



**REPORT ON EXAMINATION  
OF  
COUNTRYWAY INSURANCE COMPANY**

**AS OF DECEMBER 31, 2020**

**EXAMINER:  
DATE OF REPORT:**

**SUSAN WEIJOLA  
MAY 13, 2022**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

May 13, 2022

Honorable Adrienne A. Harris  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32290 dated August 5, 2021, attached hereto, I have made an examination into the condition and affairs of Countryway Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation “the Company” or “Countryway” appears herein without qualification, it should be understood to indicate Countryway Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

Due to the COVID-19 pandemic, the examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Countryway Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2017. This examination covered the three-year period from January 1, 2018, through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the Commonwealth of Virginia, which was the lead state of the Virginia Farm Bureau Group. The examination was performed concurrently with the examinations of the following insurers:

<u>Insurer</u>	<u>Domicile</u>	<u>NAIC #</u>
Virginia Farm Bureau Mutual Insurance Company	Virginia	26034
Virginia Farm Bureau Fire and Casualty Insurance Company	Virginia	26026
Virginia Farm Bureau Town and Country Insurance Company	Virginia	10086

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on June 11, 1954, as the Grange League Federation Insurance Company (“GLF”) to write insurance on the properties and risks of its parent company, the Cooperative Grange League Federation Exchange, Inc. It became licensed on October 20, 1954 and commenced business on January 1, 1955.

In 1966, GLF changed its name to Agway Insurance Company. Effective August 28, 2002, Agway Insurance Company was acquired by United Farm Family Mutual Insurance Company and was renamed Countryway Insurance Company. Effective May 11, 2011, the Company was acquired by the Virginia Farm Bureau Mutual Insurance Company, its current immediate parent.

### A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 35 members. The board meets at least four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William Anson Barclay Pulaski, NY	Partner, Barclay Damon, LLP
Marvin Lewis Everett Jr. Capron, VA	Farmer
Thomas Edward Graves Jr. Orange, VA	Farmer
Chapman Leigh Harrison Pemberton Doswell, VA	Farmer
Wayne Franklin Pryor Goochland, VA	President and Chairman of the Board, Countryway Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Everett Sink Blacksburg, VA	First Vice President, Countryway Insurance Company
Peter Andrew Truban Woodstock, VA	Farmer

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Wayne Franklin Pryor	President and Chairman of the Board
Darlene Price Wells	Chief Executive Officer
David Allen Priddy	Senior Vice President of Accounting and Business Services and Treasurer
Kathleen Michelle Early	Secretary
Marc Douglas Follmer	Assistant Secretary
George Christopher Kern	Assistant Treasurer
Scott Everett Sink	First Vice President

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in 17 states. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit

<u>Paragraph</u>	<u>Line of Business</u>
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended).

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2018	\$40,152,256	\$32,502	\$40,184,758
2019	\$43,177,180	\$30,345	\$43,207,525
2020	\$43,997,411	\$32,285	\$44,029,696

The major types of business written include farmowners multiple peril, private passenger auto liability, and auto physical damage. In 2020, the majority of written premiums are derived from Kentucky (32%), New York (29%), Pennsylvania (18%), and Maine (18%). The Company solely utilizes the independent agency system to sell its products through 279 agencies in nine states. Assumed reinsurance activity is attributable to the Company's participation in mandatory pools.

#### C. Reinsurance Ceded

Effective May 1, 2011, the Company entered into a quota share reinsurance agreement with its parent, Mutual, whereby it cedes 100% of its losses, liabilities, and expenses, net of external reinsurance, in respect of losses occurring on or after May 1, 2011, with respect to policies in effect on or issued on or after May 1, 2011, as well as certain operating expenses.

Effective May 1, 2011, the Company entered into a loss portfolio transfer agreement with its parent, Mutual, whereby Mutual assumes 100% of the Company's net loss and allocated loss expense reserves outstanding as of April 30, 2011.

As a result of the loss portfolio transfer and the 100% quota share agreement with its parent, the Company has no net loss and loss adjustment expense reserves.

The Company's external ceded reinsurance program includes treaties that the Company participates in as a member of the Virginia Farm Bureau Group (see section 2D, Holding Company System) as well as treaties designed specifically for the Company. The following treaties cover the policies issued by the property and casualty companies in the Virginia Farm Bureau Group.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
<u>Per Risk Excess of Loss</u> (Two layers)	\$4,700,000 excess \$300,000 each loss, each risk subject to a limit of liability to the reinsurer of \$6,100,000 each loss occurrence.
<u>Facultative Per Risk Excess of Loss</u>	\$10,000,000 excess \$5,000,000 each loss, each risk subject to a limit of liability to the reinsurer of \$15,000,000 each loss occurrence.
<u>Catastrophe Excess of Loss</u> (Three layers) 10 % participation in 1 <sup>st</sup> layer	\$230,000,000 excess \$5,000,000 ultimate net loss, each loss occurrence.
<u>Supplemental Catastrophe Excess of Loss</u>	\$15,000,000 excess \$235,000,000 ultimate net loss, each loss occurrence. Participating group shared limit of liability \$45,000,000 each loss occurrence
<u>Aggregate Excess of Loss</u>	\$9,000,000 excess \$11,000,000 aggregate catastrophic loss during the term of the contract.

The following treaties cover the policies issued only by the Company:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Liability</u>	
<u>Excess of Loss</u> (Five layers)	\$30,000,000 excess \$600,000 ultimate net loss, each loss event. Reinstatement provisions on layers 4 and 5 with an aggregate limit of \$15,000,000 and \$20,000,000, respectively.
<u>Farm Pollution Coded Excess of Loss</u>	\$850,000 excess \$150,000 ultimate net loss, each loss event subject to a limit of liability to the reinsurer of \$1,000,000. In Vermont, where umbrella policies are written, \$1,350,000 excess \$150,000 ultimate net loss, each loss event subject to a limit of liability to the reinsurer \$1,350,000.
<u>Equipment Breakdown Quota Share</u>	100% quota share of equipment breakdown liability under its farmowners policies subject to a limit of liability of the reinsurer \$25,000,000 any one accident, any one policy.
<u>Umbrella Quota Share</u> (Six layers)	Layer 1 is 85% quota share of \$1,000,0000; Layers 2 through 5 are 100% quota share of \$1,000,000 (each layer); Layer 6 is 100% quota share of \$5,000,0000.

A majority of the ceded business was to authorized reinsurers, prior to the 100% cession to Mutual, and the cessions have not changed significantly since the last examination.

At December 31, 2020, the Company reported approximately \$37,400,000 in reinsurance recoverables from Mutual. These reinsurance recoverables are the Company's most significant financial item and ultimately the Company's most significant financial risk is its ultimate ability to collect on these recoverables. At December 31, 2020, Mutual is an authorized accredited reinsurer in New York.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It is noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

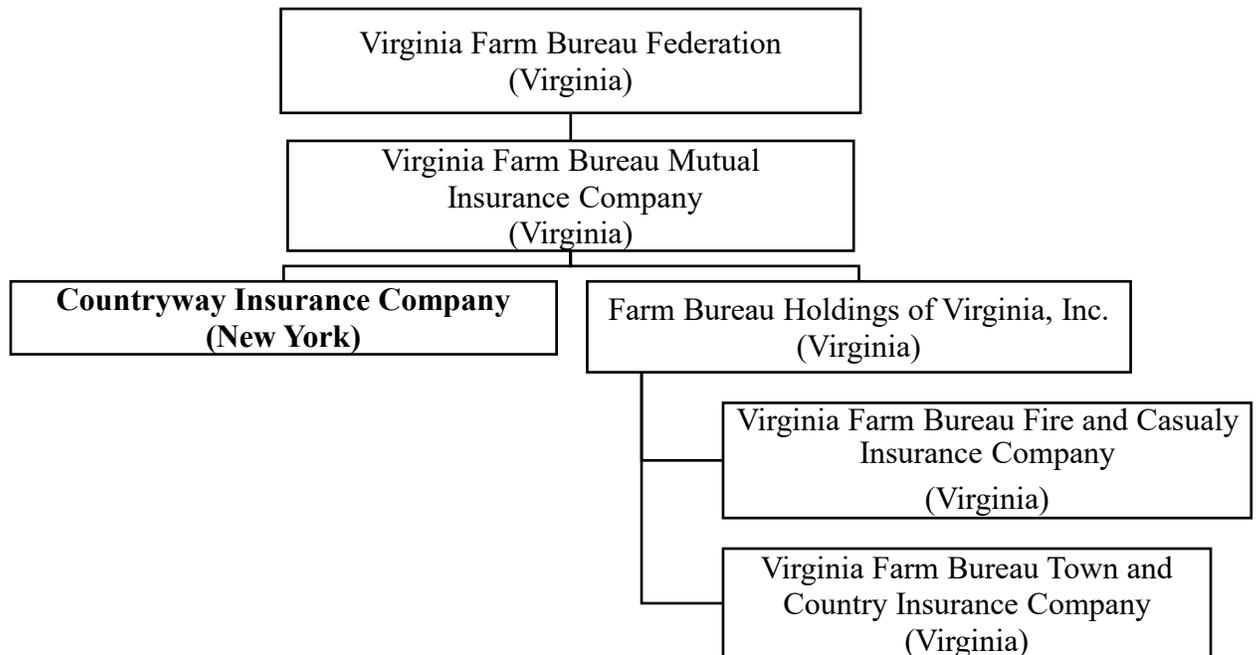
The Company is a member of the Virginia Farm Bureau Group and is a wholly owned subsidiary of Virginia Farm Bureau Mutual Insurance Company, a Virginia corporation, which is ultimately controlled by the Virginia Farm Bureau Federation (“Farm Bureau”). The Farm Bureau is a farmer’s advocacy group, which is wholly controlled by its members and financed by member dues. The Farm Bureau describes itself as a non-governmental, nonpartisan, voluntary organization committed to protecting Virginia’s farms and ensuring a safe, fresh, and locally-grown food supply. The Farm Bureau is an affiliate of the American Farm Bureau Federation.

Virginia Farm Bureau Fire and Casualty Insurance Company (“Fire and Casualty”) and Virginia Farm Bureau Town and Country Insurance Company (“Town and Country”) are wholly owned subsidiaries of Farm Bureau Holdings of Virginia, Inc. (“Holdings”). Holdings is a downstream holding company with Mutual owning 100% of Holdings’ outstanding common stock as of December 31, 2020.

Each insurer in the Virginia Farm Bureau Group, except the Company, is licensed to write property and casualty insurance only in the Commonwealth of Virginia. Countryway is licensed to write property-casualty insurance in Virginia and 16 other states.

The holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2020:



### Holding Company Agreements

At December 31, 2020, the Company was party to the following agreements with other members of its holding company system:

#### Management Services Agreement

Effective January 1, 2020, the Company entered into an agreement with its parent, Mutual, whereby Mutual provides administrative and other services to the Company and allows the Company to utilize Mutual's property, equipment, and facilities for the calendar year 2020. All expenses for Mutual's services and the use of its property, equipment, and facilities are fair, reasonable, and calculated on an actual cost basis in accordance with Department Regulation 30. This agreement was filed pursuant to Section 1505(d)(3) of New York Insurance Law. The Company incurred \$1,933,119 of such costs during 2020. Similar management services agreements were in place for calendar years 2019 and 2018.

#### Tax Allocation Agreement

Effective May 11, 2011, the Company entered into an agreement with its parent, Mutual, and the other members of its holding company whereby the parent prepares and files a consolidated return for each year and pays the consolidated tax liability. Each member shall be liable for and pay to the parent an amount

equal to the greater of such member's pro rata part of the consolidated tax liability or such member's separate return tax liability for each consolidated return year. The Company filed the agreement with the Department in accordance with Department Circular Letter No. 33 (1979).

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2020, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	0%
Adjusted liabilities to liquid assets*	(19%)
Two-year overall operating	0%

\*The negative result for this ratio reflects the calculation under which deferred premiums are deducted from liabilities. The 100% quota share agreement with Mutual creates this unusual result.

Underwriting Ratios

The Company cedes 100% of earned premiums and incurred losses to Mutual net of applicable reinsurance with no retrocession to the Company; therefore, all net underwriting ratios are not calculated because they are not meaningful.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$14,449,411	\$ 0	\$14,449,411
Cash, cash equivalents and short-term investments	2,990,430	0	2,990,430
Investment income due and accrued	119,956	0	119,956
Uncollected premiums and agents' balances in the course of collection	4,415,777	365,446	4,050,331
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,512,542	421	8,512,121
Amounts recoverable from reinsurers	1,513,932	0	1,513,932
Net deferred tax asset	363,483	129,553	233,930
Guaranty funds receivable or on deposit	18	0	18
Receivables from parent, subsidiaries, and affiliates	69,928	0	69,928
Equities and deposits in pools and associations	26,650	0	26,650
Other receivables	<u>25,858</u>	<u>25,858</u>	<u>0</u>
Total assets	<u>\$32,487,985</u>	<u>\$521,278</u>	<u>\$31,966,707</u>

Liabilities, Surplus, and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$	0
Reinsurance payable on paid losses and loss adjustment expenses		54,046
Commissions payable, contingent commissions and other similar charges		535,150
Other expenses (excluding taxes, licenses and fees)		1,538,136
Taxes, licenses, and fees (excluding federal and foreign income taxes)		327,288
Current federal and foreign income taxes		109,021
Advance premium		418,362
Ceded reinsurance premiums payable (net of ceding commissions)		1,958,825
Amounts withheld or retained by company for account of others		28,475
Remittances and items not allocated		(37,620)
Drafts outstanding		158,805
Payable to parent, subsidiaries and affiliates		10,000
Other payables		<u>191</u>
Total liabilities	\$	5,100,679

Surplus and Other Funds

Common capital stock	\$ 5,300,000
Gross paid in and contributed surplus	31,258,729
Unassigned funds (surplus)	<u>(9,692,701)</u>
Surplus as regards policyholders	<u>\$26,866,027</u>
Total liabilities, surplus, and other funds	<u>\$31,966,707</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2018 and through 2020. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$1,976,796, as detailed below:

Underwriting Income

Premiums earned		\$	0
Underwriting deductions			<u>0</u>
Net underwriting gain or (loss)		\$	0

Investment Income

Net investment income earned	\$1,254,845		
Net realized capital gains	<u>17,884</u>		
Net investment gain or (loss)			1,272,729

Other Income

Net gain or (loss) from agents' or premium balances charged Off	\$ (125,619)		
Finance and service charges not included in premiums	<u>1,239,800</u>		
Total other income			<u>1,114,181</u>
Net income before federal and foreign income taxes			\$2,386,910
Federal and foreign income taxes incurred			<u>410,114</u>
Net income			<u>\$1,976,796</u>

C. Capital and Surplus

Capital paid in is \$5,300,000 consisting of 265,000 shares of \$20 par value per share common stock. Gross paid in and contributed surplus is \$31,258,729. There were no changes in gross paid in and contributed surplus during the examination period.

Surplus as regards policyholders increased \$3,020,190 during the three-year examination period January 1, 2018, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2017			\$23,845,837
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,976,796		
Net unrealized capital gains or (losses)		\$ 11,854	
Change in net deferred income tax		292,663	
Change in nonadmitted assets	1,434,666		
Change in funded status – pension & post-retirement	<u>0</u>	<u>86,755</u>	
Total gains and losses	\$3,411,462	\$391,272	
Net increase (decrease) in surplus			<u>3,020,190</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$26,866,027</u>

No adjustments were made to surplus as a result of this examination.

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as that reported by the Company as of December 31, 2020. This reflects the impact of the following two agreements between the Company and its immediate parent, Mutual:

- 1) The 100% quota share reinsurance agreement is described in section 2C of this report;
- 2) The loss portfolio transfer that was effective on May 1, 2011, whereby the Company ceded to Mutual 100% of its net loss and loss adjustment expense reserves outstanding as of April 30, 2011.

It is noted that Mutual was examined concurrently with the Company and no examination changes were made to Mutual's balance sheet or income statement.

#### 5. **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u> It was recommended that the Company ensure that its engagement letters with its appointed CPA firm include all language required by Regulation 118, sections 89.8 (a) and 89.11.	13

The Company has complied with this recommendation.

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Susan Weijola, CPCU  
Associate Insurance Examiner

STATE OF NEW YORK    )  
  )ss:  
COUNTY OF NEW YORK )

Susan Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
Susan Weijola

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2022

*APPOINTMENT NO. 32290*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Linda A. Lacewell, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Susan Weijola***

*as a proper person to examine the affairs of the*

***Countryway Insurance Company***

*and to make a report to me in writing of the condition of said*

***COMPANY***

*with such other information as she shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 5th day of August, 2021*

*LINDA A. LACEWELL  
Superintendent of Financial Services*

*By:*

*Joan Riddell*

*Joan Riddell  
Deputy Bureau Chief*

