

**REPORT ON EXAMINATION AS TO THE CONDITION OF
CUMBERLAND MUTUAL FIRE INSURANCE COMPANY**

BRIDGETON, NEW JERSEY 08302

AT DECEMBER 31, 2021

NAIC COMPANY CODE 13684

NAIC GROUP CODE 0054

FILED

June 15, 2023

COMMISSIONER

NEW JERSEY DEPARTMENT

OF

BANKING AND INSURANCE

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
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May 24, 2023

Honorable Marlene Caride
Commissioner 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, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Cumberland Mutual Fire Insurance Company
633 Shiloh Pike
Bridgeton, NJ 08302
NAIC Company Code 13684
NAIC Group Code 0054
Examination Warrant P&C 8

a domestic mutual insurance company authorized to transact business in the State of New Jersey, and hereafter referred to in this report as "Cumberland," "CMFIC" or "Company."

SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "the Commissioner," "NJDOBI" or "Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination was conducted using a risk-focused examination approach and covered the five-year period from December 31, 2016, the date of the last examination, to December 31, 2021, including material transactions and/or significant events occurring after the examination date. The examination followed procedures formulated by the National Association of Insurance Commissioners ("NAIC") as permitted by the Department. During this five-year exam period, the Company's assets increased \$75,541,043 from \$278,354,197 to \$353,895,240; liabilities increased \$13,358,480 from \$120,752,932 to \$134,111,412 and policyholder surplus increased \$62,182,563 from \$219,783,828 to \$157,601,265.

The examination of the Company was conducted concurrently with the examination of **Cumberland Insurance Company, Inc. ("CIC")**, the Company's indirect subsidiary. Both companies together comprise and are hereafter referred to as "the Cumberland Group" or "Group." No other state participated in the coordinated exam.

The scope of this examination was framed around specific key risk areas as determined by a risk assessment analysis, which attempted to measure the impact of these risks upon the Company's financial condition and future viability. This entailed an evaluation of the Company's management, corporate governance, information systems, accounting methods, system of internal control, and the annual audit work performed by **EisnerAmper LLP ("EA")**, the Company's independent certified public accountants. Examiners leveraged off the audit work prepared by EA, where appropriate. Test procedures encompassed the following objectives:

- Analysis of business risk activities deemed to have a great impact on the Company's overall operations, including deviations from statutory accounting practices that affect solvency assessment.
- Identification of significant deviations from New Jersey insurance laws, regulations and directives.
- Compliance with the guidelines outlined in the 2021 edition of the NAIC Financial Condition Examiners Handbook, NAIC Annual Statement Instructions, NAIC accreditation/codification standards, Statements of Statutory Accounting Principles ("SSAP"), and NJDOBI policies and procedures.
- Assessment of the Company's surplus and that it is not materially misstated.
- Provision of a foundation for a profile of the Company's operations, risks, and results to be utilized by regulatory authorities.

Only significant findings of fact, statutory deviations and general information about the Company and its financial condition are included in this examination report. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information), are not included but which were separately communicated internally to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated on February 23, 1844 under a special act of the Legislature of the State of New Jersey. The Company operated under the name "Cumberland Mutual Assurance Company" for its first 40 years of operation. On February 17, 1848, the Company amended its Charter to change its name to "Cumberland Mutual Fire Insurance Company." A supplement to the Charter, on April 4, 1867, made the duration of the Company perpetual.

On February 4, 1958, the Company filed a Certificate of Adoption of the Amended Charter of the Company with the Department to update the full Charter. The Attorney General approved the amendment on February 3, 1958.

On August 5, 1958, the Commissioner issued an Amended Certificate of Authority, which authorized the Company to write the kinds of insurance specified in paragraphs "a," "b," "d," "e," "f," "j," "k," "l," "m," "n," and "o" of N.J.S.A. 17:17-1.

A Certificate of Adoption of the Amended Charter of the Company was filed with the Department on September 26, 1997. The purpose of the amendment was to update the second paragraph of the Company's Charter, which changed the location of the Company's principal office to 633 Shiloh Pike, Hopewell, New Jersey.

A Certificate of Adoption of the Amended Charter of the Company was approved by the Attorney General on March 23, 2000 and filed with the Department on March 31, 2000. The purpose of this amendment was to update the third paragraph of the Company's Charter as follows:

"Paragraph 'o' shall be amended to read as follows: (o) Against all losses to building and structures, including consequential loss; and against loss or damage to property of others, caused by an insured; against loss or damage to property by power failure or mechanical breakdown.

"Paragraph 'd' as it currently exists shall be deleted and shall be substituted as follows: To enter into a contract or agreement whereby an insurer is obligated to pay or allow a benefit of pecuniary value with respect to the bodily injury, disablement, sickness, death by accident or accidental means of a human being, or because of any expense relating thereto, or because of any expense incurred in prevention of sickness, and includes every risk pertaining to any of the enumerated risks."

On October 1, 2000, the Company executed a reorganization agreement with Chester County Mutual Insurance Company that facilitated the merger of both organizations, with Cumberland continuing as the surviving company under its name. Upon completion of the merger, the Cumberland Group acquired 100 shares of Chester County Insurance Agency, Inc.

On January 1, 2004, the Company executed a reorganization agreement with Mutual Fire Insurance Company in Calvert County that facilitated the merger of both organizations, with Cumberland continuing as the surviving company under its name.

On June 29, 2009 and again on December 20, 2010, the Company made capital contributions of \$5,000,000 and \$6,800,000, respectively, to **Cohanzick Holding, Inc. ("Cohanzick")**, its subsidiary. The capital contributions were in turn passed down to CIC.

On July 29, 2009, Chester County Insurance Agency, Inc. was dissolved pursuant to the Dissolution Clearance Certificate issued by the Commonwealth of Pennsylvania, Department of Revenue. Notice of the dissolution was reported to the Department through the Company's Form B filing in accordance with N.J.S.A. 17:27A-3.

TERRITORY AND PLAN OF OPERATION

The Company operates as a for profit regional mutual insurance company licensed in the states of New Jersey, New York, Pennsylvania, Maryland, Delaware, and Ohio. However, the Company has not written business in New York and Ohio. The Company has gradually expanded its product lines and territories. In 2002, Cumberland acquired a technology team in Mansfield, Ohio to develop new technological systems to deliver products, services, and information to meet the needs of the consumer.

The Company markets its products predominately through a network of 395 independent agents. Cumberland utilizes agency agreements and has no MGA relationships. The Company filed producer-controlled reports for each of the five years of the examination period in compliance with N.J.A.C. 11:2-37.4 where it was determined that it is not producer controlled. The Company utilizes the services of Guy Carpenter as its reinsurance intermediary for placing reinsurance contracts. Guy Carpenter is licensed as a reinsurance intermediary in compliance with N.J.S.A. 17:22E-2a and the intermediary contract was reviewed and verified without exception.

The Company has various agreements in effect with several service providers that offer assistance to Cumberland in the conduct of its business, such as investment management and custody of assets. The following is a partial listing of some of the vendors:

- Conning
- PMA Management Corp.
- General Re-New England Asset Management, Inc.
- U.S. Bank, N.A.

Cumberland maintains an in-house claims department which handles the notification, processing, adjusting and payment of claims for New Jersey, Pennsylvania, Delaware and Maryland. The department is divided into two separate entities: property claims department and casualty claims department. The New Jersey, Delaware and Pennsylvania workers compensation claims are handled by PMA Management Corp., as a provider of third-party administrative services.

Effective April 1, 2007, the Cumberland Group withdrew from the **Garden State Reinsurance Association ("GSRA")** Claims Service Center. The Cumberland Group continues to have certain services performed by GSRA including but not limited to reinsurance costs as pertaining to the GSRA business and allocating of costs through the GSRA intermediary.

The Company has 152 employees. The Company conducts its everyday business operations from its statutory home and main administrative office located at Bridgeton, New Jersey. This location handles administrative functions for the entire company as well as the personal and commercial lines underwriting, claims and marketing for New Jersey. During the examination period, the Company maintained a branch office in Mansfield, Ohio which served as an information technology and disaster recovery location. Subsequently, the Company moved this office to Ontario, Ohio. The registered agent upon whom process may be served is Paul John Ritter III, Cumberland's CEO and President, having an address at the Company's main office.

Policy Forms and Underwriting Practices

The Company submitted rates, rules, and forms filings with the Department for various of its product lines, which were inspected and verified for the period under examination and determined to be in compliance with N.J.S.A. 17:29A-1 et seq. in accordance with N.J.A.C. 11:13-2.1 and N.J.A.C. 11:1-2 et seq.

Advertising and Sales Material

A review and sampling of advertisement materials submitted by the Company, which includes a website, determined CMFIC to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

Treatment of Policyholders

The NAIC Closed Complaint Trend Report revealed that the Company registered 123 complaints during the examination period. The review of the Company's complaint log indicated that it was in compliance with N.J.S.A. 17:29B-4(10), which requires the maintenance of a complete record of all written grievances.

Statutory Deposit

The Company is exempt from having a statutory deposit in the State of New Jersey as per N.J.S.A. 17:20-1c. However, as of December 31, 2021, the Company had deposits with book values of \$663,277 with the State of New Jersey and \$99,931 with the State of Delaware. The deposits are held for the benefit and security of the Company's policyholders.

HOLDING COMPANY SYSTEM

Affiliated Parties

The Company is a member of a holding company system as defined by N.J.S.A. 17:27A-1 and has, therefore, filed holding company registration statements with the Department in compliance with N.J.S.A. 17:27A-3. The Company owns 100% of the stock of Cohanzick, a New Jersey domiciled insurance holding company, which was formed on August 16, 1982 to acquire 100% of the stock of CIC. The chart below illustrates the interrelationship of the companies within the holding company system as of December 31, 2021:



Inter-Company Agreements

The Company is a party to the following affiliated agreements in force at December 31, 2021:

Tax Allocation Agreement

Effective January 1, 1992, this agreement was made between and executed by Cumberland, Cohanzick, and CIC, collectively referred to as the "Companies." The Companies are members of an affiliated group ("Affiliated Group") as defined in section 1540 of the Internal Revenue Code of 1986. Under the terms of this agreement, it is agreed that the tax liability of the respective members of the Affiliated Group will be apportioned pursuant to Regulation 1.1552-1(a)(2) of the Code, in accordance with the total separate tax liability attributable to each member of the Affiliated Group. All settlement shall be made 30 days after the filing of the consolidated return.

Expense Sharing Agreement

This agreement is effective as of June 16, 2008 and was entered into by CIC and Cumberland. Under the terms of this agreement, each member shall pay all direct expenses of that member. Such expenses include but are not limited to: commissions, state and local insurance taxes, insurance department licenses and fees, loss adjustment, reinsurance and investment expenses. Allocable expenses shall be allocated among the members based on a percentage of premium volume. Such expenses include but are not limited to: payroll, payroll taxes, fringe benefits, advertising, insurance, director fees, travel, equipment, legal, audit, real estate expenses and taxes, data processing, rent and donations. The apportioned pro rata share of incurring expenses is in

accordance with **SSAP No. 70 Allocation of Expenses**. Payments are due no later than 60 days after each quarter.

Reinsurance Expense/Recovery Allocation Agreement

Effective May 21, 2013, CMFIC and CIC agreed to follow the following terms and conditions:

1. Each of the affiliated companies agree to honor the terms set forth in each respective reinsurance contract as if such contract was a separate agreement between such company and the applicable reinsurer.
2. Losses and loss adjustment expenses recoveries, premium expenses (including but not limited to initial premium deposits, minimum or maximum premiums, and/or reinstatement premium expenses) commissions and/or profit-sharing allocations in regard to each applicable reinsurance contract now existing or entered into by the companies. shall be allocated as set forth in the agreement.

MANAGEMENT AND CONTROL

Board of Directors

The by-laws, as amended in 2020, specify that all the affairs, property and business of the Company shall be managed and conducted by the Board that shall consist of not more than 10 nor less than five 5 directors, the exact number to be fixed from time to time by resolution adopted by a majority of the full Board. Each such person must be a member of CMFIC. Nominations of persons for election to the Board may be made at the annual meeting of the members either at the direction of the Executive Committee or by any member of the Company who is a member of record at the time of giving of notice provided as provided for in the by-laws.

A listing of board members serving the Company as of December 31, 2021, is as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Lawrence A. Pepper, Jr. (Chair) Vineland, NJ	Attorney, Partner
Paul Ritter Bridgeton, NJ	CEO & President, CIG
Robert L. Davis Pennsville, NJ	Retired, Henry D. Young, Inc.
Bruce R. Hankins Bridgeton, NJ	VP, H.H. Hankins & Bros.
Gregory J. Facemyer Bridgeton, NJ	Certified Public Accountant

Dr. Michelle Bear
Bridgeton, NJ

Physician, Family Practice

Clair H. Miller, Jr.
Bridgeton, NJ

Retired, University Professor

David J. Hemple
Bridgeton, NJ

CEO, Century Savings Bank

In accordance with N.J.S.A. 17:27A-4d(3), the Company is required to have a Board composition of no less than one-third outside directors. The Company was determined to be in compliance with the provisions of this statute, as all Board members are considered outside directors, with the exception of Paul Ritter, who is Cumberland's most senior officer.

Committees

The Company's by-laws provide for the appointment of an Executive Committee comprised solely of directors who are not officers or employees of the Company, nor have served as officers or employees of the Company within the previous two years. Membership in this committee shall consist of not less than three or more than four directors. One member shall be elected Chairperson of the committee by the Board. The Executive Committee is charged with, among other powers and functions: (a) corporate governance oversight; (b) nomination of directors; (c) making, altering, or repealing any by-laws; (d) electing or appointing any director, or removing any senior officer or director; (e) submitting to members any action that requires members' approval; and (f) amendment or repeal of any resolution theretofore adopted by the Board.

The by-laws also allow for other committees to be appointed by the Executive Committee or Chairman of the Board, which committees shall have the powers conferred by the appointment and not prohibited by the by-laws.

The following committees and members were appointed and serving at December 31, 2021:

Executive Committee

Clair Miller, Jr. (Chair)
Lawrence Pepper, Jr.
Robert Davis
Bruce Hankins

Audit and Risk Management Committee

Gregory Facemyer (Chair)
Clair Miller, Jr.
Robert Davis
Dr. Michelle Bear
Bruce Hankins
David Hemple

Investment Committee

David Hemple (Chair)
Paul Ritter
Lawrence Pepper, Jr.
Clair Miller, Jr.
Robert Davis
Dr. Michelle Bear
Gregory Facemyer
Bruce Hankins

Compensation Committee

Dr. Michelle Bear (Chair)
Clair Miller, Jr.
Robert Davis
Gregory Facemyer
Bruce Hankins
David Hemple

The Company is in compliance with N.J.S.A. 17:27A-4d(4), which prescribes that any committee selecting and reviewing the work performed by the Company's CPA firm, nominating candidates for director or evaluating the performance and determining the compensation of Company officers shall be comprised solely of outside directors. These functions are under the shared direction of the Executive Committee and Audit and Risk Management Committee, both of which consist of independent, outside directors having no conflicting business relationships with the Company. According to the by-laws, the Board assigns to the Audit & Risk Management Committee the responsibility to provide for an independent audit of all books of the Company, financial and otherwise, and a report of such audit shall be made to the Board at least annually, and special audits may be made at the request of the Board.

The Board's location for all correspondence and meetings is the CMFIC home office located in Bridgeton, NJ.

Officers

The Board must elect, at a minimum, a Chairman of the Board, Chief Executive Officer, President, Secretary and Treasurer. Additionally, the Company may have one or more Executive Vice-Presidents, one or more Senior Vice Presidents, one or more Vice-Presidents, one or more Assistant Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and other officers or assistant officers to serve in specific operational roles. One person may hold two or more offices, if allowed by law, but the same person shall not be both President and Secretary.

The senior officers serving the Company as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Paul J. Ritter	President, CEO
David F. Raczenbeck	Secretary, CLO
Neal G. Pierce	Treasurer, CFO
Richard M. Ritter	Executive Vice President, COO
Blair A. Sturts	Senior Vice President
Kenneth M. Mailley	Senior Vice President
Glenn W. Watkins	Senior Vice President
Harold P. Gunning	Senior Vice President
Patrick M. Padalik	Senior Vice President

Corporate Records

The Board shall hold regular meetings in the months of March, May, August, and November of each year at such time as shall be fixed from time to time by the Board. In addition, a regular meeting of the Board shall be held immediately following the annual meeting of shareholders on the second Wednesday of March of each year, or on such other date as may have been provided in a Notice of Meeting of Members given. Such meeting shall be for the purpose of electing officers and transacting such other business as may come before the meeting.

A review of the minutes of the Board meetings noted that they were well attended by the Company's directors, and that the proceedings of the meetings were done in compliance with the Company's state charter and by-laws. The corporate minutes also indicated that the Company's overall transactions and events were adequately supported and approved. A review of the signed affidavits of each member of the Board indicated that they had received and reviewed a copy of the December 31, 2016 financial condition examination report.

Policy on Conflicts of Interest

The Cumberland Group maintains an annual Conflict of Interest ("COI") questionnaire for all directors, officers, and assistant officers of the Group. Article VI of CMFIC's by-laws stipulates the various conditions and actions that are and or may be deemed by the Group to be inappropriate, potential conflicts of interest and or violations of said by-laws.

All directors, officers and assistant officers shall answer the COI questionnaire within 60 days after each annual meeting. All answers to questions in such questionnaire shall be subscribed and sworn to by the person making them. Members of the Board shall be the sole judges of the fitness of any director, officer, or assistant officer to serve this corporation, provided that, this shall not restrict the power and authority of the President or Executive Vice President(s) to employ and dismiss any employees or agents of the Company.

The examination team reviewed all officers and directors executed COI questionnaires for the period under examination and noted that there were no apparent or potential conflicts of interest reported.

Fidelity Bond Coverage

The Company, along with its affiliates, are named insureds on a financial institution bond underwritten by Hartford Fire Insurance Company. The fidelity bond provides the Cumberland Group with fidelity coverage up to a liability limit of \$1,000,000 on a single loss limit basis and a \$25,000 single loss deductible. The amount of fidelity coverage carried on the policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

Other management insurance coverages included the following:

Directors and Officers Liability
Employment Practices Liability

REINSURANCE

The Company maintained 12 reinsurance contracts as coverage for its core business. At December 31, 2021, the Company ceded approximately \$14,510,000 in premiums and was contingently liable for approximately \$9,904,000 under these agreements. The Company had an uncollateralized net reinsurance balance of approximately \$8,500,000 covering paid and unpaid losses and loss

adjustment expenses due from 35 reinsurers each having an A.M. Best rating of A- or higher. The Company does not write any retrospective rated contracts or contracts subject to redetermination nor does it write any accident and health insurance premiums that are subject to the Affordable Care Act risk-sharing provisions.

Reinsurance agreements were reviewed to ensure contracts had acceptable clauses and conditions. Below is a summary of the Company's reinsurance program.

Property and Casualty Reinsurance

Multi-Line XOL

For policies classified by the Company as Workers' Compensation, Employers Liability, Employment Practices Liability and Umbrella Liability.

Property:

First Excess	\$900,000 xs \$600,000
Second Excess	\$3,500,000 xs \$1,500,000

Casualty:

First Excess	\$400,000 xs \$600,000*
First Excess	\$900,000 xs \$600,000
Second Excess	\$3,500,000 xs \$1,500,000
Third Excess	\$2,500,000 xs \$5,000,000

* Workers' Compensation only

Combined:

First Excess	\$600,000 xs \$600,000
Second Excess	\$14,000,000 aggregate limit for all loss occurrences

Property Reinsurance

Property Facultative XOL

The Company maintained a pro-rata facultative agreement with the following sessions:

Property	100% of \$5,000,000 xs \$5,000,000 per risk
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Property Catastrophe XOL

First Excess	\$20,000,000 xs \$10,000,000
Second Excess	\$30,000,000 xs \$30,000,000
Third Excess	\$80,000,000 xs \$60,000,000
Fourth Excess	\$25,000,000 xs \$140,000,000

The Company also participates with the Mutual Reinsurance Bureau with regards to the Fifth Excess Catastrophe Reinsurance Agreement. The coverage is 100% of \$35,000,000 xs \$165,000,000.

Equipment Breakdown

The Company maintained an equipment breakdown reinsurance agreement that was 100% reinsured (quota share) with Factory Mutual Insurance Company.

Casualty Reinsurance

Umbrella

75% Commercial / 95% Personal & Farm | \$1,000,000 limit
100% Commercial / 95% Personal& Farm of \$1,000,000 xs \$4,000,000

Workers' Compensation

The Company, along with CIC, is a member of the GSRA. The following companies are also members of the GSRA:

Farmers Mutual Fire Insurance Company of Salem County and/or any other subsidiaries or members of the Salem Group.

The Farmers Insurance Company of Flemington and/or any other subsidiaries that are or may hereafter come under the management of the Company.

FMI Companies:

- The Franklin Mutual Insurance Company
- FMI Insurance Company
- POM Insurance Company (formerly Fidelity Mohawk Insurance Company) and/or any other subsidiaries or members of the FMI Companies.

Each of the above-mentioned entities are named reinsureds on the First, Second and Third Workers Compensation Excess of Loss Reinsurance Contract. The following are the reinsurers providing coverage on the First and Second Excess with their participation percentages:

Berkley Insurance Company
 First Excess 80%
 Second Excess 50%

Mutual Reinsurance Bureau
 First Excess ---
 Second Excess 30%

Safety National Casualty Corporation
 First Excess 20%
 Second Excess 20%

The coverage is as follows:

First Excess \$4,000,000 xs \$1,000,000
 Second Excess \$5,000,000 xs \$5,000,000

Coverage on the Third Excess is \$10,000,000 xs \$10,000,000 with the following reinsurers participating:

Ace Property and Casualty Insurance Company	50%
Arch Reinsurance Company	30%
The Cincinnati Insurance Company	20%

At year-end 2021, the Company was also a member of the following pools:

Mandatory

- New Jersey Fair Plan (NJ)
- National Workers Compensation Reinsurance Pool (FL)

Voluntary

- Hannover Ruck SE (DEU)
- Mutual Reinsurance Bureau (IL)
- R&Q Reinsurance Company (PA)
- Century Indemnity Company (PA)
- Franklin Mutual Insurance Company (NJ)
- Workers Compensation Underwriting Association (PA)

ACCOUNTS AND RECORDS

All the Company's books and records are maintained at its administrative office located in Bridgeton, New Jersey. On January 1, 2017, the Company converted its core accounting system to Sage Intacct, a secured cloud-based accounting program. The Company's investment portfolio, custodied with a national bank, is accounted for via Clearwater Analytics. The Company's general ledger was reviewed and reconciled to the 2021 annual statement. Financial information in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form.

Quarterly and annual statements are prepared in-house by the Company's finance department under the direction and management of the CFO and Treasurer. Loss reserve estimates are established according to written underwriting and claims procedures, and liabilities are monitored and adjusted for changes in economic, judicial, and historic trends. The Company works with internal and external actuaries to perform an adequacy review of premium rates and loss reserves. The Company's external actuary, Kufera Consulting, Inc., issued an unqualified opinion on its Statement of Actuarial Opinion dated as of December 31, 2021. The Opinion was provided by Kay Kufera, FCAS, MAAA.

Independent Audit

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by EA, based in Iselin, New Jersey, and a financial statutory audit report for fiscal years 2021 and 2020 was filed with the

Commissioner. The auditors concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company.

Continuity of Operations

A disaster recovery and business continuity (DR/BC) plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

Examiners reviewed the DR/BC plan and confirmed that the Cumberland Group performs periodic data restoration tests in compliance with NAIC standards. Additionally, examiners confirmed that the Company has also made provisions for the succession of officers in its by-laws.

COVID-19 Economic Impact

On March 11, 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. On March 13, 2020, the U.S. President declared the coronavirus pandemic a national emergency in the United States. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Department will continue to monitor how the pandemic might impact the Company.

FINANCIAL STATEMENTS

Financial Exhibits have been prepared based on the annual statutory financial statements filed by CMFIC with the NJDOBI. These are summarized below and furnished fully in the next three pages.

- | | |
|-----------|--|
| Exhibit-A | Statement of Financial Position
as of December 31, 2021 |
| Exhibit-B | Statement of Operating Results
for the Five-Year Period ended December 31, 2021 |
| Exhibit-C | Surplus Account
for the Five-Year Period ended December 31, 2021 |

EXHIBIT-A: Statement of Financial Position

As of December 31, 2021

	<u>Balance</u> <u>Per Examination</u> <u>12/31/21</u>	<u>Balance</u> <u>Per Company</u> <u>12/31/21</u>	<u>Examination</u> <u>Change</u>	<u>Note</u>
<u>Assets</u>				
Bonds	\$ 172,011,034	\$ 172,011,034	\$ -	
Common Stocks	142,632,489	142,632,489	-	
Properties Occupied by the Company	3,745,546	3,745,546	-	
Properties Held for Production of Income	1,369,923	1,369,923	-	
Cash and Short Term Investments	9,754,656	9,754,656	-	
Other Invested Assets	587,967	587,967	-	
Investment Income Due and Accrued	1,346,689	1,346,689	-	
Uncollected Premiums	7,151,167	7,151,167	-	
Deferred Premiums	12,708,144	12,708,144	-	
Amounts Recoverable from Reinsurers	50,669	50,669	-	
Funds Held by Reinsured Companies	15,000	15,000	-	
Current Fed Income Tax Recoverable	1,746,063	1,746,063	-	
Electronic Data Processing Equipment	309,392	309,392	-	
Aggregate Write-Ins	466,501	466,501	-	
Total Net Admitted Assets	<u>\$ 353,895,240</u>	<u>\$ 353,895,240</u>	<u>\$ -</u>	
<u>Liabilities</u>				
Losses	\$ 43,948,673	\$ 43,948,673	\$ -	1
Reinsurance Payable on Paid Losses	\$ 1,634,936	1,634,936	-	
Loss Adjustment Expenses	11,410,000	11,410,000	-	1
Commissions Payable	4,120,136	4,120,136	-	
Other Expenses	4,843,932	4,843,932	-	
Taxes, Licenses and Fees	343,329	343,329	-	
Net Deferred Tax Liability	599,246	599,246	-	
Unearned Premiums	63,563,112	63,563,112	-	
Advance Premiums	2,923,499	2,923,499	-	
Ceded Reinsurance Premiums Payable	584,261	584,261	-	
Funds Held Under Reinsurance Treaties	84,114	84,114	-	
Provision for Reinsurance	38,149	38,149	-	
Payable to Parent, Subs and Affiliates	18,025	18,025	-	
Total Liabilities	<u>\$ 134,111,412</u>	<u>\$ 134,111,412</u>	<u>\$ -</u>	
<u>Surplus</u>				
Unassigned Funds	\$ 219,783,828	\$ 219,783,828	\$ -	
Surplus as Regards Policyholders	<u>\$ 219,783,828</u>	<u>\$ 219,783,828</u>	<u>\$ -</u>	2
Total Liabilities and Surplus	<u>\$ 353,895,240</u>	<u>\$ 353,895,240</u>	<u>\$ -</u>	

EXHIBIT-B: Statement of Operating Results
For the Five-Year Period Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Underwriting Income</u>					
Premiums Earned	\$ 109,006,755	\$ 104,925,761	\$ 102,176,256	\$ 99,042,721	\$ 97,977,778
<u>Deductions</u>					
Losses Incurred	61,202,752	58,279,832	54,054,991	51,436,157	43,220,695
Loss Adjustment Expenses Incurred	11,646,578	10,884,921	10,271,843	9,804,767	9,135,219
Other Underwriting Expenses Incurred	40,747,400	38,969,646	38,659,976	36,168,408	35,789,528
Total Deductions	<u>113,596,730</u>	<u>108,134,398</u>	<u>102,986,810</u>	<u>97,409,332</u>	<u>88,145,441</u>
Net Underwriting Gain	\$ (4,589,975)	\$ (3,208,637)	\$ (810,554)	\$ 1,633,389	\$ 9,832,337
<u>Investment Income</u>					
Net Investment Income Earned	4,969,192	4,924,622	4,679,183	3,980,119	3,295,680
Net Realized Capital Gains/(Losses)	2,057,756	(73,319)	361,700	2,930,793	1,407,206
Net Investment Gain	<u>7,026,948</u>	<u>4,851,303</u>	<u>5,040,883</u>	<u>6,910,912</u>	<u>4,702,886</u>
<u>Other Income</u>					
Net Loss from Premium Bal Charged Off	(67,590)	(120,897)	(65,412)	(104,285)	(76,979)
Finance and Service Charges	380,154	390,697	430,235	447,830	438,072
Agg Write-ins for Miscellaneous Income	6,302	353	23,877	21,001	2,509
Total Other Income	<u>318,866</u>	<u>270,153</u>	<u>388,700</u>	<u>364,546</u>	<u>363,602</u>
Net Income Before Fed Income Taxes	\$ 2,755,839	\$ 1,912,819	\$ 4,619,029	\$ 8,908,847	\$ 14,898,825
Federal and Foreign Income Taxes Incurred	31,371	595,343	988,252	309,223	3,153,781
Net Income	<u>\$ 2,724,468</u>	<u>\$ 1,317,476</u>	<u>\$ 3,630,777</u>	<u>\$ 8,599,624</u>	<u>\$ 11,745,044</u>

EXHIBIT-C: Surplus Account

For the Five-Year Period Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Surplus as Regards Policyholders December 31, Previous Year	\$ 202,102,048	\$ 191,401,029	\$ 174,359,110	\$ 170,471,010	\$ 157,601,265
Net Income	2,724,468	1,317,476	3,630,777	8,599,624	11,745,044
<u>Other Surplus Adjustments</u>					
Change in Net Unreal Cap Gains/(Losses)	15,027,511	8,666,483	11,940,271	(2,735,461)	4,792,176
Change in Net Deferred Income Tax	332,900	238,232	50,850	2,783	(4,143,116)
Change in Nonadmitted Assets	(418,733)	246,279	(518,004)	(719,767)	(245,466)
Change in Provision for Reinsurance	(38,149)	-	-	-	-
Agg Write-ins for Surplus Gains/(Losses)	53,783	232,549	1,938,025	(1,259,079)	721,107
Total Other Surplus Gains/(Losses)	\$ 14,957,312	\$ 9,383,543	\$ 13,411,142	\$ (4,711,524)	\$ 1,124,701
Change in Surplus as Regards Policyholders for the Year	17,681,780	10,701,019	17,041,919	3,888,100	12,869,745
Surplus as Regards Policyholders December 31, Current Year	\$ 219,783,828	\$ 202,102,048	\$ 191,401,029	\$ 174,359,110	\$ 170,471,010

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Losses and Loss Adjustment Expenses

At December 31, 2021 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$55,358,673. A review by the NJDOBI Actuarial Unit indicated the reserves established by the Company were reasonably stated. Data supplied to the actuaries were tested for completeness and accuracy and reconciled to the Company's 2021 annual statement without material exception. Random samples of case reserves and loss payments were selected and verified to source documents.

Note 2 - Surplus as Regards Policyholders

Unassigned Funds

Total Unassigned Funds, as per the current examination review, amounted to \$219,783,828, which is \$62,182,563 more than the balance reported in the last examination, reflecting an increase of 39.46%. The Company paid no policyholder dividends during the examination period.

The cumulative changes in surplus and other funds during the five-year examination period are reflected and summarized below:

Policyholder Surplus, December 31, 2016	\$ 157,601,265
Net Cumulative Income	28,017,389
Change in Net Unrealized Capital Gains	37,690,980
Change in Net Deferred Income Tax	(3,518,351)
Change in Nonadmitted Assets	(1,655,691)
Change in Provision for Reinsurance	(38,149)
Agg Write-ins for Surplus Gains/(Losses)	1,686,385
Surplus Adjustments: Examination Change	<u>-0-</u>
Net Adjustments During Five-Year Period	<u>34,165,174</u>
Policyholder Surplus, December 31, 2021	<u>\$ 219,783,828</u>

In compliance with N.J.S.A. 17:17-7, the Company meets the statutorily required minimum surplus benchmark of \$2,000,000, an excess of \$217,783,828 remaining in surplus.

SUBSEQUENT EVENTS

Board Numerical Composition

The Company amended Article III Section 3.1 of its by-laws in June 2022 to change the maximum number of directors that could serve in the Board from 10 to 9 members.

Interest Rate Environment

The Federal Reserve ("Fed") increased rates by 25 basis points and set the federal funds target rate range between 4.75% and 5% following the second Federal Open Market Committee meeting of 2023 on March 21 and 22. Prior to the March increase, the Fed increased the rate by 25 basis

points in February 2023 and 50 basis points in December 2022. Increases follow four consecutive increases of 75 basis points and increases of 50 basis points in May and 25 basis points in March 2022.

Market interest rates are a key driver of liquidity and capital positions, cash flows, results of operations and financial position. Changes in interest rates can affect the Company in several ways, including, but not limited to, favorable or adverse impacts to investment-related activity, including: investment income returns, the valuation of fixed income investments and derivative instruments, collateral posting requirements, hedging costs and other risk mitigation activities, customer account values and assets under management, insurance reserve levels, policyholder behavior, including surrender or withdrawal activity, etc. The Department is in regular communication with management and is closely monitoring the progress.

SUMMARY OF RECOMMENDATIONS

The full scope risk-focused examination of the Company did not yield any reportable recommendations.

CONCLUSION

The statutory condition examination was conducted by the undersigned with the assistance of the NJDOBI field and office staff.

The courteous cooperation and assistance extended during the course of this examination by the Officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted,



Juan P. Collado
Examiner-In-Charge
NJ Department of Banking and Insurance

Examination oversight by,

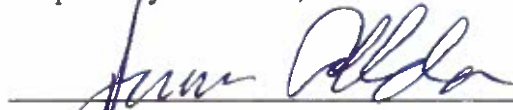


Nancy Lee Chice, CFE
CFE Reviewer
NJ Department of Banking and Insurance

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY
EXAMINER-IN-CHARGE AFFIDAVIT

I, Juan P. Collado, Examiner-in-Charge, in accordance with N.J.S.A. 17:23-24 5.b., 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, 2021, to the best of my information, knowledge and belief and that the examination was performed in a manner consistent with the standards and procedures required by the State of New Jersey as per N.J.S.A. 17:23-23 4.a.

Respectfully submitted,

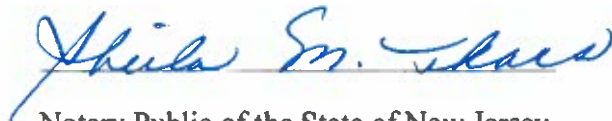


Juan P. Collado
Insurance Examiner I
NJ Department of Banking and Insurance



State of New Jersey
County of Mercer

Subscribed and sworn to before me on this 26th day of May, 20 23



Notary Public of the State of New Jersey

My commission expires: July 2025