

**REPORT ON EXAMINATION AS TO THE CONDITION OF**

**CUMBERLAND MUTUAL FIRE INSURANCE COMPANY**

**BRIDGETON, NEW JERSEY 08302**

**AS OF DECEMBER 31, 2016**

**N.A.I.C. GROUP CODE 0054**

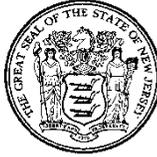
**N.A.I.C. COMPANY CODE 13684**

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**Department of Banking &**  
**Insurance**

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**State of New Jersey**  
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**May 17, 2018**

**Honorable Marlene Caride**  
**Acting 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**  
**BRIDGETON, NEW JERSEY**  
**N.A.I.C. GROUP CODE 0054**  
**N.A.I.C. COMPANY CODE 13684**

**a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Cumberland Mutual Fire Insurance Company will be referred to in this report as the "Company" or "CMFIC".**

**The "Cumberland Insurance Group" in this report is referring to the group entity of Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.**

## **SCOPE OF EXAMINATION**

**This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.**

**The examination was made as of December 31, 2016, and addressed the five-year period from January 1, 2012 to December 31, 2016. During this five-year period under examination, the Company's assets increased from \$238,959,157 to \$278,354,197. Liabilities increased from \$118,262,414 to \$120,752,932 and its capital and surplus increased from \$120,696,743 to \$157,601,265.**

**The New Jersey Department of Banking and Insurance (NJDOBI) conducted the examination in accordance with the 2016 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.**

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

**All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.**

## **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

### **Treatment of Policyholders and Claimants**

#### **2011 Examination Recommendation**

It is recommended that Cumberland Insurance Group separate their complaint log by Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc. instead of maintaining their complaint logs under Cumberland Insurance Group.

#### **Company Response**

The Company agrees to separate their complaint log by Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.

#### **2016 Examination Finding**

The Company has complied with the recommendation.

### **Bonds and Stocks**

#### **2011 Examination Recommendation**

It is recommended that the Company amends its custodian agreement with Bank of New York Mellon to add the appropriate indemnification clause to protect the Company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian as per the NAIC Financial Condition Handbook guidelines on Custodian and Safekeeping Agreements.

#### **Company Response**

The Company agrees to amend its custodian agreement with Bank of New York Mellon to add the appropriate indemnification clause.

#### **2016 Examination Finding**

The Company switched custodians from Bank of New York Mellon to US Bank. The US Bank custodian agreement includes appropriate indemnification clause to protect the Company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian as per the NAIC Financial Condition Handbook guidelines on Custodian and Safekeeping Agreements.

Therefore, the Company has complied with the recommendation.

## Amounts Recoverable for Reinsurers

### 2011 Examination Recommendation

It is recommended that the Company disclose Uncollectable Reinsurance on the Notes to Financial Statements in accordance with SSAP No. 62R, paragraph 74 in future annual statements.

### Company Response

The Company agrees to disclose Uncollectable Reinsurance on the Notes to Financial Statements in accordance with SSAP No. 62R, paragraph 74 in future annual statements.

### 2016 Examination Finding

The Company has complied with the recommendation.

## HISTORY

The Cumberland Mutual Fire Insurance 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 forty years of operation. On February 17, 1848, the Company amended its Charter to change their name to “Cumberland Mutual Fire Insurance Company”. A supplement to the Charter, on April 4, 1867, made the duration of the Company perpetual.

A Certificate of Adoption of the Amended Charter of the Company was approved by the Attorney General on February 3, 1958 and filed with the New Jersey Department of Banking and Insurance on February 4, 1958. This amendment was filed to update the Company’s full Charter.

An Amended Certificate of Authority was issued by the Commissioner of Banking and Insurance of the State of New Jersey on August 5, 1958, which authorized the Company to transact the business of writing insurance against the various risks and perils named in said Certificate, being the kinds of insurance specified in paragraph “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 New Jersey Department of Banking and Insurance on September 26, 1997. This amendment was filed to update the second paragraph of the Company’s Charter as follows:

“Second: The location of the principal office is at 633 Shiloh Pike, in the Township of Hopewell, County of Cumberland, State of New Jersey..., and the registered agent upon whom process may be served shall be the Company.”

**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 New Jersey Department of Banking and Insurance on March 31, 2000. This amendment was filed to update the third paragraph of the Company's Charter as follows:**

**“Third: 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.”**

**“Third: 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.”**

**The Board of Managers of Chester County Mutual Insurance Company (Chester) and the Board of Directors of Cumberland Mutual Fire Insurance Company (Cumberland) have adopted resolutions to enter into a “Plan” and “Agreement of Reorganization” (Plan and Agreement) where-by, on October 1, 2000, Chester will be merged with and into Cumberland under the name of the Cumberland Mutual Fire Insurance Company. The Merger is conditioned upon certain circumstances contained in the Plan and Agreement. These circumstances include but are not limited to the conditions that (i) the total policyholders' surplus of Chester at the time of merger shall be at least 2 million dollars; (ii) the A.M. Best rating of Cumberland, which is currently A+, shall not be reduced as a result of the merger; (iii) the approval of all regulatory agencies having jurisdiction over the merger shall be obtained; (iv) the approval of the members of each company shall be obtained; (v) the surviving company shall qualify to do business in New Jersey, Pennsylvania, Maryland and Delaware; (vi) there is no litigation which adversely affects the proposed merger; and (vii) there are no material errors, misstatements or omissions in any representations or warranties contained in the Plan and Agreement. Cumberland is now authorized and licensed to transact insurance in the States of New Jersey, Pennsylvania, Delaware and Maryland. Upon Chester's merger with Cumberland, the Cumberland Insurance Group has acquired and owns 100 shares of Chester County Insurance Agency, Inc.**

**The Board of Directors of Mutual Fire Insurance Company in Calvert County (Mutual Fire) and the Board of Directors of Cumberland Mutual Fire Insurance Company (Cumberland) have adopted resolutions to enter into a “Plan” and “Agreement of Reorganization” (Plan and Agreement) where-by, on January 1, 2004, Mutual Fire will be merged with and into Cumberland. The name of the Surviving Corporation shall be the Cumberland Mutual Fire Insurance Company and governed by the laws of New Jersey. Cumberland will succeed, without other transfer, to all the rights and property of Mutual Fire and will be subject to all the debts and liabilities of Mutual Fire in the same manner as if Cumberland had incurred them. All rights of creditors and all liens on the property of each constituent corporation will**

be preserved, unimpaired, limited in lien to the property affected by the liens immediately prior to the Merger. The Surviving Corporation will carry on business with the assets of Mutual Fire as well as with the assets of Cumberland. The Certificate of Incorporation of Cumberland as existing on the effective date of the merger, will continue in full force as the Certificate of Incorporation of the Surviving Corporation until altered, amended or repealed as provided in the Certificate or as provided by law. Cumberland is now authorized and licensed to transact insurance in the States of New Jersey, Maryland, Delaware, Ohio and Pennsylvania. The management of the Cumberland Mutual Fire Insurance Company shall be the current officers of Cumberland and the President of Mutual Fire, William F. Fowler, who will be employed by Cumberland as Maryland Personal Lines Branch Manager for a term of three years.

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 New Jersey Department of Banking and Insurance through the Company's Form B filing in accordance with N.J.S.A. 17:27A-3.

On June 29, 2009, the Company made a capital contribution in the amount of \$5,000,000 to the Company's wholly owned subsidiary, Cohanzick Holding Company, Inc., for the sole and express purpose of Cohanzick Holding Company, Inc. to make the same capital contribution to its wholly owned subsidiary, Cumberland Insurance Company, Inc.

On December 17, 2010, the Company made a capital contribution in the amount of \$6,800,000 to their wholly owned subsidiary, Cohanzick Holding Company, Inc., for the sole and express purpose of Cohanzick Holding Company, Inc. to make the same capital contribution to its wholly owned subsidiary, Cumberland Insurance Company, Inc.

The principal office of the Company is located at 633 Shiloh Pike, Bridgeton, New Jersey 08302. The agent in charge upon whom process may be served is Paul John Ritter III, CEO and President.

#### **STATUTORY DEPOSIT**

As of December 31, 2016, the Company maintains a \$100,000 par value US Treasury Bonds, 7.125%, due 2/15/2023, with the State of Delaware, in trust for the benefit and security of all the policyholders of Cumberland Mutual Fire Insurance Company.

#### **TERRITORY AND PLAN OF OPERATION**

Cumberland Mutual Fire Insurance Company is a domestic mutual insurance company licensed to transact business in the states of New Jersey, Pennsylvania, Maryland, Delaware and Ohio.

The Company operates as a for profit regional mutual insurance company. The Company has gradually expanded its product lines and territories. In 2002, they 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.

CMFIC markets its products predominately through a network of independent agents. The Company utilizes an agency agreement and has no MGA relationships.

The Company maintains various service agreements with vendors who are not affiliated with the Company. Some of the primary vendors with whom the Company has service agreements include:

- Computer Sciences Corporation
- Duck Creek Technologies LLC
- Insurance Service Offices, Inc.

CMFIC maintains an in-house claims department which handles the notification, processing, adjusting and payment of claims for New Jersey, Pennsylvania, Delaware and Maryland. The Company has divided their claims department into two separate entities: property claims department and casualty claims department.

Effective April 1, 2007, Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, (the Companies) withdrew from the Garden State Reinsurance Association (GSRA) Claims Service Center. The Companies continue 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 New Jersey, Delaware and Pennsylvania workers compensation claims are handled by PMA Management Corp. (PMA-MC), as a provider of third-party administrative services.

The Company conducts its everyday business operations from its statutory home and main administrative office located at 633 Shiloh Pike, Bridgeton, New Jersey 08302. This location handles administrative functions for the entire company as well as the personal and commercial lines underwriting, claims and marketing for the entire Company. The Company also maintains a branch office in Mansfield, Ohio which serves as an information technology center and a disaster recovery location for the Company.

At December 31, 2016 the Company had a total of 152 employees.

## **REINSURANCE**

The Company had the following reinsurance in force as of December 31, 2016:

### **Property Reinsurance**

#### **Property Per Risk Excess of Loss**

Underlying	\$150,000 in excess of \$600,000
1st Layer	\$750,000 in excess of \$750,000
2 <sup>nd</sup> Layer	\$3,500,000 in excess of \$1,500,000

### Pro-Rata Property Facultative

For risks in excess of \$5,000,000 the Company maintained a pro-rata facultative agreement with a maximum cession to the reinsurer of \$2,500,000 per risk. Higher limits were available with special acceptance.

### Equipment Breakdown

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

### Property Catastrophe

Underlying Excess	100% of \$2,500,000 in excess of \$ 5,000,000
First Excess	100% of \$20,000,000 in excess of \$ 10,000,000
Second Excess	100% of \$30,000,000 in excess of \$ 30,000,000
Third Excess	100% of \$80,000,000 in excess of \$ 60,000,000
Fourth Excess	100% of \$5,000,000 in excess of \$ 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 \$30,000,000 in excess of \$145,000,000.

### Casualty Reinsurance

#### Casualty Excess of Loss

1st Layer	\$500,000 in excess of \$500,000 for Workers Compensation (WC) and Employers Liability (EL). \$700,000 in excess of \$500,000 for All Other Lines
2 <sup>nd</sup> Layer	\$4,000,000 in excess of \$1,200,000 (excluding WC)

### Umbrella

The Company maintained an umbrella reinsurance agreement for both personal and commercial lines. The agreement was a 95% quota share and provided a limit up to \$5,000,000.

For commercial lines only, the Company also maintained an umbrella reinsurance agreement providing a 100% quota share of \$5,000,000 in excess of \$5,000,000.

### Workers' Compensation

Cumberland Mutual Fire Insurance Company along with its affiliate Cumberland Insurance Company Inc. as members of the Cumberland Insurance Group is a Member of the Garden State Reinsurance Association ("GSRA"). GSRA other members consist of the following:

**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**
- **Fidelity Mohawk Insurance Company and/or any other subsidiaries or members of the FMI Companies.**

**Each of the above mentioned members of the GSRA are named reinsured on the First and Second Workers Compensation Excess of Loss Reinsurance Contract. The reinsurer on the First Excess is Safety National Casualty Corporation. The reinsurers on the Second Excess are as follows:**

<b>Ace Property and Casualty Insurance Company</b>	<b>50%</b>
<b>Arch Reinsurance Company</b>	<b>15%</b>
<b>Endurance Reinsurance Company of America</b>	<b>15%</b>
<b>Safety National Casualty Corporation</b>	<b>20%</b>

**The coverage is summarized below:**

<b>First Excess</b>	<b>\$9,000,000 in excess of \$1,000,000</b>
<b>Second Excess</b>	<b>\$10,000,000 in excess of \$10,000,000</b>

**The Company is also a member of the following mandatory pools:**

- **National Workers Compensation Reinsurance Pool**
- **New Jersey Fair Plan**

**Reinsurance Agreements were reviewed to ensure contracts had acceptable clauses and conditions.**

**CORPORATE RECORDS**

**The Company's By-laws, which were amended in 2012, 2013 and 2015, stipulate that the annual meeting of Members of this Corporation at which directors shall be elected shall be held on the second Wednesday of March of each year, at eleven o'clock in the morning or at such other date and time determined by the Board as shall be specified in a notice of meeting. Notice of the time and place of each annual meeting of members, and each special meeting of members, shall be given by publishing such a notice of meeting at least two times in a public newspaper printed and circulated in the County of Cumberland and State of New Jersey, which notice shall be published during two consecutive weeks not less than 60 days prior to**

such meeting. It shall not be necessary to give notice of an adjourned meeting if the time and place thereof is announced at the meeting at which time adjournment is taken.

The Board of Directors governs the business of the Company. Directors shall be elected at an annual meeting of members of this Corporation as provided in these Bylaws, and at such election the polls shall remain open for a period of at least one half hour or for such a period of time longer than one half hour as may be necessary for all of the members present, in person or by proxy, to vote if they care to do so. The Board shall consist of not more than ten (10) Directors 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. A majority of the entire Board of Directors, or any committee thereof, shall constitute a quorum for the transaction of business.

A review of the minutes of the Board of Director's 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 Board 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, 2011 financial condition examination report. Evidence of this review and approval is documented in the August 16, 2013 Board minutes.

## **MANAGEMENT AND CONTROL**

### **Directors**

Cumberland Mutual Fire Insurance Company's amended 2015 By-laws specify that the all of the affairs, property and business of the Corporation shall be managed and conducted by a Board of not more than ten (10) Directors 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 the Corporation. Each member elected a Director shall be sworn for the faithful discharge of his or her duties as such director before assuming the duties of such office. If any member elected as a Director shall neglect, refuse or fail to be sworn for the faithful discharge of his or her duties for a period of six (6) months immediately following his or her election, then the Board of Directors, at its option and without notice to such member may declare the election void and a vacancy shall be thereby created.

The Board of Directors 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 thereto, a regular meeting of the Board of Directors 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.

Any person who ceased to be a Director of the Corporation after serving ten or more years in this capacity shall be eligible to become an Emeritus Director and may be nominated and elected by the members or by the Board of Directors at any time for a term to end at the next

following annual meeting of the Corporation. No Emeritus Director may serve more than three (3) one-year terms as an Emeritus Director. An Emeritus Director is required to be a member of Cumberland Mutual Fire Insurance Company. An Emeritus Director may, when invited, attend all meetings of the Board of Directors, as an advisor and may participate in discussions and deliberations but shall not have the right to vote on any matters considered by the Board and shall not be eligible to be an officer or employee of this Corporation. An Emeritus Director may be paid fees for such services, as may be fixed by the Board of Directors from time to time.

A listing of the ten Directors serving the Company as of December 31, 2016 is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lawrence A. Pepper Jr.	Chairman of the Board of Directors Partner in law firm of Gruccio, Pepper, DeSanto & Ruth, P.A. – Attorneys at Law
Paul J. Ritter, III	President and CEO -- Cumberland Insurance Group
Leo T. Hogan	Retired
Robert P. Brady	Emeritus Director Retired
Clair H. Miller, Jr.	Retired – Professor – Cumberland County College
Robert L. Davis	Retired – Henry D. Young Agency, Inc.
Bruce R. Hankins	Vice President / Sales – H. H. Hankins & Bros.
Gregory J. Facemyer	CPA Operates certified public accounting firm
Dr. Michelle Bear	Physician practicing with Family Practice Associates of Cumberland County
David F. Hemple	President of Century Savings Bank

There shall be an Executive Committee comprised solely of Directors who are not officers or employees of the Corporation, nor have served as officers or employees of the Corporation within the previous two years, consisting of not less than three (3) or more than four (4) members of the Board of Directors. One member of the Committee shall be elected Chairperson of the Committee by the Board of Directors. The duties and functions of this Committee shall include, but not be limited to: corporate governance oversight; nomination of Directors; oversight of the corporations performance and financial condition; review and approve strategic planning; evaluating the performance of Company senior officers;

recommending to the Board of Directors the selection and compensation of Company senior officers and recommend to the Board actions recommended by committees.

Members serving on the Executive Committee at December 31, 2016 were as follows:

Clair H. Miller, Jr. Chairman  
Lawrence A. Pepper, Jr.,  
Bruce R. Hankins  
Leo T. Hogan  
Robert L. Davis

Additionally, the Company's by-laws allow for the directors to adopt by resolution one or more other committees made up of Board members appointed by the Executive Committee or by the Chairman of the Board. Each such committee shall have the powers conferred by that appointment and not prohibited by law. As at December 31, 2016, the Company maintained the following committee's: Audit and Risk Management, Compensation, and Investment Committee's.

The Audit and Risk Management Committee consisted of four outside directors who shall have the authority together with the Executive Committee to take any and all acts that it deems necessary to carry out its oversight function, including but not limited to: appoint, retain, termination, compensation and oversee the independent auditor, the independent actuary, and the internal auditor and oversee the internal compliance specialist; review and discuss the financial reporting and disclosure matters with management and the independent auditor and report to the Board and Executive Committee; discuss with management the Company's risk assessment and risk management policies. The members serving on this committee at the examination date were as follows:

Gregory J. Facemyer, Chairman  
Dr. Michelle Bear  
Bruce R. Hankins  
David F. Hemple

Compensation Committee - The members serving on this committee at the examination date were as follows:

Robert L. Davis, Chairman  
Dr. Michelle Bear

Investment Committee - The members serving on this committee at the examination date were as follows:

David F. Hemple, Chairman  
Robert L. Davis  
Gregory J. Facemyer

**The Chair of the Board and the Chair of the Executive Committee also attend or are members ex officio of various committees of the Board of Directors.**

**Cumberland Mutual Fire Insurance Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that “not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity”. The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Board of Directors consists of ten members of which nine are outside directors.**

**The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that “The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers.” The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Executive, Audit and Risk Management, Compensation and Investment Committees are comprised solely of Directors who are not employees or controlling shareholders of the Company or any affiliate.**

### **Officers**

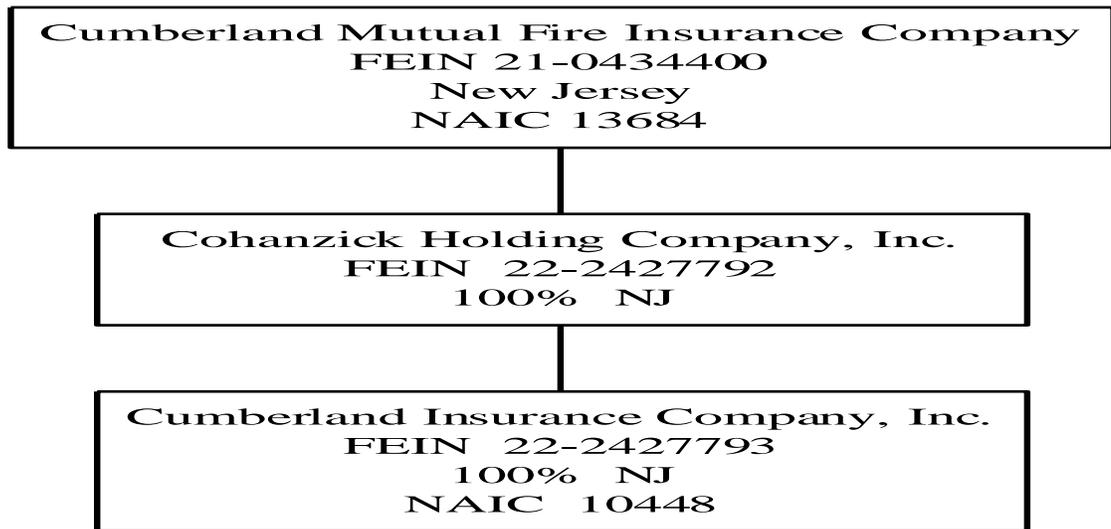
**The Board must elect, at a minimum, a Chairman of the Board, Chief Executive Officer, President, Secretary and Treasurer. Additionally, the Corporation may have one or more Executive Vice-Presidents, one or more Senior Vice Presidents, one or more Vice-Presidents, one or more Assistant Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and other officers or assistant officers to serve in specific operational roles such as Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Chief Legal Officer, Chief Underwriting Officer, Chief Marketing Officer or any other commonly used executive title intended to designate the leader of a recognized business department or unit of the Corporation. Such executive titles may be combined with other officer designations provided herein and may be modified to designate seniority of executive position (i.e. “Assistant Vice President & Assistant Chief Underwriting Officer”). The following senior officers have been elected and were serving the Company as of December 31, 2016:**

<u>Name</u>	<u>Office</u>
Paul J. Ritter, III	CEO & President
Richard M. Ritter	Executive Vice President & COO
David F. Raczenbek	Secretary & Chief Legal Officer
Keith A. Maxfield	Executive Vice President of Underwriting & CUO
Neal G. Pierce	CFO & Treasurer
Steve J. Catranis	Senior Vice President
Harold P. Gunning	Senior Vice President
Kenneth M. Mailley	Senior Vice President
Roby L. Musick	Senior Vice President & CIO

**REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS**

Cumberland Mutual Fire Insurance Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company owns 100% of the stock of Cohanzick Holding, Inc., a New Jersey domiciled insurance holding company, who was formed on August 16, 1982 to acquire 100% of the stock of Cumberland Insurance Company, Inc.

At December 31, 2016, it was determined by the examination that the Company did file the holding company registration statement in compliance with N.J.S.A. 17:27A-3. Below is the Company organizational chart as of December 31, 2016:



## **INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS**

At December 31, 2016, Cumberland Mutual Fire Insurance Company participated in various inter-company agreements with its subsidiary and affiliates. These Agreements include the following:

### **Tax Allocation Agreement**

This Agreement is made on July 7, 2008, effective as of January 1, 1992, by and among Cumberland Mutual Fire Insurance Company, Cohanzick Holding Company, Inc. and Cumberland Insurance Company, Inc., collectively referred to as the "Companies". The Companies are members of an affiliated group (the "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 thirty days after the filing of the consolidated return.

### **Expense Sharing Agreement**

This Agreement is made on June 16, 2008, by and among Cumberland Mutual Fire Insurance Company and their wholly owned subsidiary, Cumberland Insurance Company, Inc. 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 sixty days after each quarter.

### **Reinsurance Expense/Recovery Allocation Agreement**

This Agreement is made on May 21, 2013, by and among Cumberland Mutual Fire Insurance Company and their wholly owned subsidiary, Cumberland Insurance Company, Inc. The companies do hereby enter into this Agreement and do hereby agree as follows:

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

regards to each applicable reinsurance contract now existing or entered into by the companies. shall be allocated as set forth in the agreement.

### **POLICY ON CONFLICT OF INTEREST**

The Cumberland Insurance Group maintains an annual Conflict of Interest Questionnaire for all directors, officers and assistant officers of the corporation. Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc. By-laws, Article VI, stipulates the various conditions and actions that are and or may be deemed by the Company to be inappropriate, potential conflicts of interest and or violations of said By-laws.

All directors, officers and assistant officers shall answer the Conflict of Interest Questionnaire within sixty days after each annual meeting. All answers to questions in such questionnaire shall be subscribed and sworn to by the person making them. The directors of the Corporation 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 Corporation.

The examination team reviewed all officers and directors executed Conflict of Interest Questionnaire Statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

### **EMPLOYEE WELFARE AND PENSION PLANS**

Cumberland Mutual Fire Insurance Company provides several benefit programs for its employees, some of which are noted below. Some benefit programs require contributions from employees and some are funded by the Company:

- Defined Benefits Frozen Pension Plan
- 401(K) Retired Savings Plan
- Medical Plan which includes Vision and Dental
- Short and Long Term Disability & Life Insurance
- AFLAC Insurance
- Educational Assistance Program

The Company's Board of Directors approved the amendment to apply a "Hard Freeze" to the Defined Benefits Pension Plan; whereas, the accrued benefit of each participant be frozen under the Plan, effective as of December 31, 2011. No future accrued service will be credited and no future changes in compensation will be taken into account in the determination of a participant's accrued benefits. The plan was previously amended to prohibit entry of any new employees, but the plan is maintained financially and administratively by Cumberland Mutual Fire Insurance Company and Principal Financial Group.

Additionally, a smaller pension plan maintained by the Company was terminated during the period covered by the examination and filings as to the termination were made by the Company with the IRS and the Department of Labor (DOL).

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

The Company and its related subsidiaries, affiliates, pension plan and annuity contracts are named insured on a financial institution bond underwritten by Hartford Fire Insurance Company. The fidelity bond provides the Cumberland Insurance 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 this policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

The Cumberland Insurance Group also maintains other insurance coverage designed to protect its assets from losses arising out of various risks. The Company is covered under various policies that were in force as at December 31, 2016, including but not limited to: general liability, commercial output, automobile coverage, inland marine coverage, umbrella coverage, workers compensation coverage, cyber liability coverage, director and officer coverage, and employment practices liability coverage.

## **POLICY FORMS AND UNDERWRITING PRACTICES**

The Company filed its rates, rules and forms filings with the New Jersey Department of Banking and Insurance for their commercial business-owners, commercial property package, commercial fire, commercial general liability and commercial umbrella liability. All commercial line filings for rates, rules and forms have been determined to be in compliance with N.J.S.A. 17:29AA-1 et seq. in accordance with N.J.A.C. 11:13-2.1.

The Company also filed its rates, rules and forms filings for their personal homeowners, fire, mobile home-owners and inland marine. All personal line filings for rates, rules and forms have been determined to be in compliance with N.J.S.A. 17:29A-1 in accordance with N.J.A.C. 11:1-2 et seq.

## **ADVERTISING AND SALES MATERIAL**

The Company advertises as "The Cumberland Insurance Group". A review of the Company's advertising and sales materials, which includes an on-line web site, disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

## **TREATMENT OF POLICYHOLDERS AND CLAIMANTS**

The Company's complaint log for complaints filed with the New Jersey Department of Banking and Insurance for the years 2013 through 2016 were reviewed. The review of these complaint logs determined that the treatment of complainants, the record keeping of complaints and the response time by the Company was in compliance with N.J.S.A. 17:29B-4(10) (Complaint Handling Procedures).

## **CONTINUITY OF OPERATIONS**

**A business continuity 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.**

**The Company's Disaster Recovery Plan was reviewed and approved by New Jersey Department of Banking and Insurance Office of Solvency Regulation field insurance examination team.**

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

**FINANCIAL STATEMENTS AND OTHER EXHIBITS**

**Exhibit A Balance Sheet at December 31, 2016**

**Exhibit B Summary of Operations for the Five-Year Period Ending  
December 31, 2016**

**Exhibit C Capital and Surplus Account for the Five-Year Period Ending  
December 31, 2016**

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY  
BALANCE SHEET AT DECEMBER 31, 2016

<u>Assets</u>	Current Examination at 12/31/2016	Balance per Company at 12/31/2016	Examination Change	Note Number
Bonds and Stocks	\$238,584,427	\$238,584,427	\$0	1
Real Estate:				
Property Occupied by the Company	4,718,336	4,718,336	0	
Properties Held for the Production of Income	1,610,207	1,610,207	0	
Property Held for Sale	1,530,000	1,530,000	0	
Cash on Hand and on Deposit and Short-term Investments	9,496,492	9,496,492	0	
Investment Income Due and Accrued	1,218,288	1,218,288	0	
Premiums and Considerations:				
In Course of Collection	529,145	529,145	0	
Booked but Deferred and Not Yet Due	11,314,137	11,314,137	0	
Reinsurance:				
Amounts Recoverable from Reinsurer	198,875	198,875	0	
Funds Held By or Deposited with Reinsured Companies	31,000	31,000	0	
Current Federal and Foreign Income Taxes Recoverable	1,500,900	1,500,900	0	
Net Deferred Tax Asset	6,566,312	6,566,312	0	
Electronic Data Processing Equipment	136,002	136,002	0	
Receivables from Parent, Subsidiaries and Affiliates	488,200	488,200	0	
Aggregate Write-Ins for Other Than Invested Assets	431,876	431,876	0	
<b>Total Admitted Assets</b>	<b>\$278,354,197</b>	<b>\$278,354,197</b>	<b>\$0</b>	
<u>Liabilities</u>				
Loss and Loss Adjustment Expenses	\$50,592,846	\$50,592,846	\$0	2
Commissions Payable, Contingent Commissions and Other Similar Charges	3,995,525	3,995,525	0	
Other Expenses	8,155,410	8,155,410	0	
Taxes, Licenses and Fees	374,935	374,935	0	
Unearned Premiums	54,812,551	54,812,551	0	
Advance Premium	2,531,660	2,531,660	0	
Ceded Reinsurance Premiums Payable	272,323	272,323	0	
Funds Held by Company Under Reinsurance Treaties	17,682	17,682	0	
<b>Total Liabilities</b>	<b>\$120,752,932</b>	<b>\$120,752,932</b>	<b>\$0</b>	
<u>Surplus and Other Funds</u>				
Unassigned Funds (Surplus)	\$157,601,265	\$157,601,265	\$0	
Surplus as Regards Policyholders	\$157,601,265	\$157,601,265	\$0	3
<b>Total Liabilities, Surplus and Other Funds</b>	<b>\$278,354,197</b>	<b>\$278,354,197</b>	<b>\$0</b>	

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY  
SUMMARY OF OPERATIONS FOR THE  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2016

<u>UNDERWRITING INCOME</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Premiums Earned	\$96,182,993	\$96,177,178	\$94,750,390	\$87,498,360	\$79,943,565
Deductions:					
Losses Incurred	\$51,226,376	\$52,233,439	\$54,999,335	\$51,186,360	\$48,933,485
Loss Adjustment Expenses Incurred	9,112,533	9,265,050	9,619,124	6,909,791	9,012,361
Other Underwriting Expenses Incurred	33,529,326	33,114,826	32,905,826	33,056,459	30,866,081
Total Underwriting Deductions	<u>\$93,868,235</u>	<u>\$94,613,315</u>	<u>\$97,524,285</u>	<u>\$91,152,610</u>	<u>\$88,811,927</u>
Net Underwriting Gain or (Loss)	<u>\$2,314,758</u>	<u>\$1,563,863</u>	<u>(\$2,773,895)</u>	<u>(\$3,654,250)</u>	<u>(\$8,868,362)</u>
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$2,799,664	\$3,637,679	\$3,676,873	\$3,123,483	\$4,712,192
Net Realized Capital Gains or (Losses)	(332,027)	540,685	3,128,081	1,527,956	1,079,801
Net Investment Gain or (Loss)	<u>\$2,467,637</u>	<u>\$4,178,364</u>	<u>\$6,804,954</u>	<u>\$4,651,439</u>	<u>\$5,791,993</u>
<u>OTHER INCOME</u>					
Net Gain or (Loss) from Agents' Balances Charged Off	(\$65,070)	\$2,030	\$207,971	(\$46,004)	\$11,776
Finance and Service Charges not Included in Premium	443,875	425,100	377,479	340,301	290,487
Aggregate Write-Ins - Miscellaneous Income	0	0	58,691	(65,680)	85,630
Total Other Income	<u>\$378,805</u>	<u>\$427,130</u>	<u>\$644,141</u>	<u>\$228,617</u>	<u>\$387,893</u>
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	<u>\$5,161,200</u>	<u>\$6,169,357</u>	<u>\$4,675,200</u>	<u>\$1,225,806</u>	<u>(\$2,688,476)</u>
Net Income Before Federal Income Taxes	\$5,161,200	\$6,169,357	\$4,675,200	\$1,225,806	(\$2,688,476)
Federal Income Taxes Incurred	436,516	(318,871)	(2,893,430)	(613,640)	(551,589)
Net Income	<u>\$4,724,684</u>	<u>\$6,488,228</u>	<u>\$7,568,630</u>	<u>\$1,839,446</u>	<u>(\$2,136,887)</u>

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY  
CAPITAL AND SURPLUS ACCOUNT FOR THE  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
NET INCOME	\$4,724,684	\$6,488,228	\$7,568,630	\$1,839,446	(\$2,136,887)
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>					
Change in Net Unrealized Capital Gains or (-) Losses	\$4,307,073	(\$2,690)	\$1,517,568	\$8,861,253	\$2,456,238
Change in Net Deferred Income Tax	(200,639)	(1,053,623)	(490,518)	(1,170,480)	701,132
Change in Nonadmitted Assets	1,368,381	1,126,392	449,895	4,884,538	(7,320,631)
Change in Provision for Reinsurance	0	0	0	0	2,000
Aggregate Write-ins for Gains and Losses in Surplus	(521,884)	(1,108,953)	(2,506,613)	393,368	6,728,614
 Total Other Surplus Gains or (-) Losses	 \$4,952,931	 (\$1,038,874)	 (\$1,029,668)	 \$12,968,679	 \$2,567,353
 Change in Surplus as Regards Policyholders for the Year	 \$9,677,615	 \$5,449,354	 \$6,538,962	 \$14,808,125	 \$430,466
 Surplus as Regards Policyholders December 31, Previous Year	 \$147,923,650	 \$142,474,296	 \$135,935,334	 \$121,127,209	 \$120,696,743
 Surplus as Regards Policyholders December 31, Current Year	 \$157,601,265	 \$147,923,650	 \$142,474,296	 \$135,935,334	 \$121,127,209

## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1: BONDS AND STOCKS**

Cumberland Mutual Fire Insurance Company reported admitted assets for bonds and common stocks of \$156,167,107 and \$82,417,320 respectively at December 31, 2016. These amounts will be accepted as stated by this examination.

### **NOTE 2: LOSSES AND LOSS ADJUSTMENT EXPENSES**

At December 31, 2016 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$50,592,846. A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Unit of the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$40,333,846.

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$10,259,000.

The examination performed reconciliations of direct case reserves and direct paid loss totals to annual statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses".

### **NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS**

The Company reported surplus as regards to policyholders at December 31, 2016 of \$157,601,265.

## **SUBSEQUENT EVENTS**

**Cumberland Mutual Fire Insurance Company informed the New Jersey Department of Banking and Insurance – Office of Solvency Regulation - on February 15, 2018 of its intent to apply for membership to the Federal Home Loan Bank NY (FHLBNY).**

### **Catastrophe Assumed Quota Share Reinsurance Agreement**

**Cumberland Mutual Fire Insurance Company, as an assumed reinsurer (reinsurer), entered into a Catastrophe Quota Share Reinsurance Agreement with the following ceding reinsurers (reinsured):**

**Hannover Ruck Se  
E+S Ruckversicherung AG  
Hannover Re (Bermuda) Ltd.**

**This agreement became effective January 1, 2017 and will automatically renew each January 1<sup>st</sup> unless terminated by written notice given by the Company.**

**The Portfolio of reinsurance with regard to which the Company is providing protection under this Agreement shall include all of the Reinsured's excess of loss reinsurance (i.e. per risk, per event, excess of loss, stop loss) written except for exclusions that are specified in the agreement.**

## **SUMMARY OF EXAMINATION RECOMMENDATIONS**

**The full scope risk focused examination of the Company yielded no reportable recommendations.**

**CONCLUSION**

**A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.**

**The examination and audit was conducted at the Cumberland Mutual Fire Insurance Company office in Bridgeton, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.**

**Respectfully Submitted,**



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**Vincent Kaighn, CFE  
Examiner-in-charge**

**CUMBERLAND MUTUAL FIRE INSURANCE COMPANY**

I, Vincent Kaighn, 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, 2016 to the best of my information, knowledge and belief.

Respectfully Submitted,

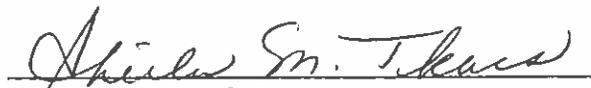


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Vincent Kaighn, CFE  
Certified Financial Examiner  
New Jersey Department of Banking & Insurance  
Office of Solvency Regulation  
Field Examination Unit

State of New Jersey  
County of Mercer

Subscribed and sworn to before me, on this 4<sup>th</sup> day of June 2018.



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Notary Public of New Jersey

My commission expires: July 2020