

**Examination Warrant Number 17-00000-27197-R1**

**Report of Examination of  
Apollo Mutual Fire Insurance Company  
Apollo, Pennsylvania**

**As of December 31, 2017**

**For Informational Purposes Only**

# Apollo Mutual Fire Insurance Company

## TABLE OF CONTENTS

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Scope of Examination .....	1
History .....	2
Management and Control:	
Surplus Requirements .....	2
Insurance Holding Company System.....	2
Board of Directors.....	2
Committees .....	3
Officers .....	3
Corporate Records:	
Minutes .....	3
Articles of Incorporation.....	4
By-Laws.....	4
Service and Operating Agreements .....	4
Reinsurance:	
Ceded .....	4
Assumed.....	4
Territory and Plan of Operation .....	5
Significant Operating Ratios and Trends.....	5
Pending Litigation.....	6
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds.....	7
Comparative Statement of Income.....	8
Comparative Statement of Capital and Surplus.....	9
Comparative Statement of Cash Flow .....	10
Summary of Examination Changes .....	11
Notes to Financial Statements:	
Assets:	
Investments .....	11
Liabilities:	
Loss and Loss Adjustment Expense Reserves .....	12
Subsequent Events .....	12
Recommendations:	
Prior Examination .....	12
Current Examination.....	13
Conclusion .....	14

Harrisburg, Pennsylvania  
November 21, 2019

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 17-00000-27197-R1, dated July 11, 2017, an examination was made of

**Apollo Mutual Fire Insurance Company, NAIC Code:27197**

a Pennsylvania domiciled single state, mutual property-casualty company, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 104 North Plaza, Apollo, Pennsylvania 15613.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

## **Apollo Mutual Fire Insurance Company**

-2-

conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the Company, not transacting insurance outside the Commonwealth, having total admitted assets of less than \$10 million and direct written premium of less than \$1 million or fewer than 1,000 policyholders, was exempt from filing an annual audited financial statement prepared by a certified public accountant in accordance with 31 Pa. Code § 147.13(e).

The Company is exempt from federal income taxes under § 501(c)(3) of the internal revenue code.

### **HISTORY**

The Company was incorporated and commenced business on March 6, 1896. The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Property and Allied Lines.

### **MANAGEMENT AND CONTROL**

#### **SURPLUS REQUIREMENTS**

The Company's minimum surplus requirement to conduct the business described above, pursuant to the requirements of 40 P.S. § 386(e)(6) is \$50,000 for a company writing assessable policies. The Company has met all governing surplus requirements throughout the examination period.

#### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is not part of a holding company system.

#### **BOARD OF DIRECTORS**

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2017:

<b>Name and Address</b>	<b>Principal Occupation</b>
Rebecca D. Bonelli Apollo, Pennsylvania	Treasurer Apollo Mutual Fire Insurance Company
Ryan D. Bottali Avonmore, Pennsylvania	Farmer Self-employed
R. Scott Brunermer Apollo, Pennsylvania	Insurance Agent Sloan Insurance Agency

# Apollo Mutual Fire Insurance Company

-3-

David S. Coulter Dayton, Pennsylvania	Conservation Agent U.S. Department of Agriculture
Michael Lee Filippini Avonmore, Pennsylvania	Retired
David M. Klingensmith Spring Church, Pennsylvania	Retired
Thomas E. McIlwain Apollo, Pennsylvania	President Apollo Mutual Fire Insurance Company
Elaine M. Schultz Vandergrift, Pennsylvania	Secretary Apollo Mutual Fire Insurance Company

## COMMITTEES

As of the examination date, December 31, 2017, the following committee was appointed by the Board and serving in accordance with the Company's By-Laws:

### Reinsurance Committee

Thomas E. McIlwain  
David M. Klingensmith  
R. Scott Brunermer

## OFFICERS

As of the examination date, December 31, 2017, the following officers were appointed and serving in accordance with the Company's By-Laws:

Name	Title
Thomas E. McIlwain	President
Rebecca D. Bonelli	Treasurer
Elaine M. Schutz	Secretary
Michael L. Filippini	Vice President

## CORPORATE RECORDS

## MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's policyholders were held in compliance with its By-Laws.
- The policyholders elected directors at such meetings in compliance with the By-Laws.

## **Apollo Mutual Fire Insurance Company**

-4-

- Quorums were present at all directors' meetings.
- All directors attended Board meetings regularly.
- The policyholders ratified the prior year's actions of the officers and directors.
- The Company's investment transactions were approved quarterly by the Board.
- The Company's Board approved the reinsurance transactions.

### **ARTICLES OF INCORPORATION**

There were no amendments made to the Company's Articles of Incorporation during the examination period.

### **BY-LAWS**

There were no changes made to the Company's By-Laws during the examination period.

### **SERVICE AND OPERATING AGREEMENTS**

The Company was not a party to any service or operating agreements during the period covered by this examination.

### **REINSURANCE**

The Company both cedes and assumes reinsurance as a result of its affiliation with the Armstrong County Reinsurance Group ("Group"). The Group consists of the following three member companies as of December 31, 2017:

Apollo Mutual Fire Insurance Company  
The Center Valley Mutual Fire Insurance Company  
Mutual Insurance Company of South Bend Township

The Group will generally reinsure fire and allied lines with each company having a maximum retention of \$150,000 per risk. Members of the Group obtain reinsurance by preparing a reinsurance certificate for the other two companies in the Group to accept or reject the risk with fifteen days. The ceding company must retain at least as much as is insured by any other member of the Group.

The Group agreement contains the appropriate arbitration and insolvency clauses. Additionally, all contracts transfer risk as required by Statements of Statutory Accounting Principles ("SSAP") No. 62.

The only reinsurance maintained by the Company is described above. In the instance of a catastrophic event, there is the risk that all members of the Group would be adversely affected since no member of the Group is more than twenty-five miles away from any other member, and all members write insurance coverage in the same geographical area. A recommendation was

## Apollo Mutual Fire Insurance Company

-5-

made in the prior examination report that the Company should consider obtaining catastrophic reinsurance coverage from a licensed reinsurer. The Company did not consider action on the recommendation.

*It is recommended that the Company explore the option of additional coverage from a licensed reinsurer to address its significant geographic and capacity risk exposures.*

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business only in Commonwealth of Pennsylvania. The Company issues assessable policies providing fire and allied lines coverage. The Company's premium by line of business was distributed as follows as of December 31, 2017:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2017</b>				
Fire	\$ 150,637	\$ 38,110	\$ 112,527	80%
Allied lines	37,659	9,527	28,132	20%
Totals	<u>\$ 188,296</u>	<u>\$ 47,637</u>	<u>\$ 140,659</u>	<u>100.0%</u>

There have been no changes in the Company's marketing philosophy since the previous examination. The members of the Company's Board solicit business on its behalf, primarily in Armstrong, Indiana, and Westmoreland Counties.

### SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	\$ 691,026	100.0 %
Losses incurred	\$ 169,498	24.5 %
Other underwriting expenses incurred	597,257	86.5 %
Net underwriting gain or (loss)	(75,729)	(11.0)%
Totals	<u>\$ 691,026</u>	<u>100.0 %</u>

# Apollo Mutual Fire Insurance Company

-6-

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2017	2016	2015	2014	2013
Admitted assets	\$ 4,187,740	\$ 4,023,148	\$ 3,866,533	\$ 3,812,253	\$ 3,771,808
Liabilities	\$ 88,257	\$ 87,847	\$ 79,909	\$ 68,248	\$ 60,701
Surplus as regards policyholders	\$ 4,099,483	\$ 3,935,301	\$ 3,786,624	\$ 3,744,004	\$ 3,711,107
Gross premium written	\$ 188,296	\$ 189,371	\$ 229,381	\$ 143,640	\$ 180,116
Net premium written	\$ 140,659	\$ 138,245	\$ 199,423	\$ 91,140	\$ 125,025
Underwriting gain/(loss)	\$ (15,303)	\$ 12,450	\$ 17,045	\$ (56,024)	\$ (33,897)
Investment gain/(loss)	\$ 130,511	\$ 95,402	\$ 111,722	\$ 118,974	\$ 107,977
Other gain/(loss)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net income	\$ 115,208	\$ 107,852	\$ 128,767	\$ 62,950	\$ 74,060

## PENDING LITIGATION

The Company does not retain legal counsel on a continuous basis. As of December 31, 2017, and through the date of this examination report, management of the Company represents that they are not aware of any pending or threatened legal proceeding against the Company that would be considered outside the normal course of business or would have a material adverse effect on Company's financial condition.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2017, and the results of its operations for the five-year period under examination, are reflected in the following statements\*:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus; and
- Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.



# Apollo Mutual Fire Insurance Company

-7-

## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2017

	2017	2016	2015	2014	2013
Common stocks	\$ 996,142	\$ 888,386	\$ 822,744	\$ 751,848	\$ 550,983
Real estate	18,178	18,987	19,796	20,604	21,413
Cash, cash equivalents, and short term investments	3,155,908	3,098,970	3,008,350	3,024,026	3,186,325
Subtotals, cash and invested assets	4,170,228	4,006,343	3,850,890	3,796,478	3,758,701
Investment income due and accrued	17,512	16,805	15,643	15,775	13,107
Total	\$ 4,187,740	\$ 4,023,148	\$ 3,866,533	\$ 3,812,253	\$ 3,771,808
Losses	\$ 5,000	\$ 5,000	\$ 5,000	\$ 4,999	\$ 5,000
Other expenses	22,500	22,500	15,000	7,500	0
Unearned premiums	60,757	60,347	59,909	55,749	55,701
Total liabilities	88,257	87,847	79,909	68,248	60,701
Unassigned funds (surplus)	4,099,483	3,935,301	3,786,624	3,744,004	3,711,107
Surplus as regards policyholders	4,099,483	3,935,301	3,786,624	3,744,004	3,711,107
Totals	\$ 4,187,740	\$ 4,023,148	\$ 3,866,533	\$ 3,812,252	\$ 3,771,808

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**Apollo Mutual Fire Insurance Company**

-8-

**Comparative Statement of Income  
For the Year Ended December 31, 2017**

	<b>Underwriting Income</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Premiums earned	\$ 140,249	\$ 137,607	\$ 195,264	\$ 91,092	\$ 126,614
Deductions:					
Losses incurred	34,203	2,582	62,961	5,115	64,637
Other underwriting expenses incurred	121,349	122,775	115,258	142,001	95,874
Total underwriting deductions	155,552	125,357	178,219	147,116	160,511
Net underwriting gain or (loss)	(15,303)	12,450	17,045	(56,024)	(33,897)
	<b>Investment Income</b>				
Net investment income earned	130,511	95,402	125,640	118,514	124,278
Net realized capital gains or (losses)	0	0	(13,918)	480	(16,301)
Net investment gain or (loss)	130,511	95,402	111,722	118,994	107,977
Net income before dividends to policyholders and before federal and foreign income taxes	115,208	107,852	128,767	62,950	74,080
Net income	\$ 115,208	\$ 107,852	\$ 128,767	\$ 62,950	\$ 74,080

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**Apollo Mutual Fire Insurance Company**

-9-

**Comparative Statement of Capital and Surplus  
For the Year Ended December 31, 2017**

	2017	2016	2015	2014	2013
Surplus as regards policyholders, December 31, previous year	\$ 3,935,301	\$ 3,786,623	\$ 3,744,003	\$ 3,711,106	\$ 3,623,143
Net income	115,208	107,852	128,767	62,950	74,060
Net unrealized capital gains or (losses)	48,974	40,826	(86,148)	(30,053)	13,863
Change in provision for reinsurance	0	0	1	0	0
Change in surplus as regards policyholder for the year	164,182	148,678	42,620	32,897	87,963
Surplus as regards policyholders, December 31, current year	\$ 4,099,483	\$ 3,935,301	\$ 3,786,623	\$ 3,744,003	\$ 3,711,106

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**Apollo Mutual Fire Insurance Company**

-10-

**Comparative Statement of Cash Flow  
For the Year Ended December 31, 2017**

	2017	2016	2015	2014	2013
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 140,661	\$ 138,245	\$ 199,424	\$ 91,140	\$ 125,027
Net investment income	130,613	95,049	126,580	116,655	135,645
<b>Total income</b>	<b>271,274</b>	<b>233,294</b>	<b>326,004</b>	<b>207,795</b>	<b>260,672</b>
Benefit and loss related payments	34,203	2,583	62,961	5,115	64,637
Commissions, expenses paid and aggregate write-ins for deductions	121,349	115,275	107,758	134,501	95,877
<b>Total deductions</b>	<b>155,552</b>	<b>117,858</b>	<b>170,719</b>	<b>139,816</b>	<b>160,514</b>
<b>Net cash from operations</b>	<b>115,722</b>	<b>115,436</b>	<b>155,285</b>	<b>68,179</b>	<b>100,158</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	(1)	0	1	0	580,463
Stocks	0	0	491,457	32,161	41,430
<b>Total investment proceeds</b>	<b>(1)</b>	<b>0</b>	<b>491,458</b>	<b>32,161</b>	<b>621,893</b>
Cost of investments acquired (long-term only):					
Bonds	0	0	0	0	49,339
Stocks	58,782	24,817	662,418	262,639	583,847
<b>Total investments acquired</b>	<b>58,782</b>	<b>24,817</b>	<b>662,418</b>	<b>262,639</b>	<b>633,186</b>
<b>Net cash from investments</b>	<b>(58,783)</b>	<b>(24,817)</b>	<b>(170,960)</b>	<b>(230,478)</b>	<b>(11,293)</b>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	56,939	90,619	(15,675)	(162,299)	88,865
Cash and short-term investments:					
Beginning of the year	3,098,971	3,008,352	3,024,027	3,186,326	3,097,461
<b>End of the year</b>	<b>\$ 3,155,910</b>	<b>\$ 3,098,971</b>	<b>\$ 3,008,352</b>	<b>\$ 3,024,027</b>	<b>\$ 3,186,326</b>

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**SUMMARY OF EXAMINATION CHANGES**

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

**NOTES TO FINANCIAL STATEMENTS**

**ASSETS**

**INVESTMENTS**

As of December 31, 2017, the Company’s invested assets were distributed as follows:

	Amount	Percentage
Common stocks	996,142	23.9 %
Real estate	18,178	0.4 %
Cash	3,155,910	75.7 %
Short-term investments	(2)	0.0 %
Totals	<u>\$ 4,170,228</u>	<u>100.0 %</u>

The Company’s bond and short-term investments were not properly reported on its annual statement in accordance with NAIC *Annual Statement Instructions – Property and Casualty* (“Instructions”). Specifically, and in addition, SSAP No. 26 requires that all long-term Certificates of Deposit shall be reported on Schedule D – Part 1 of the Annual Statement.

***It is recommended that the Company report its long-term Certificates of Deposit on Schedule D – Part 1 in accordance with SSAP No. 26 and the Annual Statement Instructions.***

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy at December 31, 2017. In reviewing the investment policy for compliance with relevant statutes, it was noted the Company did not include an Other Than Temporary Impairment (“OTTI”) Policy. An OTTI policy is required by the Department under 40 P.S. § 653b(b), which states “the investment plan, **and such other information** as the Insurance Department may require in order to determine the impact of the investment plan on the solvency of the Company, shall be made available to the Insurance Department during the course of a financial examination.”

***It is recommended that the Company incorporate an Other Than Temporary Impairment policy in its investment policy.***

In the course of reviewing the recommendations of the prior examination it was noted the Company continues to maintain invested assets that are not held by and with a valid custodian in accordance with all the requirements of 31 Pa. Code § 148a.3. Invested assets not held in compliance with 31 Pa. Code § 148a.2 may be designated as non-admitted assets.

*It is recommended that the Company comply with 31 Pa. Code § 148a.2 regarding permissible methods of holding securities for all invested assets and the other provisions of 31 Pa. Code § 148a.3 including execution of a custodial agreement with a qualified custodian.*

## **LIABILITIES**

### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company reported net reserves of \$5,000 for losses and \$0 for loss adjustment expenses (“LAE”) on its December 31, 2017 Annual Statement. This amount consisted entirely of an IBNR reserve as there were no open claims as of December 31, 2017.

For each year during the examination period, the Company was exempt from the requirement to file a Statement of Actuarial Opinion on the adequacy of its loss reserves as provided in the Instructions. This exemption was granted annually to the Company in correspondence received from the Department.

Based on the procedures performed and the results obtained, the examination staff obtained sufficient documentation to support the conclusion that the Company’s carried loss and LAE reserve amounts are reasonably stated as of December 31, 2017.

### **SUBSEQUENT EVENTS**

The Company is in the process of finalizing a custodial agreement with Elderton State Bank, a qualified custodian located in Elderton, Pennsylvania. The Company’s Board of Directors is scheduled to review and approve the agreement at its meeting in January 2020.

There were no other significant transactions that transpired subsequent to the examination date, through the date of this report.

### **RECOMMENDATIONS**

#### **PRIOR EXAMINATION**

The prior examination report contained the following recommendations:

1. It is recommended that the Company explore the options of obtaining catastrophic coverage from a licensed reinsurer.

*The Company did not comply with this recommendation.*

2. It is recommended that the Company have in place a proper custodial agreement or hold their long-term bonds by definitive certificate. This is in violation of Pa. Code 31 § 148a.2.

*The Company did not comply with this recommendation.*

**CURRENT EXAMINATION**

As a result of the current examination, the following recommendations are being made:

1. *It is recommended that the Company explore the option of additional coverage from a licensed reinsurer to address its significant geographic and capacity risk exposures.* (See “Reinsurance”, page 4”)
2. *It is recommended that the Company report its long-term Certificates of Deposit on Schedule D – Part 1 in accordance with SSAP No. 26 and the Annual Statement Instructions.* (See “Investments”, page 11)
3. *It is recommended that the Company incorporate an Other Than Temporary Impairment policy in its investment policy.* (See “Investments”, page 11)
4. *It is recommended that the Company comply with 31 Pa. Code § 148a.2 regarding permissible methods of holding securities for all invested assets and the other provisions of 31 Pa. Code § 148a.3 including execution of a custodial agreement with a qualified custodian.* (See “Investments”, page 11)

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# Apollo Mutual Fire Insurance Company

-14-

## CONCLUSION

As a result of this examination, the financial condition of Apollo Mutual Fire Insurance Company, as of December 31, 2017, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 4,187,740	100.0 %
Liabilities	\$ 88,257	2.1 %
Surplus as regards policyholders	4,099,483	97.9 %
Total liabilities and surplus	\$ 4,187,740	100.0 %

Since the previous examination, made as of December 31, 2012, the Company's assets increased by \$502,306, its liabilities increased by \$25,967, and its surplus increased by \$476,339.

This examination was conducted by Robert W. Smith, CFE.

Respectfully,

Melissa L. Greiner  
Director  
Bureau of Financial Examinations

Philip M. Judge, CFE  
Examination Manager

Robert W. Smith, CFE  
Examiner-in-Charge