

REPORT ON EXAMINATION  
OF THE  
CHURCH INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2007

DATE OF REPORT

OCTOBER 24, 2008

EXAMINER

MOSES EGBON

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

October 24, 2008

Honorable Eric Dinallo  
Superintendent of Insurance  
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 22699 dated December 11, 2007 attached hereto, I have made an examination into the condition and affairs of Church Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company", "Church" or "CIC" appear herein without qualification, they should be understood to indicate Church Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative offices located at 445 Fifth Avenue, New York, New York 10016.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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. The Handbook 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 accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and evaluation based upon the Company’s Sarbanes Oxley documentation and testing. 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 Financial Condition Examiners Handbook of the NAIC:

- History of Company
- Management and control
- Corporate records
- Territory and plan of operation
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Market Conduct Activities

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 which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated in April 13, 1929, under the laws of New York as “The Church Properties Fire Insurance Corporation” and was licensed to write insurance 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, accident, health and other programs. The Fund began operations in 1917 and subsequently, affiliated corporations were formed as its activities expanded. The affiliates include Church Publishing Incorporated, Church Life Insurance Corporation, Church Insurance Company, Church Insurance of Vermont and Church Agency Corporation. All operations of The Church Pension Fund and affiliates, otherwise know as The Church Pension Group, are governed by The Fund's board of trustees.

At December 31, 2007, capital paid in was \$15,000,000 consisting of 150,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus was \$46,100,000. Gross paid-in and contributed surplus increased by \$19,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2002	Beginning gross paid in and contributed surplus	\$27,100,000
2003	Surplus contribution	\$13,000,000
2004	Surplus contribution	<u>6,000,000</u>
	Total Surplus Contributions	<u>19,000,000</u>
2007	Ending gross paid in and contributed surplus	<u>\$46,100,000</u>

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 thirteen nor more than fifteen members. The board met twice during each calendar year. At December 31, 2007, the board of directors was comprised of the following fifteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
The Very Reverend Martin L. Agnew, Jr. Bullard, TX	Dean (retired), St. Mark's Cathedral
Sheridan C. Biggs Quaker Street, NY	Retired
David L. Brigham Weston, VT	Former President & Chief Executive Officer, J.P. Morgan Investment Management
Vincent C. Currie, Jr. Pensacola, FL	Administrator, Diocese of the Central Gulf Coast
James Forsyth San Francisco, CA	Controller, Diocese of California
The Reverend Canon Carlson Gerdau New York, NY	Canon to the Primate & Presiding Bishop, The Episcopal Church Center
Canon Karen Hanson Rochester, NY	Finance and Resource Development, Episcopal Diocese of Rochester
The Right Reverend Robert H. Johnson Asheville, NC	Bishop (retired), Diocese of Western North Carolina
Michael J. Kerr Richmond, VA	Treasurer, Diocese of Virginia
Joon D. Matsumura Yorba Linda, CA	Former Comptroller, Diocese of Los Angeles
The Right Reverend Claude E. Payne Salado, TX	Bishop (retired), Diocese of Texas
Diane B. Pollard New York, NY	Independent Benefits, Human Resources Consultant
The Reverend Canon Joseph Seville Harrisburg, PA	Canon to the Ordinary, Episcopal Diocese of Central Pennsylvania

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas Dennis Sullivan II New York, NY	President, Church Insurance Company
Cecil Wray Esq. New York, NY	Partner (retired), Debevoise & Plimpton

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas Dennis Sullivan II	President
Barton T. Jones, Esq.	Secretary
Daniel A. Kasle	Treasurer
Robert J. Ansalone	Senior Vice President
D. Roderick Webster	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in thirty-seven states. The Company's major line of business was commercial multiple peril. All of the Company's direct premiums were produced through its affiliate, Church Insurance Agency Corporation.

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 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 69<sup>th</sup> 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.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>		
	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a Percentage of United States Premium</u>
2003	\$4,272,946	\$14,526,563	29%
2004	\$4,698,251	\$12,346,052	38%
2005	\$4,754,576	\$ 8,680,796	55%
2006	\$5,001,895	\$ 6,659,604	75%
2007	\$4,273,416	\$ 4,886,370	87%

#### Premium Writings in Unlicensed States

The five prior reports on examination mentioned that the Company's practice of writing business in jurisdiction in which it was not licensed to do so. The Company continued this practice during the period covered by this examination. The Company reported a total of \$163,816 in direct premiums written in jurisdictions in which it was not licensed. The jurisdictions and amount of direct premiums written are as follows:

<u>Jurisdiction</u>	<u>Direct Premiums Written</u>
Arkansas	\$ 222
Delaware	2,982
Hawaii	93,796
Kentucky	6,862
Louisiana	54,336
New Mexico	1,006
Oklahoma	3,901
Washington	711
Total	<u>\$163,816</u>

Management did not provide any documentation that granted the Company the authority to do insurance business in the above jurisdictions where it had direct written premiums.

The prior report on examination recommended that the Company provide a copy of the report on examination to the insurance departments in the jurisdictions where it is insuring risks without having an appropriate license. The Company did not comply with the recommendation. It is therefore recommended that the Company write insurance business only in the jurisdictions that it is licensed to do such business.

C. Business Strategy Plan

The Company's business strategy plan states in part the following:

“. . . the strategy of the Church Insurance Company is to continue a systematic and orderly downsizing until it gets to the point where it can eventually be sold and its remaining capital returned to its parents, CPF. . . ”

However, the business strategy plan provides no detail as to how the Company will generate revenues to meet its future obligations and its goals for the next three years. Hence, it is recommended that the Company develop a more comprehensive three-year business plan and submit such plan to the Department.

D. Reinsurance

Assumed

The Company is primarily a direct writer but assumes a small amount of business as reported in Schedule F of its annual statement. As of December 31, 2007, the Company assumed \$1,780,000 of workers' compensation premiums from Church Insurance Company of Vermont, its affiliate.

Ceded

The following is a summary of the ceded reinsurance contracts the Company has in effect as of December 31, 2007:

Type of TreatyCessionsQuota Shares

Boiler and Machinery  
100% Authorized

100% quota share shall not exceed  
\$25,000,000 for any one policy any one equipment breakdown.

PropertyProperty per risk excess of Loss

3-layers  
100% Authorized

\$10,000,000 excess of \$500,000 each risk  
any one loss occurrence.

Catastrophe Cover

3-layers  
100% Authorized

\$20,000,000, excess of \$4,000,000 each risk  
any one loss occurrence.

Casualty

Excess of loss  
2-layers  
100% Authorized

\$4,500,000 excess of \$500,000 each any one loss occurrence.

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

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

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

E. Holding Company System

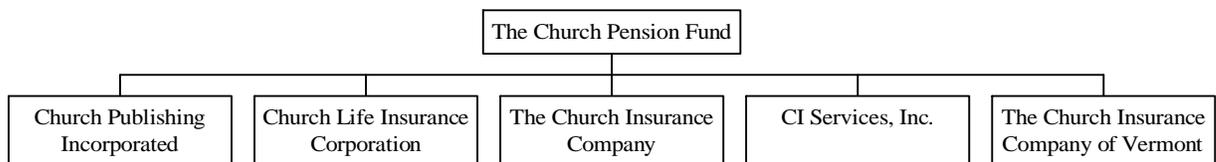
The Company is a wholly-owned subsidiary of the Church Pension Fund (“CPF”), a New York corporation, which administers the clergy pension system of the Episcopal Church.

Church Insurance Company is exempted from Article 15 of the New York Insurance Law. However, pursuant to Department Circular Letter No. 17 (2001), 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 Circular Letter further directs the Company as follows:

“Until further notice, every domestic insurer that is exempt from the provisions of Article 15 of the New York Insurance Law is hereby directed, pursuant to Section 308 of the New York Insurance Law, to furnish this Department with future copies of such filings referenced ... above, and any amendments thereto, at the same time that they are filed with any other state. If the insurer is not required to file Form B in another state, the information contained in NAIC Form B must be filed with the Department within 120 days following the close of the ultimate holding company’s fiscal year.”

A review of the Company’s filed Form-B for 2003 through 2006 revealed that the Company did not disclose its service agreement (CPF CIC Agreement- Office Facilities & Equipment) with the parent, the Church Pension Fund. It is recommended that the Company disclose its service agreements with its parent Church Pension Fund in the annual Form B filings in accordance with the Department Circular Letter No. 17 (2001).

The following is a chart of the Church Pension Fund holding company:



As of December 31, 2007, the Company was party to the following agreements with affiliated entities:

#### Services and Facilities Agreement

Effective January 1, 2003, the Company entered into services and facilities agreement with its parent, Church Pension Fund (“CPF”). The agreement is effective for a period of one year and automatically renews unless both parties agree in writing otherwise. The agreement engages CPF to provide the Company with office supplies, access to office equipment, office space, and other support services as may be necessary from time to time in connection with the Company’s activities. Pursuant to the agreement, the Company agrees to pay CPF on a cost reimbursement basis.

#### Services and Facilities Agreement

The Company entered into services and facilities agreement, effective January 1, 2003, with its affiliate Church Pension Group Services Corporation (“CPGSC”). The agreement engages CPGSC to provide to the Company, administrative assistance, personnel assistance, financial and personnel administration services, accounting, bookkeeping, cash management, payroll, benefits administration, and other similar services on as needed basis. In addition, the CPGSC shall provide the Company such other support services as may be necessary from time to time in connection with the Company’s activities. Pursuant to the agreement, the Company agrees to pay CPGSC compensation on a cost reimbursement basis.

#### Services Agreement

The Company entered into a service agreement, effective January 1, 2007 with its affiliate the Church Insurance Agency Corporation (“CIAC”). The Company appoints CIAC to provide it with client support, risk management and claims services. The Company compensates the CIAC a commission of twelve percent of premiums written annually.

#### Workers Compensation Reinsurance Agreement

The Company and Church Insurance Company of Vermont are parties to a workers compensation reinsurance agreement effective from June 1, 2005. The agreement allows the Company to assume worker’ compensation business from the Church Insurance Company of Vermont.

Department Circular Letter No. 17 (2001)

Circular Letter No. 17 (2001) further provides, in pertinent part, that beginning September 1, 2001, every authorized domestic insurer that is exempted from the provisions of Article 15 of the New York Insurance Law is directed, pursuant to Section 308 of the New York Insurance Law to furnish the Department with a Form CL 17 (2001), at least 30 days in advance of entering into any service contracts, cost-sharing arrangements or reinsurance agreements with an affiliate.

The examination review of all of the Company's inter-company service agreements revealed that three agreements with its affiliates (CIAC agreement of 2007, CPGSC agreement, and CPF agreement) were required to be filed on Form-CL 17, with the Department at least thirty days in advance of entering into the agreements, pursuant to Department Circular Letter No. 17 (2001). The Company did not file such agreements as required. It is recommended that the Company file Form CL 17 with the Department in accordance with the Department Circular Letter No. 17 (2001).

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written in 2007 to surplus as regards policyholders	.31 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	86.51%
Premiums in course of collection to surplus as regards policyholders	11.00%

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

It is noted that the Company has failed IRIS ratio-5 (Two-Year Operating Ratio), consistently since previous examination. The Company asserted that the unusual value of the IRIS ratio-5 during the current year was as a result of three claims valued at \$2.4 million and a decrease in premium written.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$43,816,186	107.98%
Other underwriting expenses incurred	21,276,155	52.43
Net underwriting loss	<u>(24,513,421)</u>	<u>(60.41)</u>
Premiums earned	<u>\$40,578,920</u>	<u>100.00%</u>

G. Accounts and Records

Investments

The Company did not disclose the method of its bond investment amortization in its Notes to the Financial Statement and the General Interrogatories as required by SSAP No. 26. It is recommended the Company disclose its method of bond amortization in its Notes to the Financial Statements in accordance with the SSAP No. 26.

In addition, the Company indicated in item 5 of the Notes to the Financial Statements, for the years 2003 through 2007, that it did not have any investment in loan-backed securities. However, Schedule-D of the Company's annual statement reveals that the Company has investments in loan-backed securities. These securities represent 7.95 percent of the Company's reported surplus to policyholders. It is recommended that the Company exercise due care in completing its Notes to Financial Statements in all future filed annual statements.

Additionally, some of the foreign investments listed in Schedule-D were misclassified as domestic instead of foreign investments in other countries and in Canada. It is recommended that the Company exercise due care in classifying foreign investments in the Schedule-D of the annual statement.

Custodian Agreements

Effective March 30, 2001, the Company entered into a custody agreement with the Northern Trust Company of New York. A review of the agreement revealed that it lacked some of the NAIC's suggested protective covenants provisions. It should be noted that three previous examination reports (1993, 1999 and 2002) made similar recommendations, which were agreed to by the Company's management. Nevertheless, the Company has not complied with the recommendation.

It is again 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.

Company's Audit Contract with Certified Public Accountant

The Company's contract with its certified public accountants ("CPA") did not comply with Department Regulation 118, which states in part as follows:

"...Such contract must specify that:

- (a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
- (c) the work-papers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent."

It is recommended that the Company ensure that the contract with its CPA firm comply with the requirements of Department Regulation 118.

Reinsurance recoverable more than one year past due

The Company's admitted asset for Reinsurance recoverable on loss and loss adjustment expenses includes a significant amount that was more than one year past due. It is noted that the Company also reported a Reserve for doubtful recoveries and a Provision for reinsurance, which offsets most of the overdue balances; therefore, the surplus effect of these overdue reinsurance recoverable balances is immaterial. However, it is recommended that the Company review its overdue reinsurance recoverable balances and write off any items that are determined to be uncollectible.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u>		<u>Company</u>	<u>Surplus Increase (Decrease)</u>
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	
Bonds	\$39,990,188	\$ 0	\$39,990,188	\$ 0
Preferred stocks	130,323	0	130,323	0
Cash, cash equivalents and short-term investments	1,882,933	0	1,882,933	0
Investment income due and accrued	354,369	0	354,369	0
Uncollected premiums and agents' balances in the course of collection	1,934,638	35,061	1,899,577	0
Amounts recoverable from reinsurers	9,636,375	0	9,636,375	0
Receivables from parent, subsidiaries and affiliates	<u>15,344</u>	<u>0</u>	<u>15,344</u>	<u>0</u>
Totals assets	<u>\$53,944,170</u>	<u>\$ 35,061</u>	<u>\$53,909,109</u>	<u>\$ 0</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses and loss adjustment expenses	\$20,903,874	\$19,303,874	\$ (1,600,000)
Commissions payable, contingent commissions and other similar charges	33,750	33,750	
Other expenses (excluding taxes, licenses and fees)	506,344	506,344	
Taxes, licenses and fees (excluding federal and foreign income taxes)	97,727	97,727	
Unearned premiums	1,848,936	1,848,936	
Advance premium	8,507	8,507	
Ceded reinsurance premiums payable (net of ceding commissions)	5,019,477	5,019,477	
Funds held by company under reinsurance treaties	534,160	534,160	
Provision for reinsurance	2,046,529	2,046,529	
Drafts outstanding	242,017	242,017	
Payable to parent, subsidiaries and affiliates	650,690	650,690	
Payable for securities	125,943	125,943	
Reserve for doubtful recoveries	<u>4,627,491</u>	<u>4,627,491</u>	<u>0</u>
Total liabilities	<u>\$36,645,445</u>	<u>\$35,045,445</u>	<u>\$(1,600,000)</u>
<u>Surplus and Other Funds</u>			
Common capital stock	\$15,000,000	\$15,000,000	
Gross paid in and contributed surplus	46,100,000	46,100,000	
Unassigned funds (surplus)	<u>(43,836,336)</u>	<u>(42,236,336)</u>	<u>\$(1,600,000)</u>
Surplus as regards policyholders	<u>\$17,263,664</u>	<u>\$18,863,664</u>	<u>\$(1,600,000)</u>
Total liabilities, surplus and other funds	<u>\$59,909,109</u>	<u>\$53,909,109</u>	

NOTE: The Company is exempt from federal income taxes as indicated by the Internal Revenue Service letter of approval dated May 25, 1982.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$5,318,487 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$40,578,920
Deductions:		
Losses and loss adjustment expenses incurred	\$43,816,186	
Other underwriting expenses incurred	21,276,155	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Total underwriting deductions		<u>65,092,341</u>
Net underwriting gain or (loss)		\$(24,513,421)

Investment Income

Net investment income earned	\$ 9,120,916	
Net realized capital gain	<u>1,038,095</u>	
Net investment gain or (loss)		10,159,011

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 40,056	
Miscellaneous	5,670,263	
Reinsurance recoverable write offs	(6,321,119)	
Installment fees	56,852	
Allowance for uncollectible reinsurance	(2,457,671)	
Service fee income	<u>1,766,684</u>	
Total other income		<u>\$(1,244,935)</u>
Net income		<u>\$(15,599,345)</u>

Surplus as regards policyholders per report on Examination as of December 31, 2002			\$11,945,177
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 0	\$15,599,345	
Net unrealized capital gains or (losses)		9,833	
Change in net unrealized foreign exchange capital gain (loss)			
Change in net deferred income tax			
Change in non-admitted assets	476,990		
Change in provision for reinsurance	1,450,675		
Surplus adjustments paid in	<u>19,000,000</u>	<u>0</u>	
Total gains and losses	<u>\$20,927,665</u>	<u>\$15,609,178</u>	
Net increase (decrease) in surplus			5,318,487
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$17,263,664</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned item of \$20,903,874 is \$1,600,000 more than \$19,303,874 reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

#### 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Underwriting
- B. Rating
- C. Claims and complaint handling

As part of the Company complaint handling function, the Company did not maintain an ongoing central log to register and monitor all complaint activity as required by Department Regulation 64 and Department Circular No. 11 (June 5, 1978). Therefore, it is recommended that the Company maintain an ongoing central complaint log pursuant to Department Regulation 64 and Department Circular No. 11 (June 5, 1978).

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company take due care to correctly complete the jurat page of its annual statement so as to include only current directors or trustees.	5
The Company has complied with this recommendation.	
ii. It is also recommended that the Company comply with Article III, Section 1 of its own by-laws and Article 1201(a)(5)(B)(v) of the New York Insurance Law and maintain at least thirteen members on its board of directors.	5
The Company has complied with this recommendation.	
iii. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has complied with this recommendation.	
iv. It is recommended that the Company comply with its by-laws and staff its audit committee only with members of its board of directors.	6
The Company has complied with this recommendation.	
v. It is recommended that the board of directors ratify the election of the audit committee members.	6
The Company has complied with this recommendation.	
vi. It is recommended that the Company comply with its by-laws and refrain from including Company employees as members of its audit committee.	6

ITEMPAGE NO.

The Company has complied with this recommendation.

B. Territory and Plan of Operation

It is recommended that the Company provide a copy of this report on examination to the insurance departments in the jurisdictions where it is insuring risks without having an appropriate license.

9

The Company has not complied with this recommendation and a recommendation relative thereto is stated in this report.

C. Reinsurance

It is recommended that the Company amend the loss reserve section of its property catastrophe excess of loss reinsurance agreement to comply with Section 79.5(a)(2)(iii) of Department Regulation 133.

12

The Company has complied with this recommendation.

D. Holding Company System

- i. It is recommended that the Company comply with all future filing requirements of Department Circular Letters.

13

The Company has not complied with this recommendation and a similar recommendation is repeated in this report.

- ii. It is also recommended that the Company file its holding company registration statements in a timely manner pursuant to the provisions of Department Circular Letter No. 17 (2001).

13

The Company has not complied with this recommendation and a similar recommendation is repeated in this report.

- iii. It is recommended that future filings of Form CL 17 (2001) be filed in the timeframe established by the provisions of Department Circular Letter No. 17 (2001).

16

The Company has not complied with this recommendation and a similar recommendation is repeated in this report.

- iv. It is recommended that the Company file a Form CL 17 (2001) in order to disclose the agency relationship with CIAC.

16

The Company has not complied with this recommendation and a similar recommendation is repeated in this report.

E. Custodian Agreement

It is recommended that the Company amend its custodian agreement with the Northern Trust Company of New York to include the missing protective covenants designated in the National Association of Insurance Commissioners' Examiners Handbook as being representative

17

of good business practices.

The Company has not complied with this recommendation and a similar recommendation is repeated in this report.

F. Abandoned Property Law

- i. It is recommended that the Company file abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. 17

The Company has complied with this recommendation.

- ii. It is also recommended that the Company investigate all drafts that have not been cleared within six months and make a concerted effort to locate the payees. 17

The Company has complied with this recommendation.

G. Accounts and Records

- i. It is recommended that the Company follow NAIC Annual Statement Instructions when compiling data for DCC and A&O expenses. 18

The Company has complied with this recommendation.

- ii. It is recommended that the Company take due care to properly compile the appropriate data regarding claim counts, including the number reported, closed with payment and outstanding. 18

The Company has complied with this recommendation.

- iii. It is also recommended that the Company consistently apply its method of compiling claim counts. 18

The Company has complied with this recommendation.

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Territory and Plan of Operation</u>	
i. It is recommended that the Company write insurance business only in the jurisdictions that it is license to do such business.	7
B. <u>Business Strategy Plan</u>	
i. It is recommended that the Company develop a more comprehensive three-year business plan and submit such plan to the New York Insurance Department.	7
C. <u>Holding Company System</u>	
i. It is recommended that the Company disclose its service agreements with its parent Church Pension Fund in the annual Form B filings in accordance with the Department Circular Letter No. 17 (2001).	9
ii. It is recommended that the Company file Form CL 17 with the Department in accordance with the Department Circular Letter No. 17 (2001).	11
D. <u>Accounts and Records</u>	
i. It is recommended the Company disclose its method of bond amortization in its Notes to the Financial Statements in accordance with the SSAP No. 26.	12
ii. It is recommended that the Company exercise due care in completing its Notes to Financial Statements in all future filed annual statements.	12
iii. It is recommended that the Company exercise due care in classifying foreign investments in the Schedule-D of the annual statement.	12
iv. It is 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
v. It is recommended that the Company ensure that the contract with its CPA firm comply with the requirements of Department Regulation 118.	13
vi. It is recommended that the Company review its overdue reinsurance recoverable balances and write off any items that are determined to be uncollectible.	13
E. <u>Market Conduct Activities</u>	
i. It is recommended that the Company maintain an ongoing central complaint log pursuant to Department Regulation 64 and Department Circular No. 11 (June 5, 1978).	18

Respectfully submitted,

\_\_\_\_\_/s/  
Moses Egbon, CFE  
Senior Examiner

STATE OF NEW YORK     )  
                                  )SS:  
                                  )  
COUNTY OF NEW YORK )

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

\_\_\_\_\_/s/  
Moses Egbon,

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

Appointment No. 22699

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Moses Egbon**

as proper person to examine into the affairs of the

**THE CHURCH INSURANCE COMPANY**

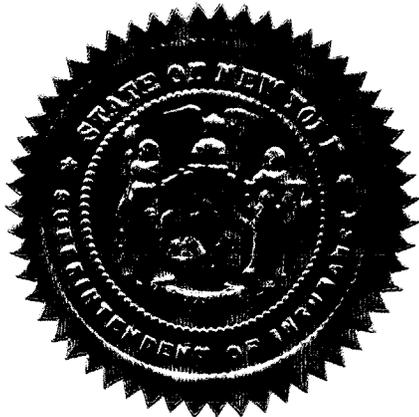
and to make a report to me in writing of the condition of the said

**Company**

with such other information as he shall deem requisite.

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

this 11th day of December, 2007



A handwritten signature in cursive script that reads "Eric Dinallo".

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ERIC R. DINALLO  
Superintendent of Insurance