

REPORT ON EXAMINATION

OF

THE CHURCH INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2012

DATE OF REPORT

MAY 13, 2014

EXAMINER

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TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Articles of incorporation	3
	B. By-laws	3
	C. Capital structure	3
	D. Corporate records	3
	E. Reinsurance	3
	F. Management and control	4
	G. Certified public accountant and actuarial services	6
	H. Growth of the Company	7
3.	Financial statements	8
	A. Balance sheet	8
	B. Statement of income	9
	C. Capital and surplus account	9
4.	Losses and loss adjustment expenses	10
5.	Article 70 compliance	10
6.	Organizational structure	11
7.	Insurance program	11
8.	Summary of comments and recommendations	11



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

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

May 13, 2014

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31053 dated September 13, 2013, attached hereto, I have made an examination into the condition and affairs of The Church Insurance Company of New York 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 of New York. Wherever the designation “Parent” or “Fund” appears herein without qualification, it should be understood The Church Pension Fund.

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

1. SCOPE OF EXAMINATION

The examination covers the period from the Company's inception of July 1, 2007 through December 31, 2012, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of New York State as a captive insurance company on May 22, 2007 and commenced business on July 1, 2007. The Company is a wholly-owned subsidiary of The Church Pension Fund (the "Fund"). The Church Pension Fund is a not-for-profit corporation and is authorized by the Canons of the Episcopal Church to establish and administer the clergy pension system of the Episcopal Church, including pension, life and health benefits, as well as the lay employee pension system and the denominational health plan of the Episcopal Church.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The examination revealed that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid in capital pursuant to the provisions of Section 7004(a)(1) of the New York Insurance Law.

As of December 31, 2012, the Company's paid in capital was \$100,000 consisting of 1,000 shares of \$100 par value per share common stock and its surplus as regards policyholders was \$2,161,538.

D. Corporate Records

The corporate records reviewed appear to be substantially accurate and complete in all material respects.

E. Reinsurance

i. Assumed Reinsurance

During the examination period, the Company's assumed reinsurance program consisted mainly of commercial auto policies and workers' compensation coverage assumed from its affiliate, The Church Insurance Company of Vermont ("CIC VT").

Effective September 1, 2007, the Company entered into a reinsurance agreement with CIC VT to assume certain insured risks on Workers' compensation policies insured by Liberty Mutual.

Effective October 1, 2007, the Company entered into a reinsurance agreement with CIC VT to assume certain insured risks on commercial auto policies insured by Liberty Mutual. The agreement was renewed on October 1, 2011 with Great American as the insurer.

Both agreements remain in effect through December 31, 2012.

ii. Ceded Reinsurance

As of the examination date, the Company has structured its ceded reinsurance program as follows:

<u>Coverage</u>	<u>Limits</u>
Property per risk excess of loss policy	\$4,500,000 excess of \$500,000, aggregate limit of \$13,500,000.
Property Catastrophe excess of loss policy	\$4,000,000 excess of \$6,000,000.
Casualty Excess of loss	\$250,000 excess of \$750,000, aggregate limit of \$1,000,000.
Umbrella Liability Policy	\$4,000,000 excess of \$1,000,000 aggregate limit of \$4,000,000.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law, or any other person approved by the Superintendent.

Effective July 1, 2007, the Company is managed by USA Risk Group of New York, Inc. ("USA") which is affiliated with National Computerized Agencies. National Computerized Agencies is licensed as an agent by the New York Department of Financial Services.

Pursuant to the Management Agreement between the Company and USA, USA shall render the following services to the Company:

- Establish and maintain an accounting system appropriate to Company's operations and provide all accounting services required for purpose of management and compliance with all requirements of New York regulatory authorities;
- Prepare financial statements required for filing with New York regulatory authorities and prepare all returns for premium and other taxes required by the New York tax authorities;
- Render periodic advice and perform certain insurance functions on behalf of Company;
- Maintain records of any funds due Company and pay accounts payable owed by Company of which Manager could reasonably be expected to have knowledge and which are required by the management duties assumed under this Agreement;
- Assist Company's auditors in the audit of Company's books and records;

In the review of the 2012 annual statement questionnaire item 1, it was noted that National Computerized Agencies, Inc. was listed as the manager of the Company. National Computerized Agencies, Inc. is affiliated with USA Risk Group of New York, Inc.

It is recommended that the Company should correctly indicate USA Risk Group of New York, Inc. as the Company's manager in the future annual statements to avoid confusion.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of seven members. At December 31, 2012, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Daniel A. Kastle Port Washington, NY	Executive Vice President, Chief Financial Officer, Church Pension Group Services Corporation
Margaret A. Niles Settle, WA	Partner, K&L Gates LLP
Vincent C. Currie Pensacola, FL	Administrator, Diocese of the Central Gulf Coast
D. Roderick Webster Tinton Falls, NJ	Senior Vice President, General Manager, Church Pension Group Services Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mary Kate Wold New York, NY	President & Chief Executive Officer, Church Pension Group Services Corporation
Jim W. Morrison New York, NY	Executive Vice President, Chief Operating Officer, Church Pension Group Services Corporation

At least two of the board members are the residents of New York as required by Section 7005(g) of the New York Insurance Law.

During the period covered by this examination, the board met one time each year. A review of the meeting minutes during the examination period indicated that all the board meetings were generally well attended.

Therefore, the Company was in compliance with its By-laws and Section 7003(b)(2) and 7005(g) of the New York Insurance Law.

(iii) Officers

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

<u>Name</u>	<u>Title</u>
Mary Kate Wold	President & Chairman
Daniel A. Kasle	Executive Vice President
Jim Morrison	Executive Vice President
D. Roderick Webster	Senior Vice President
Robert J. Ansalone	Senior Vice President
Jeffrey Cianci	Vice President
Peter Latriano	Treasurer
Nancy L Sanborn	Secretary
Wayne A. Agard	Assistant Secretary

G. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by the independent CPA firm Ernst & Young, LLP 5 Times Square, New York, NY 10036 for the years 2007-2012. The Company’s opining actuary as of December 31, 2012 was Ernst & Young, LLP 5 Times Square, New York, NY 10036.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2007	\$ 182,605	\$ (308,856)	\$6,706,679	\$5,691,144
2008	3,777,530	(282,572)	11,030,989	5,408,572
2009	4,823,412	(1,473,924)	12,523,883	3,896,363
2010	4,767,827	(1,915,104)	14,162,139	2,084,628
2011	4,854,458	(1,704,915)	13,859,529	406,513
2012	5,066,863	(6,459,370)	36,600,430	2,161,538

3. FINANCIAL STATEMENTS

With the Department's permission, the Company's financial statements have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting principles prescribed or permitted by the Department for insurance companies. The Company's independent CPA firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2012.

A. Balance Sheet

Assets

Cash and cash equivalents	\$10,349,962	
Equity securities	5,306,279	
Premium receivable	2,212,220	
Reinsurance recoverable on paid losses and loss adjustment expenses	273,590	
Reinsurance recoverable on unpaid losses and loss adjustment expenses	18,013,625	
Prepaid reinsurance premiums	392,358	
Investment income due and accrued	101	
Receivable from affiliates	65	
Deferred policy acquisition costs	51,245	
Other assets	<u>985</u>	
Total Assets		<u>\$36,600,430</u>

Liabilities

Unearned premiums	\$ 2,739,164	
Losses and loss adjustment expenses	30,244,211	
Reinsurance payable on paid losses and loss adjustment expenses	9,917	
Payable to affiliates	564,401	
Reinsurance premium payable	672,560	
Accounts payable and accrued expenses	102,738	
Deferred ceding commissions	78,026	
Other liabilities	<u>27,875</u>	
Total liabilities		\$34,438,892

Capital and Surplus

Common stock	\$ 100,000	
Paid in capital	13,900,000	
Accumulated other comprehensive income	306,279	
Retained earnings	<u>(12,144,741)</u>	
Total capital and surplus		<u>\$ 2,161,538</u>
Total liabilities and capital surplus		<u>\$36,600,430</u>

B. Statement of Income

The Company's capital and surplus increased \$2,161,538 during the five-year and one hundred eighty four day period detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned	\$23,472,695	
Other Income	<u>46,617</u>	
Total underwriting income		\$23,519,312
Deductions:		
Losses and loss adjustment expenses	\$27,312,342	
Net deferral of deferred policy acquisition costs	28,339	
General and administrative	<u>9,350,674</u>	
Total operating deductions		<u>\$36,691,355</u>
Net underwriting gain or (loss)		\$(13,172,043)

Investment Income

Investment income		\$ <u>1,027,302</u>
Net income before tax		<u>\$(12,144,741)</u>
Net loss		<u>\$(12,144,741)</u>

C. Capital and Surplus Account

Capital and surplus as of July 1, 2007			\$	0
	Gains in <u>Surplus</u>	Losses in <u>surplus</u>		
Net loss		\$12,144,741		
Common stock	\$ 100,000			
Capital contribution	13,900,000			
Unrealized gains on securities	<u>306,279</u>	<u>0</u>		
Net increase in surplus	\$14,306,279	12,144,741		<u>\$2,161,538</u>
Capital and surplus as of December 31, 2012				<u>\$2,161,538</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of \$30,244,211. The Company's opining actuary stated the following in its Statement of Actuarial Opinion:

My review of the Company's reserves was conducted in accordance with standards and principles established by the Actuarial Standards Board.

In my opinion, based on the foregoing procedures, the Company's December 31, 2012 statutory-basis loss and loss adjustment expenses reserves identified in Exhibit A:

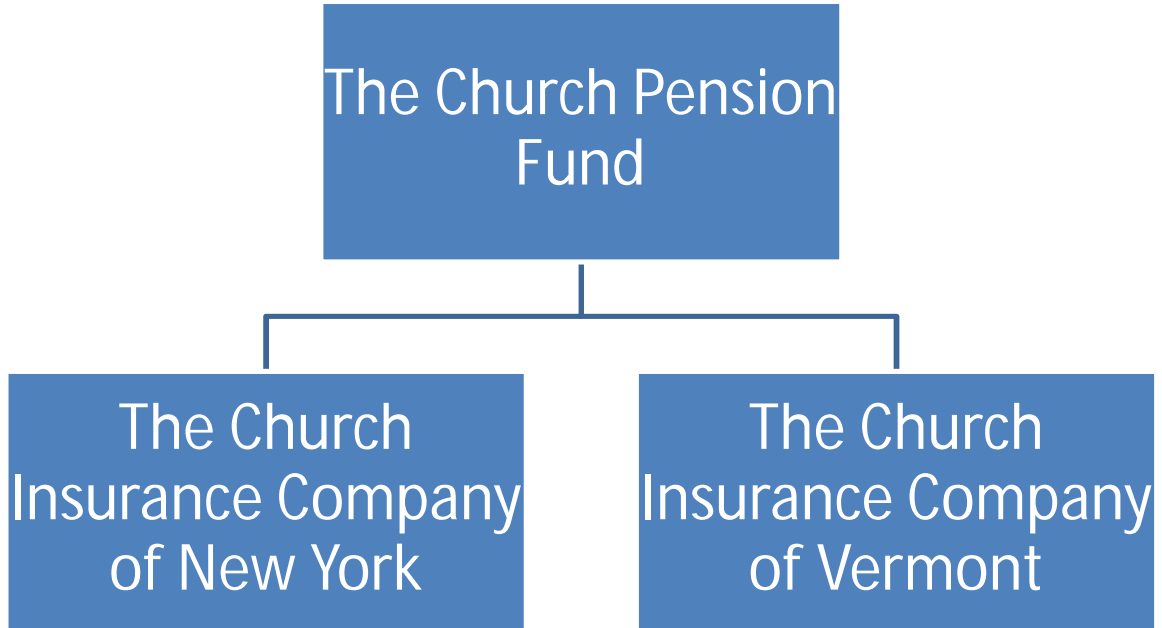
- Make a reasonable provision in the aggregate for all unpaid losses and loss adjustment expenses, gross and net as to reinsurance ceded, under the terms of the Company's contracts and agreements.
- Are consistent with estimates of unpaid losses and loss adjustment expenses computed in accordance with standards and principles established by the Actuarial Standards Board.
- Are computed on the basis of similar general methods as used at December 31, 2011.
- Meet the requirements of the insurance laws of New York.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

Below is an abbreviated organizational chart of The Church Insurance Company of New York:



7. INSURANCE PROGRAM

As of December 31, 2012, the Company provided the following insurance coverage to its ultimate parent, the Church Pension Fund as follows:

<u>Policy coverage</u>	<u>Limits</u>	<u>Policy period</u>
Property Insurance	Limit of \$15,000,000 per risk.	4/1/2011 – 3/31/2012
General Liability Insurance	Limit of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.	4/1/2011 – 3/31/2012
Directors and Officers Liability	Limit of \$1,000,000 per occurrence and in the aggregate.	1/1/2011 – 1/1/2012
Umbrella Liability Policy	Limit of \$1,000,000 per occurrence and \$4,000,000 in the aggregate.	7/1/2011 – 6/30/2012

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM.</u>		<u>PAGE NO.</u>
1.	<u>Management Agreement</u>	
	It is recommended that the Company should correctly indicate USA Risk Group of New York, Inc. as the Company's manager in the future annual statements.	5

Respectfully submitted,

_____/s/
Wei Cao
Senior Insurance Examiner

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

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

_____/s/
Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2014.

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:

Wei Cao

as a proper person to examine the affairs of the

Church Insurance Company of New York

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

COMPANY

with such other information as he shall deem requisite.

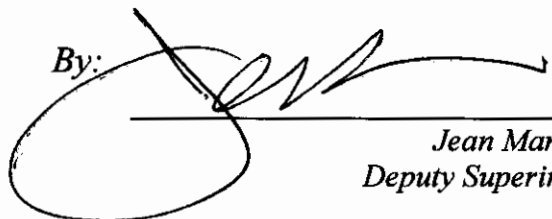
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 13th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent