

REPORT ON EXAMINATION

OF

THE CHURCH INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MARCH 11, 2019

EXAMINER

KEVIN MCNAMEE

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 17, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31792 dated August 1, 2018, attached hereto, I have made an examination into the condition and affairs of The Church Insurance Company as of December 31, 2017, 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 home office located at 19 East 34th Street, New York, New York 10016.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017. 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 current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

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

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

A review was also made to ascertain what action was taken by the Company with regard to the 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 on 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 (“CPF”), 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 pensions, insurance, annuities, and other programs. CPF began operations in 1917, and affiliated corporations were subsequently formed as its activities expanded. As of December 31, 2017, the affiliates included, but were 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 CPF and affiliates, collectively known as The Church Pension Group, are governed by CPF'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 purchased their insurance from CIC-VT. New York business remained with the Company; however, starting July 1, 2007, the dioceses and parishes located in the state of New York began to not 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.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members. The board meets once during each calendar year.

At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Francis Armstrong Clark, New Jersey	Executive Vice President, Chief Operating Officer, The Church Insurance Company
Paul Calio Commack, New York	Senior Vice President, The Church Insurance Company
Daniel A. Kasle Port Washington, New York	Executive Vice President, Chief Financial Officer and Treasurer, The Church Insurance Company
William F. Murray Manchester, Vermont	Senior Vice President, General Manager of Church Insurance, The Church Insurance Company
Nancy L. Sanborn New York, New York	Executive Vice President, Chief Legal Officer and Secretary, The Church Insurance Company
Roger A. Sayler New Canaan, Connecticut	Executive Vice President, Chief Investment Officer, Managing Director, The Church Insurance Company
Mary K. Wold New York, New York	President and Chief Executive Officer, The Church Insurance Company

The Company provided a statement signed by each director confirming that he/she has received and read the prior report on examination, as required by Section 312(b) of the New York Insurance Law. The prior report on examination is dated January 30, 2014; however, the directors did not acknowledge receiving and reading the prior report until July and September of 2018.

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report . . .”

Good business practices dictate that the report on examination should be reviewed by the board in a timely manner so that any report comments and recommendations can be timely addressed.

It is recommended that the Company obtain timely signed statements from each member of its board of directors confirming that each member has received and read the report on examination, in accordance with Section 312(b) of the New York Insurance Law.

As of December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mary K. Wold	President and Chief Executive Officer
Daniel A. Kasle	Executive Vice President, Chief Financial Officer and Treasurer
Nancy L. Sanborn	Executive Vice President, Chief Legal Officer and Secretary
William F. Murray	Senior Vice President and General Manager

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 36 states. The Company has been in run-off since 2008 and has not written or assumed business during the examination period.

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

<u>Paragraph</u>	<u>Line of Business</u>
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 incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

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

C. Reinsurance Ceded

All ceded reinsurance relates to legacy business. As of December 31, 2017, the Company has taken a reinsurance reserve credit of approximately \$1,780,000. Of this amount, approximately \$1,375,000 pertains to reinsurance with an unaffiliated authorized reinsurer that has a AA rating from S&P Global Ratings.

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

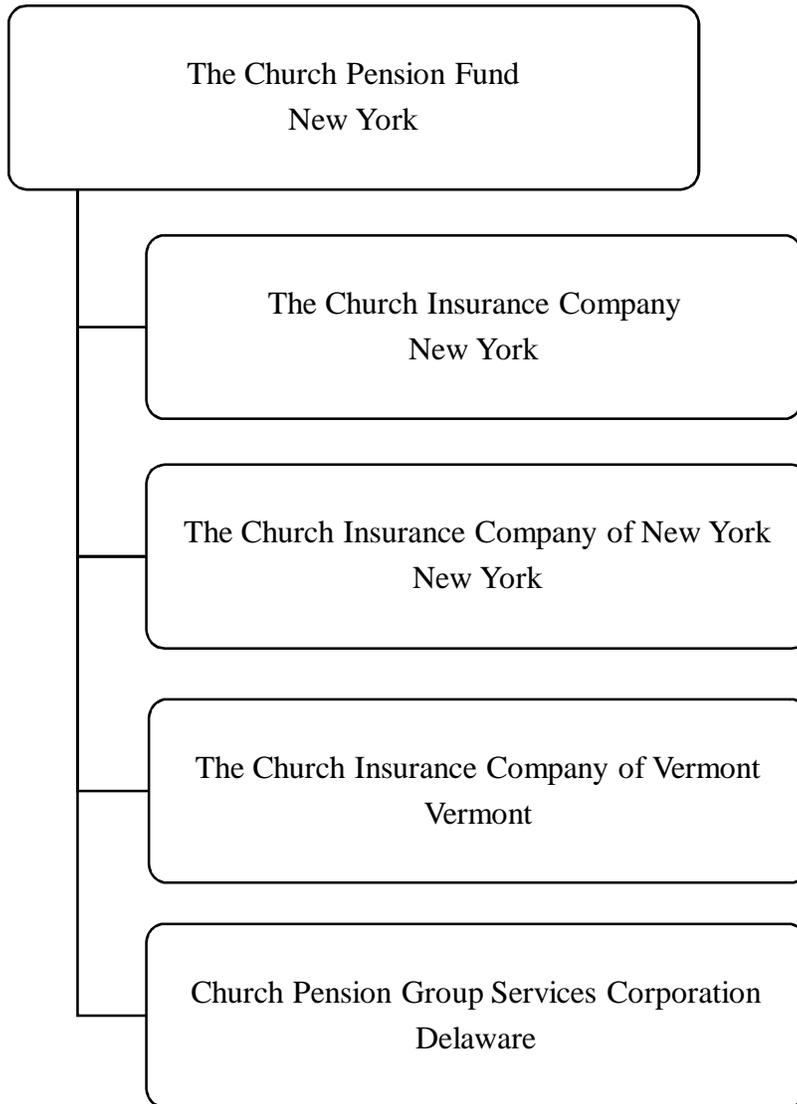
D. Holding Company System

The Company is a member of The Church Pension Group. It is a wholly-owned subsidiary of CPF, a non-profit financial services organization. CPF 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.

Pursuant to Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement ("Form B") within 120 days following the close of the ultimate holding company's fiscal year. A review of the holding company registration statements filed with this Department indicated that such filings were not consistently filed within the required timeframe.

It is recommended that the Company submit Form B to the Department in a timely manner, as required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017:



Holding Company Agreements

At December 31, 2017, the Company was party to the following agreement with other members of its holding company system:

Services and Facilities Agreement

Effective January 1, 2017, the Company entered into a services and facilities agreement with its affiliate, Church Pension Group Services Corporation (“CPGSC”). This agreement replaced the services

and facilities agreement with CPGSC effective January 1, 2003. Per the terms of the agreement, CPGSC provides administrative assistance services to the Company and other services as may be necessary to the Company's activities. Per the terms of the agreement, the Company reimburses CPGSC on a cost basis.

It was noted that this agreement was not submitted to the Department in accordance Section 1505(d) of the New York Insurance Law.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing . . . at least 30 days prior, thereto . . . and the superintendent has not disapproved it within such period . . . (3) rendering of services on a regular or systematic basis . . .”

It is recommended that the Company abide by the provisions of Section 1505(d) of the New York Insurance Law with respect to service agreements.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders *	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	27%
Two-year overall operating *	0%

* Results are due to the Company's run-off status.

The Company's reported risk-based capital score (“RBC”) was 1,402.3% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

Assets

Bonds	\$21,902,849
Cash, cash equivalents and short-term investments	1,915,618
Investment income due and accrued	159,788
Amounts recoverable from reinsurers	192,948
Receivables from parent, subsidiaries and affiliates	<u>50</u>
Total assets	<u>\$24,171,253</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses	\$5,513,700
Other expenses (excluding taxes, licenses and fees)	115,341
Ceded reinsurance premiums payable (net of ceding commissions)	89,693
Funds held by company under reinsurance treaties	500,000
Provision for reinsurance	58,787
Drafts outstanding	11,610
Payable to parent, subsidiaries and affiliates	37,608
Reserve for doubtful recoveries	<u>82,602</u>
Total liabilities	\$6,409,341

Surplus and other funds

Common capital stock	\$12,790,500
Gross paid in and contributed surplus	39,309,500
Unassigned funds (surplus)	<u>(34,338,088)</u>
Surplus as regards policyholders	<u>17,761,912</u>
Total liabilities, surplus and other funds	<u>\$24,171,253</u>

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

The net income for the examination period as reported by the Company was \$2,369,918 as detailed below:

Underwriting Income

Premiums earned		\$ 571,501
Deductions:		
Losses and loss adjustment expenses incurred	\$(1,674,055)	
Other underwriting expenses incurred	<u>4,320,096</u>	
Total underwriting deductions		<u>2,646,041</u>
Net underwriting gain or (loss)		\$(2,074,540)

Investment Income

Net investment income earned	\$4,027,942	
Net realized capital gain	<u>304,806</u>	
Net investment gain or (loss)		4,332,748

Other Income

Miscellaneous	\$ 1,837	
Allowable for uncollectible reinsurance	<u>109,873</u>	
Total other income or (loss)		<u>111,710</u>
Net income		<u>\$2,369,918</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$599,018 during the five-year examination period January 1, 2013 through December 31, 2017, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2012			\$18,360,930
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,369,918		
Net unrealized capital gains or (losses)		\$ 9,100	
Change in provision for reinsurance	40,164		
Capital changes paid in		736,500	
Surplus adjustments paid in	<u>0</u>	<u>2,263,500</u>	
Total gains and losses	<u>\$2,410,082</u>	<u>\$3,009,100</u>	
Net increase (decrease) in surplus			\$ <u>(599,018)</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2017			<u>\$17,761,912</u>

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

As of December 31, 2017, capital paid in is \$12,790,500 consisting of 127,905 shares of \$100 par value per share common stock. Gross paid in and contributed surplus is \$39,309,500. In the third quarter of 2013, the Company returned \$3.0 million of capital to its parent, CPF, and retired 7,365 shares of common stock. Paid in capital decreased by \$736,500. Gross paid in and contributed surplus decreased by \$2,263,500 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2013	Beginning gross paid in and contributed surplus		\$41,573,000
2013	Return of capital (7,365 shares retired)	\$(2,263,500)	
	Total return of capital		\$ <u>(2,263,500)</u>
2017	Ending gross paid in and contributed surplus		<u>\$39,309,500</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$5,513,700 is the same as reported by the Company as of December 31, 2017. 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 and Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”). The Company’s reserves are concentrated in the commercial multiple peril line of business.

5. SUBSEQUENT EVENTS

On October 31, 2018, CIC-NY merged with CIC-VT with CIC-VT being the surviving entity.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. It was recommended that the Company terminate the Services and Facilities Agreement with the Fund.	9
The Company has complied with this recommendation.	
ii. It was recommended that the Company terminate the Service Agreement with Agency.	9
The Company has complied with this recommendation.	
iii. It was recommended that the Company amend the Services and Facilities Agreement with CPGSC to reflect the additional services now provided pursuant to the agreement.	10
The Company has in place a new agreement with CPGSC that reflects all provided services.	
iv. It was 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.	10
The Company has complied with this recommendation.	
v. It was 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
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
It was recommended that the Company exercise due care in completing Schedule P in all future filed Annual Statements.	11
The Company has complied with this recommendation.	

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company obtain timely signed statements from each member of its board of directors confirming that each member has received and read the report on examination in accordance with Section 312(b) of the New York Insurance Law.	5
B. <u>Holding Company System</u>	
i It is recommended that the Company submit Form B to the Department in a timely manner, as required by Article 15 of the New York Insurance Law and Department Regulation 52.	6
ii It is recommended that the Company abide by the provisions of Section 1505(d) of the New York Insurance Law with respect to service agreements.	8

Respectfully submitted,

_____/S/
Kevin McNamee
Associate Insurance Examiner

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

Kevin McNamee, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/
Kevin McNamee

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31792

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Kevin McNamee

as a proper person to examine the affairs of the

The Church Insurance Company

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

COMPANY

with such other information as he 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 1st day of August, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief