

REPORT ON EXAMINATION  
OF THE  
CHURCH INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2002

DATE OF REPORT

MAY 24, 2004

EXAMINER

BERNARD LOTT

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	4
B. Territory and plan of operation	7
C. Reinsurance	10
D. Holding company system	12
E. Custodian agreement	16
F. Abandoned Property Law	17
G. Accounts and records	18
H. Significant operating ratios	18
3. Financial statements	20
A. Balance sheet	20
B. Underwriting and investment exhibit	22
C. Capital and surplus account	23
4. Receivable from parents, subsidiaries and affiliates	24
5. Losses and loss adjustment expenses	24
6. Market conduct activities	24
7. Compliance with prior report on examination	25
8. Summary of comments and recommendations	27



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

May 24, 2004

Honorable Gregory V. Serio  
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 21982 dated January 9, 2003 attached hereto, I have made an examination into the condition and affairs of the Church Insurance Company as of December 31, 2002, and submit the following report thereon.

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

Wherever the designations "the Company" or "Church" appear herein without qualification, they 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 Insurance Department.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the three-year period from January 1, 2000 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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 Church Insurance Company, one of a group of companies organized to serve the interest of the Protestant Episcopal Church, is a wholly-owned subsidiary of The Church Pension Fund. The Company's other affiliates include Church Publishing Incorporated, Church Life Insurance Corporation, The Church Insurance Company of Vermont and the Church Insurance Agency Corporation.

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 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 January 28, 1966.

Article IV of the Company's certificate of incorporation provides, in part, as follows:

"...that the Corporation shall confine itself to insurance on churches, rectories, schools, hospitals and all kinds of buildings, household furniture and other property of the Protestant Episcopal Church, its dioceses, parishes or other organizations of the said church or of any corporations or associations affiliated therewith, or any property owned or held by any person, association, or corporation and used to promote the interests of the Protestant Episcopal Church."

The Company was organized with authorized and paid up capital of \$2,500,000 consisting of 25,000 shares of common stock with par value of \$100 per share. In 1991, the Company's charter was amended to increase its capital to \$7,500,000 consisting of 75,000 shares of common stock with par value of \$100 per share. In April 1994, the Company increased its capital to \$15,000,000 consisting of 150,000 shares of common stock with par value of \$100 per share. At December 31, 2002, the Company's capital remained at \$15,000,000 and its gross paid-in and contributed surplus of \$27,100,000 increased by \$12,100,000 during the period covered by this examination.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of at least thirteen but not more than fifteen members. As December 31, 2002, however, the board of directors was comprised of only the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
The Very Reverend Martin L. Agnew, Jr. Shreveport, LA	Dean, St. Mark's Cathedral
Alan F. Blanchard New York, NY	President & Chief Executive Officer, Church Pension Fund & Church Insurance Company
David L. Brigham Weston, VT	Former President & Chief Executive Officer, J.P. Morgan Investment Management
The Reverend Canon Randall Chase, Jr. Providence, RI	Canon to the Ordinary, Diocese of the Ordinary
Vincent C. Currie, Jr. Pensacola, FL	Administrator, Diocese of the Central Gulf Coast
The Reverend Canon Carlson Gerdau New York, NY	Canon to the Primate & Presiding Bishop, The Episcopal Church Center
The Right Reverend Gayle E. Harris Boston, MA	Bishop Suffragan, Diocese of Massachusetts
Joon D. Matsumura Yorba Linda, CA	Former Comptroller, Diocese of Los Angeles
The Right Reverend Claude E. Payne Houston, TX	Bishop, Diocese of Texas
Quintin E. Primo III Chicago, IL	Co-Chairman, Capri Capital
Katherine T. Scott Indianapolis, IN	Executive Director, Trustee Leadership Development
D. Roderick Webster New York, NY	Senior Vice President & Manager, Church Insurance Company

The jurat page in the Company's filed annual statement listed the Reverend Donald E. Bitzberger as a director at December 31, 2003. A review of minutes from the six regular board of directors' meetings held during the period covered by this examination, as well as related correspondence, disclosed that the Reverend Bitzberger resigned from the board on December 3, 2002. Consequently, the Company was in violation of Article III, Section 1 of its by-laws and Article 1201(a)(5)(B)(v) of the New York Insurance Law, which sets that the minimum number of directors at thirteen. 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. 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.

The review of the minutes indicated that the meetings were generally well attended with the exception of directors David L. Brigham, Gale E. Harris and Quintin E. Primo III, each of whom attended less than half of the meetings for which they were eligible to attend. The finance and audit committees meetings were also well attended with the exception of director Quintin E Primo III, who is a member of the finance committee. The executive committee did not meet during the period covered by this examination.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently resign or be replaced.

Article XXI of the Company's Charter states as follows:

“The Board of Directors may, in so far as may legally be done, delegate power to transact any of its business to a committee or committees of directors, or to such of the Corporation's officers or agents as the Board may deem proper.”

Accordingly, Article IV, Section 3 of the Company's By-laws states, in pertinent part that,

“[t]here shall be an Audit Committee to consist of three or more Directors, as the Board of Directors shall from time to time determine. None of its members shall be an employee of the Company or of any of its corporate affiliates.”

A review of the audit committee minutes noted that through out the period covered by this examination, the following individuals were listed among committee members: Sheridan C. Biggs, Arthur K. Kusumoto and David R. Pitts. For years 2001 and 2002 they represented the majority of the four-person committee. None of these individuals are members of Church's board of directors. This appears to be a violation of the above-mentioned Section of the Company's by-laws, which requires audit committee members to be members of the board of directors. In addition, the minutes of the board of directors meetings did not indicate that the entire board ever elected these individuals. It is recommended that the Company comply with its by-laws and elect its audit committee only from those individuals who are members of its board of directors.

During the February 16, 2000 audit committee meeting, Alan F. Blanchard, President and Chief Executive Officer of CIC, was listed as one of the committee members utilized to attain a quorum. This also appears to be in violation of the aforementioned Section of the Company's by-laws. It is recommended that the Company comply with its by-laws and refrain from including Company employees as members of its audit committee.



As of December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Alan F. Blanchard	President & Chief Executive Officer
Thomas C. Barron	Executive Vice President
D. Roderick Webster	Senior Vice President & General Manager
Daniel A. Kasle	Senior Vice President & Treasurer
Robert J. Ansalone	Senior Vice President & Chief Operating Officer
Barton T. Jones, Esq.	Senior Vice President & General Counsel

B. Territory and Plan of Operation

As of December 31, 2002, the Company was licensed to write business in thirty-seven states. The Company's major line of business was commercial multiple peril, which totaled \$17,165,487 and represented 98.81% of its direct premium writings during calendar year 2002. 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>
3	Accident and health
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employer's 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 coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers Compensation Act.

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>DIRECT PREMIUMS WRITTEN</u>			
<u>Calendar Year</u>	<u>New York State</u>	<u>Countrywide</u>	Premiums Written In New York State as a percentage of Countrywide <u>Premiums</u>
2000	\$3,355,000	\$28,559,086	11.75%
2001	\$2,986,145	\$26,703,381	11.18%
2002	\$3,941,262	\$17,373,001	22.69%

#### Premium Writings in Unlicensed States

The four prior reports on examination discussed the Company's practice of writing business in jurisdictions in which it was not licensed. The Company continued this practice during the period covered by this examination. Church Insurance Company reported a total of \$6,206,592 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>	Direct Premiums <u>Written</u>
Alaska	\$223,684
Arkansas	398,900
Delaware	588,840
District of Columbia	446,984
Hawaii	820,121
Idaho	119,257
Kentucky	696,343
Louisiana	1,452,362
Mississippi	23,560
New Hampshire	259,115
New Mexico	241,211
Oklahoma	522,375
Utah	29,681
Washington	29,271
U.S Virgin Islands	<u>354,888</u>
<u>Total</u>	<u>\$6,206,592</u>

Management was unable to provide any documentation that granted the Company the authority to act as an insurer in the aforementioned jurisdictions. Additionally, the Company did not file any premium tax returns for these areas.

The prior report on examination recommended that the company provide a copy of the report on examination to the insurance departments located in the jurisdictions where it is insuring risks without the proper authority to do so. The Company did not comply with the recommendation.

It is again 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.

C. Reinsurance

Assumed

The Company is primarily a direct writer but does assume a small amount of business as reported in Schedule F of its annual statement. The Company is party to an assumed reinsurance agreement covering 100% of the flood portion of the commercial multiple peril policies underwritten by another insurance carrier for selected Episcopal Churches. As of December 31, 2002, the Company has assumed \$43,048 in reinsurance premiums.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts in effect at December 31, 2002, were reviewed and found to contain the required standard clauses, including insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 2002:

Type of Treaty

Cession

Property:

Per Risk Excess of Loss \*  
(3 Layers)

\$19,650,000 excess of \$350,000 each risk any one occurrence, subject to a maximum recovery of \$29,300,000 and an annual aggregate deductible of \$3,000,000.

Catastrophe Excess of Loss  
(2 Layers)

\$17,000,000 excess of \$3,000,000 each and every loss occurrence, subject to a \$3,000,000 retention.

Boiler and Machinery

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

Type of TreatyCession

\* This agreement includes a \$5,000,000 excess of \$350,000 for flood insurance with a maximum recovery of \$5,000,000. The flood business is also subject to the annual aggregate deductible of \$3,000,000.

Casualty:

Casualty Excess of Loss  
(2 Layers)

\$4,650,000 excess of \$350,000 as regards  
any one loss occurrence, subject to a  
maximum recovery of \$8,000,000.

During the examination period the limits for the property per risk excess of loss treaty were unchanged. The limits for the property catastrophe excess of loss treaty also remained unchanged at \$20 million, however, effective April 1, 2002, the Company has a \$3 million retention that it shares with an affiliate, The Church Insurance Company of Vermont. The limits for the casualty excess of loss decreased from \$9.65 million to \$4.65 million, while the retention of \$350,000 was unchanged. In the year 2000 the company ceded approximately thirteen percent of its ceded premiums to unauthorized insurers. For years 2001 through 2002 the amount was less than one percent.

In addition to its treaty reinsurance program, the Company continued to utilize facultative reinsurance coverage on those risks with limits of liability exceeding \$20,000,000 for property lines as of December 31, 2002.

Florida Hurricane Catastrophe Fund

As a condition of writing business in the state of Florida the Company is required to participate in the Florida Hurricane Catastrophe Fund ("Fund"). The Fund reinsures hurricane losses in the State of Florida. Assessments are based on factors applied to prior year gross direct written premiums for properties in Florida. The Company reported \$15,000 in premiums ceded to the Fund in 2002.

New York Regulation 133

Article 17 (Loss Reserves) of the Company's property catastrophe excess of loss agreement applies to any reinsurer that does not qualify for credit by states having jurisdiction over the Company. In noting what should be included in the term "losses", Article 17 states that under no circumstances shall any amount relating to reserves in respect of Losses Incurred But Not Reported be included in the amount of letter of credit. Section 79.5(a)(2)(iii) of New York Regulation 133, in stipulating what provisions must be included in a reinsurance agreement when a letter of credit is obtained therewith, states in part:

“...that the reinsurer and ceding insurer agree that the letters of credit provided by the reinsurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the reinsurance agreement, and be utilized by the ceding insurer or any successor by operation of law of the ceding insurer including, without limitation, any liquidator, rehabilitator, receiver or conservator of such insurer for the following purposes:...(iii) to fund an account with the ceding insurer in an amount at least equal to the deduction, for reinsurance ceded, from the ceding insurer's liabilities for policies ceded under the agreement. Such amount shall include, but not be limited to, amounts for policy reserves, reserves for claims and losses incurred (including losses incurred but not reported). . .”

It appears that Article 17 of this agreement is in conflict with Regulation 133. It is therefore recommended that the Company amend the loss reserves section of its property catastrophe excess of loss reinsurance agreement to comply with Section 79.5(a)(2)(iii) of New York Regulation 133.

D. Holding Company System

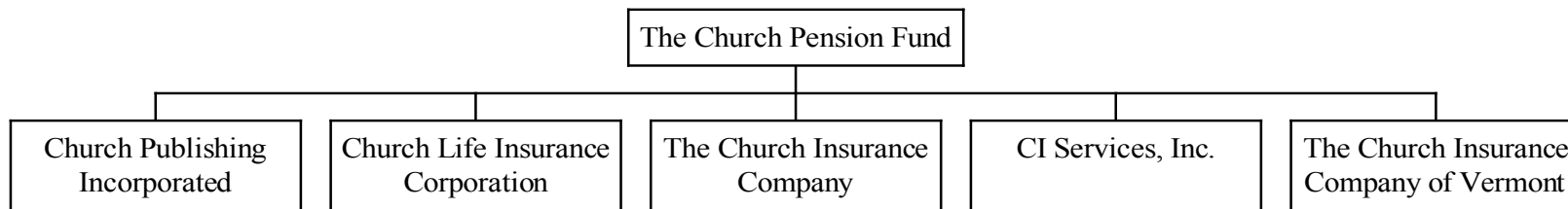
The Company is a wholly-owned subsidiary of the Church Pension Fund (“CPF”), a New York corporation, which administers the clergy pension system of the Episcopal Church.

Church is exempt from Article 15 of the New York Insurance Law, however, pursuant to Circular Letter No. 17 (2001) it was nonetheless required to furnish the Department a copy of its latest “Insurance Holding Company System Annual Registration Statement” (“Form B”) by September 1, 2001. 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.”

During the period covered by this examination the Company failed to submit its Form B filing, pursuant to Circular Letter No.17 (2001), which was due by September 1, 2001. Additionally, the Company’s December 31, 2001 Form B filing was not received until March 2003 (the end of the ultimate holding company’s fiscal year was March 31, 2002). It is recommended that the Company comply with all future filing requirements of New York Circular Letters. It is also recommended that the Company file its holding company registration statements in a timely manner pursuant to the provisions of Circular Letter No.17 (2001). The Company’s 2002 Form B was filed in a timely manner.

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





As of December 31, 2002, the Company was party to the following agreements with affiliated entities:

Services and Facilities Agreement

Church entered into a services and facilities agreement, effective January 1, 2002, with CPF. The agreement engages CPF to provide administrative services and facilities to the Company on a cost-reimbursement basis. CPF provides for financial, personnel and other services that may be necessary in connection with the activities of the Company.

Agency Agreement

The Company is a party to an agency agreement with its affiliate, Church Insurance Agency Corporation (“CIAC”), dated November 15, 2001. CIAC is the sole agent for the Company and is responsible for customer solicitation, collection of premiums and the processing of first notices of loss. CIAC also assumes the risk of uncollectible premiums for all business written by CIAC. The agreement provides for the Company to pay CIAC annually a commission of 9% for all premiums written for all lines of business written.

Services Agreement

The Company has a service agreement with CIAC, effective October 1, 2001. Under the agreement CIAC appoints the Company to provide it with client support, risk management and claims services that CIAC had agreed to perform for Vermont Insurance Management, Inc. (“VIM”), a non-affiliated vendor, pursuant to a separate service agreement between CIAC and VIM. VIM originally engaged, via a management agreement with CIC-Vermont, to provide CIC-Vermont with management and administrative services. These are the services that were outsourced to CIAC.

### Reinsurance Agreement

The Company and CIC-Vermont are parties to a reinsurance agreement for the treaty year of April 1, 2002 through March 30, 2003. The affiliates have agreed to share in a \$3,000,000 annual aggregate deductible of their property per risk excess of loss reinsurance contract with Swiss Re and a \$3,000,000 retention of their property 1<sup>st</sup> catastrophe excess of loss reinsurance contract brokered by J.P. Woods. The annual aggregate deductible is allocated between the affiliates based on each company's percentage of total property direct earned premiums for the year.

### Circular Letter No. 17 (2001)

Circular Letter No. 17 (2001) provides, in pertinent part, that beginning September 1, 2001, every authorized domestic insurer that is exempt 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 to 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.

A review of the Form CL 17 (2001) filings for agreements in effect at December 31, 2002 noted that they were submitted in March 2003. The review also noted that the Company did not file a Form CL 17 (2001) for the disclosure of its agency agreement with CIAC. It is recommended that future filings of Form CL 17 (2001) be filed in the timeframe established by the provisions of Circular Letter No.17 (2001). It is recommended that the Company file a Form CL 17 (2001) in order to disclose the agency relationship with CIAC.

### E. Custodian Agreement

During the period covered by the current examination, the Company entered into a custody account subject to a custody agreement dated March 30, 2001, with the Northern Trust Company of New York. A review of the agreement found that it did not contain all of the safeguards, controls and protective covenants, designated in the

National Association of Insurance Commissioners' Examiners Handbook as being representative of good business practices. 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 of good business practices.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

During the period covered by this examination the Company failed to file any abandoned property reports pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. In addition the Company provided no documentation of its attempt to locate payees issued drafts that remained outstanding in excess of six months. 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 State Abandoned Property Law. 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.

The Company provided that it has been in contact with the Controller's Office of the State of New York concerning its abandoned property filings. The Company also stated that it had contracted Deloitte & Touche, LLP, as consultants, in an effort to determine its abandoned property responsibilities and to aid it in the filing of its abandoned property reports.

## G. Accounts and Records

The Department's actuarial unit noted that the Company has serious data problems. Specifically, corrective measures need to be taken concerning the following:

1. According to Church's appointed actuary, the Company codes defense and cost containment ("DCC") and Adjusting and Other ("A&O") data as Allocated loss adjustment expenses and Unallocated loss adjustment expenses, respectively. The Schedule P data, however, indicates that this may not be the case.

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

2. A review of Schedule P noted that the Company did not compile appropriate data regarding claim counts, including the number of reported claims, claims closed with payment and outstanding claims (by line of business). In addition it was noted that the method used to compile this data was not consistently applied over time.

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

## H. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written in 2002 to surplus as regards policyholders	1.11 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	109.9%
Premiums in course of collection to surplus as regards policyholders	19.5%

The first and third ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The second ratio exceeds the benchmark and the unusual result is due to the examination increase to losses and loss adjustment expenses outstanding.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$64,275,193	110.82%
Other underwriting expenses	26,728,866	46.1
Net underwriting gain (loss)	<u>(33,011,015)</u>	<u>(56.9)</u>
Premiums earned	<u>\$57,933,044</u>	<u>110.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

	<u>EXAMINATION</u>		<u>COMPANY</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Admitted Assets</u>	<u>Surplus Increase (Decrease)</u>
Bonds	\$39,690,707		\$39,690,707	\$39,690,707	\$
Cash and short-term investments	6,834,374		6,834,374	6,834,374	
Premiums and agents' balances in course of collection	2,334,862	6,211	2,328,651	2,328,651	
Premiums and agents' and balances booked but deferred and not yet due	2,971,643		2,971,643	2,971,643	
Reinsurance recoverable on loss payments	15,279,563		15,279,563	15,279,563	
Interest, dividends and real estate income due and accrued	437,243		437,243	437,243	
Receivable from parent, subsidiaries and affiliates	505,840	505,840	0	505,840	(505,840)
Miscellaneous assets	<u>81,320</u>	<u>          </u>	<u>81,320</u>	<u>81,320</u>	<u>          </u>
Total assets	<u>\$68,135,552</u>	<u>\$512,051</u>	<u>\$67,623,501</u>	<u>\$68,129,341</u>	<u>\$(505,840)</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$28,205,189	\$21,605,189	\$(6,600,000)
Commissions payable, contingent commissions and other similar charges	133,565	133,565	
Other expenses	274,548	274,548	
Taxes, licenses and fees	36,495	36,495	
Unearned premiums	6,675,084	6,675,084	
Ceded reinsurance premiums payable	8,953,288	8,953,288	
Funds held by company under reinsurance treaties	31,815	31,815	
Amounts withheld or retained by company for account of others	451	451	
Provision for reinsurance	3,497,205	3,497,205	
Drafts outstanding	636,138	636,138	
Payable to parent, subsidiaries and affiliates	5,049,715	5,049,715	
Aggregate write-ins for liabilities	<u>2,184,831</u>	<u>2,184,831</u>	<u>                    </u>
 Total liabilities	 <u>\$55,678,324</u>	 <u>\$49,078,324</u>	 <u>\$(6,600,000)</u>
 <u>Surplus as Regards Policyholders</u>			
Common capital stock	\$15,000,000	\$15,000,000	\$
Gross paid in and contributed surplus	27,100,000	27,100,000	
Unassigned funds	<u>(30,154,823)</u>	<u>(23,048,983)</u>	<u>(7,105,840)</u>
 Surplus as regards policyholders	 <u>\$11,945,177</u>	 <u>\$19,051,017</u>	 <u>\$(7,105,840)</u>
 Total liabilities and surplus	 <u>\$67,623,501</u>	 <u>\$68,129,341</u>	

NOTE: All outstanding shares of the Company are owned by the Church Pension Fund, a non-profit organization domiciled in the State of New York. As such, the Company is exempt from Federal income tax under the provisions of Internal Revenue Code Section 501c(3).

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$18,261,729 during the three-year examination period January 1, 2000 through December 31, 2002, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$57,993,044
Deductions:		
Losses and loss adjustment expenses incurred	\$64,275,193	
Other underwriting expenses incurred	<u>26,728,871</u>	
Total underwriting deductions		<u>91,004,059</u>
Net underwriting loss		\$(33,011,015)

Investment Income

Net investment income earned	\$ 9,720,539	
Net realized capital gains	<u>1,843,895</u>	
Net investment gain		11,564,434

Other Income

Net gain or (loss) from agent or premium charge off	\$(37,393)	
Aggregate write-ins for miscellaneous income	<u>(5,191,553)</u>	
Total other income		<u>(5,228,946)</u>
Net income before federal and foreign income taxes		\$(26,675,527)
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$(26,675,527)</u>



C. Capital and Surplus Account

Surplus as regards policyholders, per report on Examination as of December 31, 1999			\$30,206,906
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss	\$	\$26,675,527	
Change in not-admitted assets		467,597	
Change in provision for reinsurance		3,218,605	
Capital changes – paid in	<u>12,000,000</u>	<u>                    </u>	
Total gains and losses	<u>\$12,000,000</u>	<u>\$30,361,729</u>	
Net increase (decrease) in surplus			<u>(18,261,729)</u>
Surplus as regards policyholders, per report on Examination as of December 31, 2002			<u>\$11,945,177</u>

**4. RECEIVABLE FROM PARENTS, SUBSIDIARIES AND AFFILIATES**

The Company reported an asset of \$505,840 as of December 31, 2002. This asset was eliminated upon examination. The receivable was not admitted because it had not been collected within ninety days, pursuant to New York Circular Letter No. 15 (1975).

**5. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$28,205,189 is \$6,600,000 more than the \$21,605,189 reported by the Company in its December 31, 2002 filed annual statement. The Company's overall carried reserves are within the Department's projected range for loss and loss adjustment expenses, albeit at the low end of the range on a net basis.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

**6. 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. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

## 7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>1. <u>Board of Directors</u></p> <p>It is recommended that the Company's board of directors hold annual meetings as provided for in Article II, Section 3 of its by-laws.</p> <p>The Company has complied with this recommendation.</p>	<p>7</p>
<p>2. <u>Premium Writing in Unlicensed States</u></p> <p>It is recommended that the Company provide a copy of this report to those insurance departments of states where it is insuring risks without having the appropriate license to do so.</p> <p>The Company has not complied with this recommendation. A similar recommendation is contained in this report.</p>	<p>10</p>
<p>3. <u>Reinsurance</u></p> <p>i) It is recommended that the Company endeavor to have all its reinsurance agreements reduced to written form and signed within nine months of the effective date, in accordance with the NAIC Accounting Practices and Procedure Manual for Property/Casualty Insurance Companies - Chapter 22- Reinsurance and Department Regulation 17.</p> <p>The Company has complied with this recommendation.</p>	<p>14</p>

<u>ITEM</u>	<u>PAGE NO.</u>
ii) It is recommended that the Company take greater care in the preparation of its Annual Statement Schedule F.	14
The Company has complied with this recommendation.	
4. <u>Holding Company System</u>	
i) It is recommended that the Company formalize an expense agreement with its affiliates to adequately provide for the allocation of shared costs, in accordance with New York Insurance Department Regulation 30. The expense sharing agreement should provide for the timely settlement of shared costs on a quarterly basis with any adjustments to cost allocated basis being made at least annually.	17
The Company has complied with this recommendation.	
ii) It is recommended that the agency agreement be amended to provide for the settlement of premiums collected within 45 after the end of each calendar month.	18
The Company has complied with this recommendation.	
Also, it is recommended that commission due CAC be settled by the Company within 45 days after the end of each calendar month.	
The Company has complied with this recommendation.	
5. <u>Custodian Service Agreement</u>	
It is recommended that the Company amend its custodian agreement with Morgan Guaranty Trust Company of New York to include all of the aforementioned protective covenants.	20
The Company has not complied with this recommendation. During the period covered by this examination the Company entered into a new custody agreement with the Northern Trust Company of New York and the Department has adopted guidelines designated in the NAIC's Examiners Handbook for the safekeeping of its custody account. A similar recommendation is contained in this report for the Company's new custodian agreement.	

## 8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<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
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
iii.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. 5
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
v.	It is recommended that the board of directors ratify the election of the audit committee members. 6
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
B.	<u>Territory and Plan of Operation</u>
	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
C.	<u>Reinsurance</u>
	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 New York Regulation 133. 12

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Holding Company System</u>	
i.     It is recommended that the Company comply with all future filing requirements of New York Circular Letters.	13
ii.    It is also recommended that the Company file its holding company registration statements in a timely manner pursuant to the provisions of Circular Letter No.17 (2001).	13
iii.   It is recommended that future filings of Form CL 17 (2001) be filed in the timeframe established by the provisions of Circular Letter No. 17 (2001).	16
iv.     It is recommended that the Company file a Form CL 17 (2001) in order to disclose the agency relationship with CIAC.	16
E. <u>Custodian Agreement</u>	
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 of good business practices.	17
F. <u>Abandoned Property Law</u>	
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
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

<u>ITEM</u>		<u>PAGE NO.</u>
G.	<u>Accounts and Records</u>	
i.	It is recommended that the Company follow NAIC Annual Statement Instructions when compiling data for DCC and A&O expenses.	18
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
iii.	It is also recommended that the Company consistently apply its method of compiling claim counts.	18

Respectfully submitted,

\_\_\_\_\_/S/  
Bernard Lott  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/  
Bernard Lott

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2004.



Appointment No. 21982

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Bernard Lott**

*as proper person to examine into the affairs of the*

**CHURCH INSURANCE COMPANY**

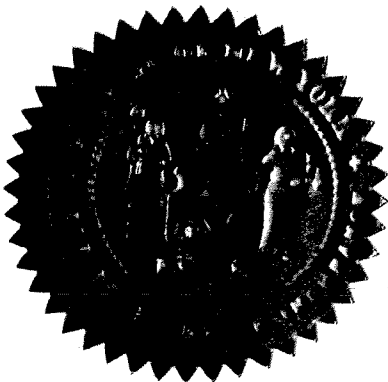
*and to make a report to me in writing of the condition of the said*


**COMPANY**

*with such other information as she 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 9th day of January, 2003*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance