrued	12,983,656
Uncollected premiums and agents' balances in the course of collection	1,272,215
Deferred premiums, agents' balances and installments booked but deferred and not yet due	166,291,690
Funds held by or deposited with reinsured companies	5,557,637
Current federal and foreign income tax recoverable and interest thereon	13,629,055
Net deferred tax asset	40,303,764
Electronic data processing equipment and software	3,618,587
Receivable from parent, subsidiaries and affiliates	1,797,055
Other receivables	9,745,045
<b>Total admitted assets</b>	<b>\$ 2,472,114,695</b>
<b>Liabilities, Surplus and Other Funds</b>	
Losses	\$ 375,137,781
Loss adjustment expenses	70,606,176
Commissions payable, contingent commissions and other similar charges	10,208,818
Other expenses	5,380,760
Taxes, licenses and fees	1,798,492
Unearned premiums	305,934,396
Advance premium	8,870,494
Ceded reinsurance premiums payable	2,499,000
Amounts withheld or retained by company for accounts of others	44,859,464
Payable to parent, subsidiaries and affiliates	4,515,516
Derivatives	746,981
Payable for securities	8,821,642
Accrued benefit cost	85,714,765
Liability for benefits	74,219,665
Other payables	15,810,405
<b>Total liabilities</b>	<b>1,015,124,355</b>
Common capital stock	1,082,842
Gross paid in and contributed surplus	620,491
Unassigned funds (surplus)	1,455,287,007
<b>Surplus as regards policyholders</b>	<b>1,456,990,340</b>
<b>Total liabilities and surplus as regards policyholders</b>	<b>\$ 2,472,114,695</b>



**Statement of Income – Statutory  
For the Examination Period Ended December 31, 2020**

<b>Underwriting Income</b>	
Premiums earned	\$ 1,017,368,481
<b>Deductions:</b>	
Losses incurred	693,260,746
Loss adjustment expenses incurred	115,064,914
Other underwriting expenses incurred	201,283,064
Total underwriting deductions	1,009,608,724
Net underwriting gain (loss)	7,759,757
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<b>Investment Income</b>	
Net investment income earned	40,731,641
Net realized capital gains (losses) less capital gains tax	26,857,058
Net investment gain	67,588,699
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<b>Other Income</b>	
Net loss from agents' or premium balances charged off	(586,505)
Finance and service charges not included in premiums	25,341
Aggregate write-ins for miscellaneous income	4,275,704
Total other income	3,714,540
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Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	79,062,996
Federal and foreign income taxes incurred	6,529,160
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Net Income	\$ 72,533,836
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**Reconciliation of Capital and Surplus – Statutory  
For the Examination Period Ended December 31, 2020**

	2020	2019	2018	2017	2016
Surplus as regards policyholders, beginning of the year	\$ 1,453,323,519	\$ 1,395,362,336	\$ 1,337,866,247	\$ 1,287,435,991	\$ 1,317,833,159
Net income	72,533,836	32,277,639	43,256,458	79,552,919	(50,322,367)
Change in net unrealized capital gains or (losses)	(42,758,147)	29,205,348	25,330,754	25,758,272	32,162,548
Change in net deferred income tax	306,501	(632,105)	(10,730,224)	(86,830,840)	15,822,917
Change in nonadmitted assets	(14,598,439)	(6,279,042)	8,150,205	52,514,648	(24,312,255)
Dividends to stockholders	(52,800)	(52,800)	(52,800)	(52,800)	(52,800)
Change in liability for benefits	(11,764,130)	(28,652,126)	(8,027,092)	(16,528,139)	3,233,227
Extraordinary Dividend from Subsidiary	-	32,094,269	-	-	-
Recognition of Transition Liability under SSAPs 92 and 102	-	-	(431,212)	(3,983,804)	(6,928,438)
Surplus as regards policyholders, end of the year	\$ 1,456,990,340	\$ 1,453,323,519	\$ 1,395,362,336	\$ 1,337,866,247	\$ 1,287,435,991

**Reconciliation of Examination Adjustments to Surplus  
For the Examination Period Ended December 31, 2020**

There were no changes made to the assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2020. The surplus as regards policyholders, which totaled \$1,456,990,340 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**

On February 22, 2021, John Lawrence Hoblick was elected Chairman of the Board of the Company, replacing the retiring Ronald Roy Anderson. On this same date, David Michael McCormick was elected Vice Chairman of the Board of the Company replacing Mr. Hoblick who was elected Chairman.

On May 31, 2021 Arkansas Farm Bureau Casualty Insurance Company, a wholly owned subsidiary of the Company, was dissolved.

Lydia Catherine Warren retired effective June 1, 2021. Johnny Victoria Sargent, Jr. was elected to replace Mrs. Warren as Senior Vice President – Legal & Secretary of the Company, effective June 1, 2021.

John Faulkner Bonner was elected as Senior Vice President – State Manager effective September 1, 2021.

On November 30, 2021, Florida Farm Bureau Agency, Inc., a wholly owned subsidiary of Florida Farm Bureau Casualty Insurance Company, was dissolved. FFBCIC is a wholly owned subsidiary of the Company.

During 2021, the Company and MFBCIC submitted a multiline quota share reinsurance agreement to the MID for review and approval. Per the terms of this agreement, MFBCIC would cede 100% of its risks to the Company. This agreement was approved by the MID on October 29, 2021. Additionally, on May 17, 2022, MFBCIC filed an extraordinary dividend request related to the multiline agreement which was approved by the MID on June 9, 2022.

On January 3, 2022, the Company received the outstanding surplus note of \$25 million from MFBCIC. At the examination report date, all outstanding interest related to this surplus note has

been paid.

On February 21, 2022, David Michael McCormick was elected Chairman of the Board of the Company, replacing the retiring John Lawrence Hoblick. On this same date, Richard Edward Hillman was elected Vice Chairman of the Board of the Company replacing Mr. McCormick who was elected Chairman.

### **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
Lead Actuary:	Robert P. Daniel, ACAS, MAAA
Lead IT Specialist:	David E. Mills, CISA, CTGA, CGEIT, MCSE
Examiner:	Andrea J. Harbison, CPA
Examiner:	Sophia Tran, CPA
Examiner:	Britain Welzien

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

Respectfully submitted,



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R. Dale Miller, CPA, CFE, CFF  
Examiner-in-charge



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Mark Cooley, CFE  
Mississippi Insurance Department Designee