REPORT ON EXAMINATION

OF

THE CHURCH INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT	JANUARY 30, 2014
EXAMINER	KAREN GARD, AFE

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

January 30, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31003 dated May 7, 2013, attached hereto, I have made an examination into the condition and affairs of The Church Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate The Church Insurance Company.

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

The examination was conducted at the Company's administrative office located at 437 Fifth Avenue, New York, New York 10016.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer that has been in run-off since year-end 2008. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Company history
Corporate records
Management and control
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Financial statements
Summary of recommendations

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

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

2. DESCRIPTION OF COMPANY

The Company was incorporated in April 13, 1929, under the laws of the State of New York as The Church Properties Fire Insurance Corporation, and commenced business on May 1, 1929. The name was changed to The Church Fire Insurance Corporation on June 3, 1947, and the present title was adopted on January 28, 1966.

The Company is a wholly-owned subsidiary of The Church Pension Fund ("Fund"), which was chartered in 1914 in the State of New York. Its incorporator and their successors are authorized to administer the clergy pension system of the Episcopal Church, including pension, insurance, annuities, and other programs. The Fund began operations in 1917, and affiliated corporations were subsequently formed as its activities expanded. The affiliates include, but are not limited to, The Church Insurance Company, Church Publishing Incorporated, Church Life Insurance Corporation, Church Insurance Agency Corporation, and two captive insurers: The Church Insurance Company of New York ("CIC-NY") and The Church Insurance Company of Vermont ("CIC-VT"). All operations of The Church Pension Fund and affiliates are governed by the Fund's Board of Trustees.

In 2002, the Company began to move its non-core business segments, such as schools and nursing homes, to unaffiliated product partners with more expertise with these types of risks. At about the same time, most dioceses located outside of the State of New York chose not to renew their insurance with the Company and instead purchase their insurance from CIC-VT. Starting July 1, 2007, the dioceses and parishes located in the State of New York also chose not to renew their insurance with the Company and instead purchase their insurance from CIC-NY. The Company wrote its last policy in 2008, and since December 31, 2008, the Company has been in run-off status.

Capital paid in is $13,527,000 consisting of 135,270 shares of $100 par value per share common stock. Gross paid in and contributed surplus is $41,573,000. In the 2nd quarter of 2011, the

Company returned $3.0 million of capital to its parent, the Church Pension Fund. In the 3rd quarter of 2012, the Company returned an additional $3.0 million of capital to its parent. Paid in capital and Gross paid in and contributed surplus decreased by $1,473,000 and $4,527,000, respectively, during the examination period, as follows:

Date	Description	Paid in Capital	Gross Paid in and contributed surplus
1/1/2008	Beginning balance (150,000 shares)	$15,000,000	$46,100,000
2011	Return of capital (7,365 shares retired)	(736,500)	(2,263,500)
2012	Return of capital (7,365 shares retired)	(736,500)	(2,263,500)
12/31/2012	Ending balance (135,270 shares)	$13,527,000	$41,573,000

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members. The board meets annually. At December 31, 2012, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
Vincent C. Currie, Jr. Pensacola, Florida	Administrator, Diocese of the Central Gulf Coast
Daniel Kasle Port Washington, New York	Executive Vice President, Chief Financial Officer, and Treasurer, The Church Pension Fund
Jim Morrison New York, New York	Executive Vice President and Chief Operating Officer, The Church Pension Fund
Margaret Niles Seattle, Washington	Partner, K&L Gates, LLP
Nancy L. Sanborn New York, New York	Chief Legal Officer, The Church Pension Fund
D. Roderick Webster Tinton Falls, New Jersey	Senior Vice President and General Manager, The Church Insurance Company
Mary Kate Wold New York, New York	President and Chief Executive Officer, The Church Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2012, the principal officers of the Company were as follows:

Name	Title
Mary Kate Wold	President and Chief Executive Officer
Nancy Lee Sanborn	Executive Vice President, Chief Legal Officer and Secretary
Daniel Aaron Kasle	Executive Vice President and Chief Financial Officer
Peter Latriano	Vice President and Treasurer
D. Roderick Webster	Senior Vice President and General Manager

B. Territory and Plan of Operation

The Company has been in run-off during most of the examination period, issuing its last policy in 2008. When the Company was an active insurer, it had provided commercial multi-peril insurance coverage to parish churches, mission churches, chapels, rectories, parish houses and all other properties owned by or affiliated with the Episcopal Church, such as schools, social services, camps and conference centers. The Company is licensed to write business in all states except Alaska, Arkansas, Delaware, Hawaii, Idaho, Kentucky, Louisiana, Mississippi, New Hampshire, New Mexico, Oklahoma, Utah and Washington.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability

14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Company is licensed to write such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers Compensation Act (Public Law 803 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,850,000.

As stated previously, the Company wrote its last policy in 2008. Total direct written premiums in 2008 were $36,601.

C. <u>Reinsurance</u>

Since the Company is no longer writing business, all reinsurance in place relates to legacy business.

<u>Assumed</u>

When the Company was an active writer, the Company was party to an agreement with CIC-VT, under which CIC-VT retroceded business assumed from Liberty Mutual Insurance Company to the Company, and the Company accepted on a 100% automatic reinsurance basis, certain workers compensation risks written in the State of New York.

<u>Ceded</u>

The Company's run-off business is protected by several excess of loss reinsurance contracts that were in effect prior to December 2008 as follows:

Type of Treaty	Cession
Boiler and Machinery 100% Authorized	100% quota share, not to exceed $25,000,000 for any one policy, any one equipment breakdown.
Property Excess of Loss Three layers 100% Authorized	$14,500,000 excess of $500,000 each risk, any one loss occurrence.
Property Catastrophe Three layers 100% Authorized	$36,000,000 excess of $4,000,000 each and every loss occurrence.
Casualty Excess of Loss Two layers 100% Authorized	$4,500,000 excess of $500,000 ultimate net loss, any one loss occurrence.

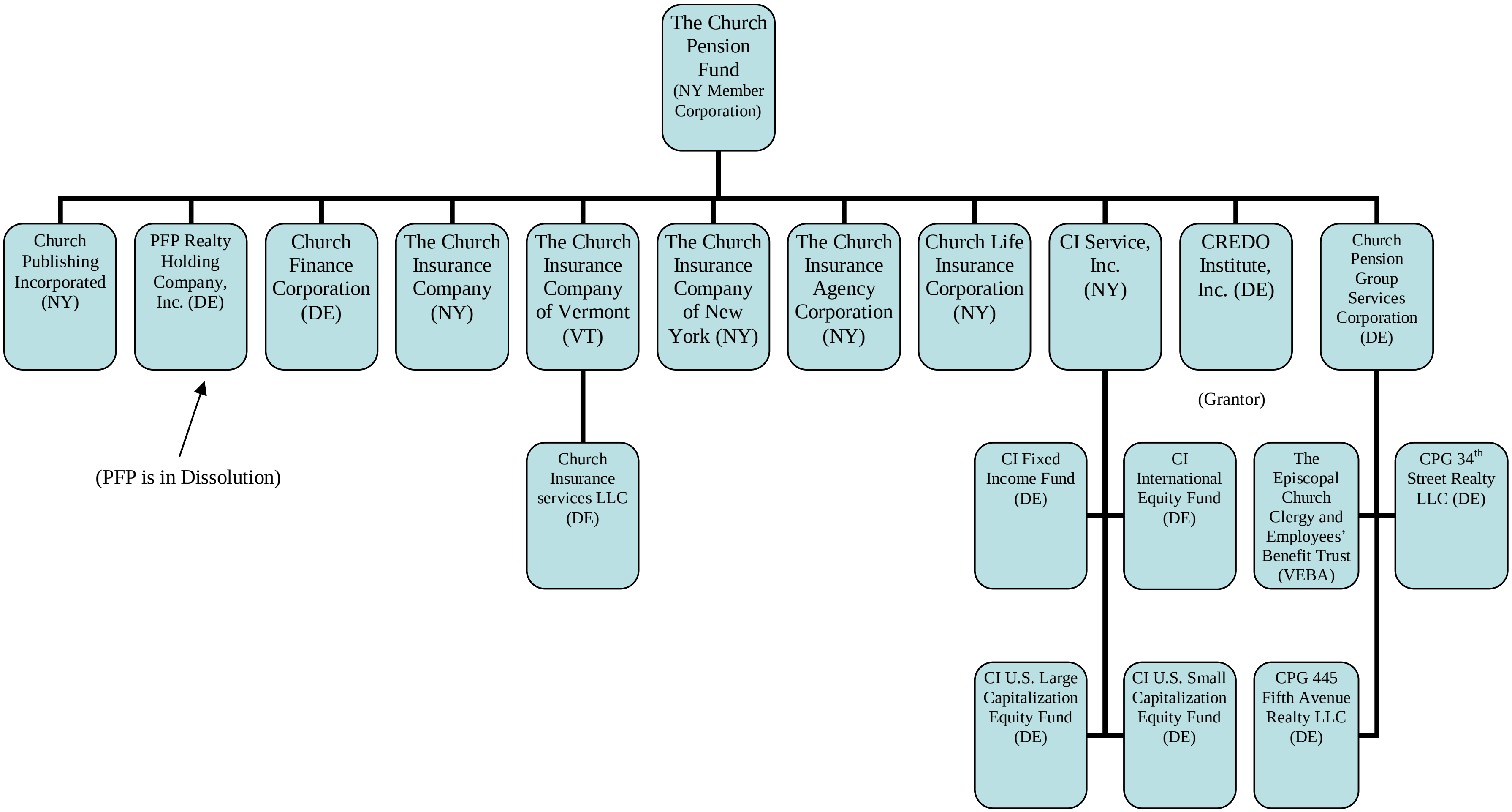
The Company also has a property facultative reinsurance agreement in place, with a coverage limit of $15,000,000 above the excess coverage.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

D. Holding Company System

The Company is a wholly-owned subsidiary of The Church Pension Fund. The Fund was chartered by an act of the New York State Legislature, which became law on April 3, 1914, and began its operations on March 1, 1917. The Company is exempt from Article 15 of the New York Insurance Law. However, pursuant to Department Circular Letter No. 10 (2010), the Company is required to furnish the Department with a copy of its latest insurance holding company system annual registration statement ("Form B") within 120 days following the close of the ultimate holding company's fiscal year.

The following is a chart of the holding company system at December 31, 2012:


The Church Pension Fund (NY Member Corporation)
Church Publishing Incorporated (NY)
PFP Realty Holding Company, Inc. (DE)
Church Finance Corporation (DE)
The Church Insurance Company (NY)
The Church Insurance Company of Vermont (VT)
The Church Insurance Company of New York (NY)
The Church Insurance Agency Corporation (NY)
Church Life Insurance Corporation (NY)
CI Service, Inc. (NY)
CREDO Institute, Inc. (DE)
Church Pension Group Services Corporation (DE)
(Grantor)
(PFP is in Dissolution)
Church Insurance services LLC (DE)
CI Fixed Income Fund (DE)
CI International Equity Fund (DE)
The Episcopal Church Clergy and Employees' Benefit Trust (VEBA)
CPG 34th Street Realty LLC (DE)
CI U.S. Large Capitalization Equity Fund (DE)
CI U.S. Small Capitalization Equity Fund (DE)
CPG 445 Fifth Avenue Realty LLC (DE)

At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Services and Facilities Agreement

Effective January 1, 2003, the Company entered into a services and facilities agreement with its parent, the Fund. Pursuant to this agreement, the Fund provides the Company with office supplies, access to office equipment, office space and other support services as may be necessary in connection with the Company's activities.

It is noted that the Fund no longer provides these services to the Company; these services are now provided by the Company's affiliate, the Church Pension Group Services Corporation ("CPGSC") pursuant to a separate Services and Facilities agreement. It is recommended that the Company terminate the Services and Facilities agreement with the Fund.

Service Agreement

Effective January 1, 2007, the Company entered into a service agreement with Church Insurance Agency Corporation ("Agency"). Pursuant to this agreement, The Company appointed Agency to provide client support, risk management, and claims services. Per the terms of the agreement, the Company pays Agency a fee based on direct written premiums.

It is noted that Agency no longer provides these services to the Company; these services are now provided by CPGSC pursuant to a Services and Facilities agreement. It is recommended that the Company terminate the Service agreement with Agency.

Services and Facilities Agreement

Effective January 1, 2003, the Company entered into a services and facilities agreement with CPGSC, whereby CPGSC provides to the Company administrative assistance, personnel assistance, accounting, bookkeeping, cash management, payroll, benefits administration, and other services as may be necessary in connection with the Company's activities. Per the terms of the agreement, the Company reimburses CPGSC on a cost basis.

In addition to the services listed in the agreement, CPGSC also provides services previously provided by the Fund and Agency, pursuant to separate agreements no longer utilized as noted above.

It is recommended that the Company amend the Services and Facilities agreement with CPGSC to reflect the additional services now provided pursuant to the agreement.

It is noted that CPGSC was established to provide administrative and related services to the Church Pension Fund and its affiliates ("the Church Pension Group"). All employees of the Church Pension Group are employees of CPGSC and the cost of all services provided to the Church Pension Group are allocated among the companies based on various factors including, but not limited to, headcounts and allocated staff time. The factors used to determine the allocations are reviewed and approved by Company management.

As noted previously, the Company has been in runoff since 2008 and had only seven open claims at December 31, 2012. Since the Company has been in runoff, it has been allocated over $5 million of general and administrative expenses pursuant to the Services and Facilities agreement, including approximately $1.5 million in 2012. The amount of expenses allocated to the Company seems excessive considering the very limited activity of a runoff company. It is recommended that Company management revise its method of allocating expenses among the companies to provide for a more reasonable allocation that more accurately reflects the actual cost of the services rendered.

It is noted that the Company has been paying CPGSC based on budgeted expenses and has not done a true up to reflect the actual costs, as required pursuant to the agreement. It is recommended that the Company reimburse CPGSC based on an actual cost basis (after revising its method of allocating expenses as noted previously) pursuant to the terms of the agreement.

E. <u>Significant Operating Ratios</u>

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	14%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	40%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

F. Accounts and Records

Schedule P

When reconciling the Company's Schedule P to the general ledger and the various Underwriting & Investment Exhibits of the 2012 Annual Statement, the examiner noted a few discrepancies and was not able to reconcile Schedule P to the U&I Exhibits. The discrepancies included differences in reported amounts for ceded paid losses, and paid loss adjustment expenses in Schedule P. It is recommended that the Company exercise due care in completing Schedule P in all future filed Annual Statements.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

Assets	
Bonds	$26,984,785
Cash, cash equivalents and short-term investments	2,453,398
Investment income due and accrued	183,908
Amounts recoverable from reinsurers	636,920
Receivables from parent, subsidiaries and affiliates	12,503
Miscellaneous assets	1,406
Totals	$30,272,920
Liabilities, surplus and other funds	
Losses and loss adjustment expenses	$ 9,593,670
Ceded reinsurance premiums payable (net of ceding commissions)	711,023
Funds held by company under reinsurance treaties	531,815
Provision for reinsurance	98,952
Drafts outstanding	2,272
Payable to parent, subsidiaries and affiliates	121,940
Payable for securities	339,663
Reserve for doubtful recoveries	183,754
Other liabilities	328,901
Total liabilities	$11,911,990
Common capital stock	$13,527,000
Gross paid in and contributed surplus	41,573,000
Unassigned funds (surplus)	(36,739,070)
Surplus as regards policyholders	$18,360,930
Total liabilities, surplus and other funds	$30,272,920

Note: The Company is exempt from federal income tax under the provision of Section 101(6) of the Internal Revenue Code.

B. Statement of Income

Surplus as regards policyholders increased $1,097,266 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Premiums earned		$3,926,199
Deductions:		
Losses and loss adjustment expenses incurred	$3,623,280	
Other underwriting expenses incurred	8,437,488	
Total underwriting deductions		12,060,768
Net underwriting loss		$(8,134,569)
Investment Income		
Net investment income earned	$7,740,910	
Net realized capital gain	577,789	
Net investment gain or (loss)		8,318,699
Other Income		
Allowance for uncollectible reinsurance	$4,415,372	
Reinsurance recoverable write offs recovered	36,700	
Installment fees	1,875	
Service fee expense	8,386	
Miscellaneous income	458,336	
Total other income		4,920,669
Net Income		$5,104,799

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2007			$17,263,664
Net income	$5,104,799		
Net unrealized capital gains	9,829		
Change in nonadmitted assets	35,061		
Change in provision for reinsurance	1,947,577		
Capital changes paid in		1,473,000	
Surplus adjustments paid in	0	4,527,000	
Net increase (decrease) in surplus	$7,097,266	$6,000,000	1,097,266
Surplus as regards policyholders per report on examination as of December 31, 2012			$18,360,930

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $9,593,670 is the same as reported by the Company as of December 31, 2012. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 11 recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Territory and Plan of Operation	
i.	It was recommended that the Company write insurance business only in the jurisdictions that it is license to do such business.	7
	The Company has been in run-off since year-end 2008 and no longer writes direct business.	
B.	Business Strategy Plan	
i.	It was recommended that the Company develop a more comprehensive three-year business plan and submit such plan to the Department.	7
	The Company has complied with this recommendation.	
C.	Holding Company System	
i.	It was recommended that the Company disclose its service agreements with its parent Church Pension Fund in the annual Form B filings in accordance with Department Circular Letter No. 17 (2001).	9
	The Church Pension Fund no longer provides these services.	
ii.	It was recommended that the Company file Form CL 17 with the Department in accordance with Department Circular Letter No. 17 (2001). (Subsequently replaced by Department Circular Letter No. 10 (2010)).	11
	The Company has not entered into any new agreements since the prior examination date that would have required filing of the subject form.	
D.	Accounts and Records	
i.	It was recommended the Company disclose its method of bond amortization in its Notes to the Financial Statements in accordance with the SSAP No. 26.	12
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
ii.	It was recommended that the Company exercise due care in completing its Notes to Financial Statements in all future filed annual statements.	12
	The Company has complied with this recommendation.	
iii.	It was recommended that the Company exercise due care in classifying foreign investments in the Schedule-D of the annual statement.	12
	The Company has complied with this recommendation.	
iv.	It was recommended that the Company amend its custodian agreement to include all the protective covenants and provisions as set forth in the NAIC Financial Condition Examiners Handbook.	13
	The Company has complied with this recommendation.	
v.	It was recommended that the Company ensure that the contract with its CPA firm comply with the requirements of Department Regulation 118.	13
	The Company has complied with this recommendation.	
vi.	It was recommended that the Company review its overdue reinsurance recoverable balances and write off any items that are determined to be uncollectible.	13
	The Company has complied with this recommendation.	
E.	Market Conduct Activities	
i.	It was recommended that the Company maintain an ongoing central complaint log pursuant to Department Regulation 64 and Department Circular No. 11 (June 5, 1978).	18
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Holding Company System	
i.	Services and Facilities Agreement with the Fund It is recommended that the Company terminate the Services and Facilities Agreement with the Fund.	9
ii.	Service Agreement with Agency It is recommended that the Company terminate the Service Agreement with Agency.	9
iii.	Services and Facilities Agreement with CPGSC It is recommended that the Company amend the Services and Facilities Agreement with CPGSC to reflect the additional services now provided pursuant to the agreement.	10
iv.	It is recommended that Company management revise its method of allocating expenses among the companies to provide for a more reasonable allocation that more accurately reflects the actual cost of the services rendered.	100
v.	It is recommended that the Company reimburse CPGSC based on an actual cost basis (after revising its method of allocating expenses as noted previously) pursuant to the terms of the agreement.	10
B.	Accounts and Records	
i.	It is recommended that the Company exercise due care in completing Schedule P in all future filed Annual Statements.	111

Respectfully submitted,

_____________/s/___________
Karen Gard, AFE
Associate Insurance Examiner

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

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

_____________/s/___________
Karen Gard

Subscribed and sworn to before me

this_________ day of __________________, 2014

APPOINTMENT NO.___31003

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Karen Gard

as a proper person to examine the affairs of the

Church Insurance Company

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

COMPANY

with such other information as she shall deem requisite.

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

this 7th day of May, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent