

Examination Warrant Number 21-00000-16888-R1

**Report of Examination of
Bedford Grange Mutual Insurance Company
Bedford, Pennsylvania**

As of December 31, 2021

For Informational Purposes Only

Bedford Grange Mutual Insurance Company

TABLE OF CONTENTS

Subject	Page
Salutation	1
Scope of Examination	1
History	2
Management and Control:	
Surplus Requirements	2
Insurance Holding Company System	2
Board of Directors	3
Committees	4
Officers	4
Corporate Records:	
Minutes	5
Articles of Incorporation	5
By-Laws	5
Service and Operating Agreements	5
Reinsurance:	
Ceded	6
Assumed	9
Territory and Plan of Operation	9
Significant Operating Ratios and Trends	10
Pending Litigation	10
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds	12
Comparative Statement of Income	13
Comparative Statement of Capital and Surplus	14
Comparative Statement of Cash Flow	15
Summary of Examination Changes	16
Notes to Financial Statements:	
Assets:	
Investments	16
Liabilities:	
Loss and Loss Adjustment Expense Reserves	17
Subsequent Events	18
Recommendations:	
Prior Examination	18
Current Examination	18
Conclusion	19

Harrisburg, Pennsylvania
November 30, 2023

Honorable Diana L. Sherman, CPA, CFE (Fraud), CISA, CITP
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 21-00000-16888-R1, dated August 9, 2021, an examination was made of

Bedford Grange Mutual Insurance Company, NAIC Code: 16888

a Pennsylvania domiciled, single-state, property and casualty mutual insurance company hereinafter referred to as the “Company.” The Company’s home office is located at 477 West Pitt Street, Bedford, Pennsylvania. The examination was conducted remotely.

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, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021.

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. If, during the course of 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

Bedford Grange Mutual Insurance Company

-2-

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

For each year of the examination period, the certified public accounting firm of Ritchey, Ritchey & Koontz (“CPA”) provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was incorporated on January 21, 1909, licensed by the Department on January 21, 1909, and commenced business about the same date.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382(b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (c)(2) Accident and Health, (c)(3) Glass, (c)(4) Other Liability, (c)(6) Burglary and Theft, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, and (c)(13) Personal Property Floater.

During review of the Company’s authorized lines of business, it was determined that the Company should be authorized to transact the class of insurance described in 40 P.S. § 382(c)(5) Boiler and Machinery.

It is recommended that the Company file with the Department’s Company Licensing Division a request to increase its underwriting authority to include 40 P.S. § 382(c)(5) Boiler and Machinery.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

As of December 31, 2021, the Company’s total net worth consisted of \$9,446,494 in unassigned funds (surplus).

The Company’s minimum surplus requirement to conduct the business described above, pursuant to 40 P.S. § 386 is \$950,000 in minimum surplus. The Company has met all governing surplus requirements throughout the examination period.

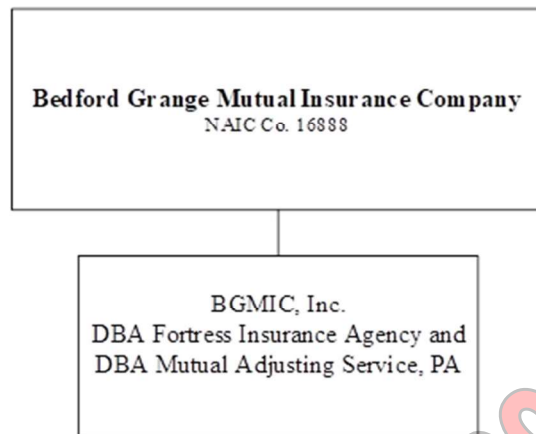
INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system annual registration statement (“Annual Registration Statement”), in accordance with 40 P.S. § 991.1404. For each year of the examination period, the Company filed the required Annual Registration Statement by March 31.

Bedford Grange Mutual Insurance Company

-3-

Members of the Holding Company System include the following entities depicted in the organizational chart and described below:



The Company is owned by its policyholders, and is not controlled by another person. The Company is its ultimate controlling person of its holding company system.

The Company directly owns 100% of BGMIC, Inc., a business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania. BGMIC, Inc. operates as an insurance agency doing business as (“DBA”) Fortress Insurance Agency (“Fortress”) and provides inspection and adjusting services DBA Mutual Adjusting Service, PA (“MAS”). Fortress and MAS are registered fictitious names of BGMIC, Inc. with the Pennsylvania Department of State.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors (“Board”), which was comprised of the following members as of December 31, 2021:

Name and Address

Rick B. Barefoot
Alum Bank, Pennsylvania
Richard J. Barkley
Manns Choice, Pennsylvania
Troy M. Campbell
Duncansville, Pennsylvania
H. Eugene Garner
James Creek, Pennsylvania
Jessica L. Grubb
Bedford, Pennsylvania

Principal Occupation

Trucking Company Executive
H. Fred Barefoot Trucking, Inc.
Retired
Banker
Altoona First Savings Bank
Retired
Office Manager
Key State Ag Transport, LLC

Bedford Grange Mutual Insurance Company

-4-

Kevin R. Grubb
New Enterprise, Pennsylvania

Keith L. Leppert
Alum Bank, Pennsylvania

Anthony R. Madoskey
Windber, Pennsylvania

Brian K. Patterson
Jackson Center, Pennsylvania

Vondalee G. Swanson
Kersey, Pennsylvania

Randall K. Yon
Duncansville, Pennsylvania

Calvin L. Zook
Martinsburg, Pennsylvania

Owner/Operator
Key State Ag Transport, LLC and
Key State Ag Service, LLC

Airline Pilot and Owner
Flight Options, LLC

Treasurer
Bedford Grange Mutual Insurance Company

Insurance Agent
Brian Patterson Insurance Agency

Retired

Real Estate Broker and Appraiser
Clyde E. Yon & Associates, Inc.

Retired

The members of the Company's Board are divided into three classes and each member shall serve for a term of three years.

COMMITTEES

As of December 31, 2021, the following committees were appointed by the Board and serving in accordance with the Company's By-laws:

Audit Committee

Randall K. Yon, Chairman
Jessica L. Grubb
Troy M. Campbell
Brian K. Patterson

Planning & Risk Management Committee

Calvin L. Zook, Chairman
Rick B. Barefoot
Donna Brick
Keith L. Leppert
Tina L. Russell

OFFICERS

As of December 31, 2021, the following officers were appointed and serving in accordance with the Company's By-laws:

Name

Rick B. Barefoot
Anthony R. Madoskey
Tina L. Russell

Title

President
Treasurer
Secretary

CORPORATE RECORDS

MINUTES

A compliance review of the Company's corporate Minutes revealed the following:

- The Annual Meetings of the Company's policyholders were held in compliance with the Company's By-laws.
- The Company's policyholders elected directors at such meetings in compliance with the Company's By-laws.
- Quorums were present at all Board meetings.
- All directors attend Board meetings regularly.

Pursuant to 40 P.S. § 653b(a), no investment or loan or an investment practice shall be made or engaged in by any domestic company unless the same has been authorized or ratified by the Board or by a committee of the Board charged with the duty of supervising investments.

During review of corporate records, it was determined that the Company does not have a Board committee charged with the duty of supervising investments and that the Company's Board did not authorize or ratify the Company's investments.

It is recommended that the Company's Board, or a committee thereof charged with the duty of supervising investments, authorize or ratify the Company's investment transactions on at least an annual basis, and document such authorization or ratification within the Board's or committee's Minutes.

ARTICLES OF INCORPORATION

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

BY-LAWS

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

SERVICE AND OPERATING AGREEMENTS

The Company is party to affiliated service and operating agreements. The following significant agreements were in place during the examination period:

Affiliated Management and Rental Agreement

Effective October 13, 2013, the Company entered into a service agreement with its affiliate, BGMIC, Inc., whereby the Company provides management services and office space to BGMIC, Inc. For 2021, the Company received \$24,000 for management services and \$13,200 for rental fees from BGMIC, Inc.

Bedford Grange Mutual Insurance Company

-6-

Affiliated Producer Agreement

Effective June 14, 2001, the Company entered into an Agency Agreement with BGMIC, Inc. DBA Fortress, whereby Fortress has power and authority to receive and accept proposals for insurance covering such classes of risks that the Company authorizes.

Affiliated Claim Adjusting Services

During review of affiliated transactions, it was determined that BGMIC, Inc. DBA MAS provides claim adjusting services to the Company for payment. Pursuant to NAIC *Statements of Statutory Accounting Principles* (“SSAP”) No. 25 – *Affiliates and Other Related Parties*, Paragraph 8, transactions between related parties must be in the form of a written agreement. In addition, service agreements between affiliates are subject to prior notice to the Department and other requirements of 40 P.S. § 991.1405(a)(2)(v) and 31 Pa. Code § 25.21.

The Company does not have a written agreement in place for the adjusting services provided to the Company by its affiliate, BGMIC, Inc. DBA MAS.

It is recommended that the Company enter into a written service agreement with BGMIC, Inc. DBA MAS for the claim adjusting services. In addition, it is recommended that the Company file for prior approval of the service agreement pursuant to the requirements of 40 P.S. § 991.1405(a)(2)(v) and 31 Pa. Code § 25.21.

REINSURANCE

The Company’s reinsurance program consists of excess of loss and pro rata contracts written on a treaty or facultative basis. The coverages were either procured through the Company’s reinsurance intermediary, Guy Carpenter & Company, LLC (“Guy Carpenter”) or directly negotiated by the Company.

Guy Carpenter is licensed by the Department as required by 40 P.S. § 321.2(a). The Company has a properly executed written agreement with Guy Carpenter in accordance with 40 P.S. § 321.3.

CEDED

The Company’s ceded premium for 2021 was \$1,887,164 which is approximately 20% of its surplus. The Company’s net amounts recoverable from reinsurers for 2021 was \$93,238. As of December 31, 2021, the Company did not have outstanding due recoverables from reinsurers.

A description of the reinsurance contracts in effect with various unaffiliated reinsurers as of December 31, 2021 is provided below:

Multi Line Excess of Loss Reinsurance

Effective January 1, 2021, the Company entered into a Property and Casualty Combination Excess of Loss Reinsurance Contract with the subscribing reinsurers listed below. The term of the contract is for one year.

Bedford Grange Mutual Insurance Company

-7-

Subscribing Reinsurers

	<u>Reinsurance Percentage</u>
American Agricultural Insurance Company	18.50%
Aspen Insurance UK Limited	2.50%
Employers Mutual Casualty Company	20.00%
Farmers Mutual Hail Insurance Company of Iowa	8.75%
Hannover Rück SE	7.50%
Partner Reinsurance Company of the US	3.00%
Renaissance Reinsurance U.S. Inc.	20.08%
Swiss Reinsurance America Corporation	18.50%
The Toa Reinsurance Company of America	1.17%

The Company's net retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$100,000 each loss, each risk	\$400,000 each loss, each risk	Property
	\$800,000 each loss occurrence	
\$75,000 each loss occurrence	\$925,000 each loss occurrence	Casualty
\$75,000 each loss occurrence	\$100,000 each loss occurrence	Property and Casualty Combined (Basket Retention)

Casualty Excess of Loss Reinsurance

Effective January 1, 2021, the Company entered into a Casualty Excess of Loss Reinsurance Contract with the subscribing reinsurers listed under Multi Line Excess of Loss Reinsurance. The term of the contract is for one year.

The Company's net retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$1,000,000 each loss occurrence	\$1,000,000 each loss occurrence	Casualty

Aggregate Excess of Loss Reinsurance

Effective January 1, 2021, the Company entered into an Aggregate Excess of Loss Reinsurance Contract with the subscribing reinsurers listed under Multi Line Excess of Loss Reinsurance. The term of the contract is for one year.

The Company's net retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$100,000 per risk Property	100% in excess of loss of	Property and Casualty
\$75,000 per loss occurrence Casualty	62.5% of net earned premium	

Bedford Grange Mutual Insurance Company

-8-

Property Facultative Pro Rata Reinsurance

Effective January 1, 2021, the Company entered into a Property Facultative Pro Rata Reinsurance Contract with the subscribing reinsurers listed under Multi Line Excess of Loss Reinsurance. The term of the contract is for one year.

The Company's net retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$5,000 minimum	\$1,500,000 maximum per risk	Property

Umbrella Facultative Reinsurance

Effective January 1, 2021, the Company entered into a Umbrella Facultative Reinsurance Contract with the subscribing reinsurers listed below. The term of the contract is for one year.

<u>Subscribing Reinsurers</u>	<u>Reinsurance Percentage</u>
Aspen Insurance UK Limited	2.00%
Berkley Insurance Company	15.00%
Endurance Assurance Corporation	5.00%
Hannover Rück SE	10.00%
Markel Global Reinsurance Company	9.00%
Partner Reinsurance Company of the U.S.	2.50%
Swiss Reinsurance America Corporation	43.00%
The Toa Reinsurance Company of America	13.50%

The Company's net retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
5% share of each loss occurrence, each policy	95% share of each loss occurrence, each policy up to initial limit of \$1,000,000; 100% of each loss occurrence in excess of \$1,000,000 initial limit up to additional \$1,000,000 each loss occurrence, each policy \$10,000,000 annual aggregate limit for all Acts of Terrorism	Personal, Farm, and Commercial Umbrella Liability

Casualty Excess of Loss Facultative Reinsurance

Effective January 1, 2021, the Company entered into a Casualty Excess of Loss Facultative Reinsurance Contract with the subscribing reinsurers listed under Umbrella Facultative Reinsurance. The term of the contract is for one year.

The Company's net retention and the reinsurance limits are as follows:

Bedford Grange Mutual Insurance Company

-9-

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$1,000,000	\$1,000,000 each loss occurrence, each policy	Comprehensive Personal Liability; Farmowners Comprehensive Personal Liability; Commercial General Liability; and Farmowners Commercial General Liability
	\$2,000,000 aggregate limit for all Acts of Terrorism	

Multi Line Reinsurance Agreement

Effective January 1, 2016, the Company entered into a Home Field Advantage Program Multiple Line Reinsurance Agreement with The Hartford Steam Boiler Inspection and Insurance Company. The term of the agreement is of unlimited duration until terminated.

The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$0	\$5,000,000 per accident, per policy	Business equipment breakdown
	\$50,000 each act, each policy	Employment Practices Liability

All reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, all contracts transfer risk as outlined in NAIC SSAP No. 62R.

ASSUMED

The Company did not assume any business during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company writes primarily fire, farmowners, and homeowners insurance throughout Pennsylvania and offers its products primarily through a network of independent insurance agents.

The following table displays the Company's total written premium by line of business as of December 31, 2021:

Bedford Grange Mutual Insurance Company

-10-

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2021				
Fire	\$ 1,264,254	\$ 188,310	\$ 1,075,944	19.0%
Allied lines	367,794	54,901	312,893	5.5%
Farmowners multiple peril	1,260,327	364,105	896,222	15.8%
Homeowners multiple peril	3,901,244	843,362	3,057,882	54.0%
Inland marine	12,975	1,796	11,179	0.2%
Other liability - occurrence	330,908	48,647	282,261	5.0%
Boiler and machinery	413,646	386,043	27,603	0.5%
Totals	<u>\$ 7,551,148</u>	<u>\$ 1,887,164</u>	<u>\$ 5,663,984</u>	<u>100.0%</u>

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	<u>\$ 26,884,892</u>	<u>100.0 %</u>
Losses incurred	9,608,067	35.7 %
Loss expenses incurred	2,154,093	8.0 %
Other underwriting expenses incurred	13,742,325	51.1 %
Net underwriting gain or (loss)	1,380,407	5.2 %
Totals	<u>\$ 26,884,892</u>	<u>100.0 %</u>

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

	2021	2020	2019	2018	2017
Admitted assets	\$ 15,323,166	\$ 14,158,430	\$ 13,225,488	\$ 11,985,904	\$ 11,755,851
Liabilities	\$ 5,876,672	\$ 5,601,358	\$ 5,196,390	\$ 4,934,288	\$ 5,173,464
Surplus as regards policyholders	\$ 9,446,494	\$ 8,557,072	\$ 8,029,098	\$ 7,051,616	\$ 6,582,387
Gross premium written	\$ 7,551,148	\$ 7,340,025	\$ 7,267,723	\$ 7,126,534	\$ 6,949,564
Net premium written	\$ 5,663,984	\$ 5,543,095	\$ 5,475,448	\$ 5,334,365	\$ 5,230,768
Underwriting gain/(loss)	\$ (223,408)	\$ (125,888)	\$ (295,265)	\$ 616,474	\$ 1,408,494
Investment gain/(loss)	\$ 297,615	\$ 564,512	\$ 246,295	\$ 354,965	\$ 247,430
Other gain/(loss)	\$ 135,657	\$ 139,530	\$ 142,090	\$ 142,452	\$ 142,414
Net income	\$ 209,533	\$ 525,654	\$ 93,045	\$ 947,538	\$ 1,281,488

PENDING LITIGATION

As of the date of this examination report, Company Management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2021, 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 differences.

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Bedford Grange Mutual Insurance Company

-12-

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

	2021	2020	2019	2018	2017
Bonds	\$ 4,368,697	\$ 4,316,316	\$ 4,525,755	\$ 4,351,445	\$ 4,253,874
Common stocks	7,813,941	6,911,295	6,254,899	5,409,247	5,082,703
Real estate	63,279	70,903	82,041	94,804	107,596
Cash, cash equivalents, and short term investments	1,767,148	1,771,486	1,312,589	909,312	1,258,550
Subtotals, cash and invested assets	14,013,066	13,069,999	12,175,284	10,764,807	10,702,724
Premiums and agents' balances due	1,118,455	986,008	1,013,974	1,057,708	997,608
Amounts recoverable from reinsurers	93,238	99,453	23,656	132,363	798
Current federal and foreign income tax recoverable and interest thereon	95,917	0	4,100	13,800	0
Electronic data processing equipment and software	2,490	2,970	8,474	14,781	22,212
Aggregate write-ins for other than invested assets	0	0	0	2,445	32,509
Total	\$ 15,323,166	\$ 14,158,430	\$ 13,225,488	\$ 11,985,904	\$ 11,755,851
Losses	\$ 825,349	\$ 938,639	\$ 767,892	\$ 735,621	\$ 633,709
Loss adjustment expenses	250,802	215,888	182,563	178,623	167,731
Commissions payable, contingent commissions and other similar charges	338,085	361,710	384,154	385,091	391,365
Other expenses	56,178	44,178	32,178	23,147	53,748
Taxes, licenses and fees	29,914	29,192	39,188	59,896	56,043
Current federal and foreign income taxes	0	78,800	0	0	347,170
Net deferred tax liability	522,979	336,858	238,870	1,034	124,519
Unearned premiums	3,540,276	3,396,603	3,358,204	3,308,153	3,253,038
Advance premium	168,610	116,810	121,507	213,317	117,932
Ceded reinsurance premiums payable (net of ceding commissions)	140,860	77,765	71,008	28,838	26,973
Amounts withheld or retained by company for account of others	3,619	4,915	826	568	1,236
Total liabilities	5,876,672	5,601,358	5,196,390	4,934,288	5,173,464
Unassigned funds (surplus)	9,446,494	8,557,072	8,029,098	7,051,616	6,582,387
Surplus as regards policyholders	9,446,494	8,557,072	8,029,098	7,051,616	6,582,387
Totals	\$ 15,323,166	\$ 14,158,430	\$ 13,225,488	\$ 11,985,904	\$ 11,755,851

For Informational Purposes Only

Bedford Grange Mutual Insurance Company

-13-

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

Underwriting Income	2021	2020	2019	2018	2017
Premiums earned	\$ 5,520,311	\$ 5,504,696	\$ 5,425,397	\$ 5,279,250	\$ 5,155,238
Deductions:					
Losses incurred	1,839,343	2,437,965	2,764,221	1,703,664	862,874
Loss expenses incurred	566,811	509,263	386,478	381,389	310,152
Other underwriting expenses incurred	3,337,565	2,683,356	2,569,963	2,577,723	2,573,718
Total underwriting deductions	<u>5,743,719</u>	<u>5,630,584</u>	<u>5,720,662</u>	<u>4,662,776</u>	<u>3,746,744</u>
Net underwriting gain or (loss)	<u>(223,408)</u>	<u>(125,888)</u>	<u>(295,265)</u>	<u>616,474</u>	<u>1,408,494</u>
Investment Income					
Net investment income earned	212,774	450,142	209,953	175,610	88,875
Net realized capital gains or (losses)	84,841	114,370	36,342	179,355	158,555
Net investment gain or (loss)	<u>297,615</u>	<u>564,512</u>	<u>246,295</u>	<u>354,965</u>	<u>247,430</u>
Other Income					
Finance and service charges not included in premiums	111,708	114,807	116,682	117,852	117,639
Aggregate write-ins for miscellaneous income	23,949	24,723	25,408	24,600	24,775
Total other income	<u>135,657</u>	<u>139,530</u>	<u>142,090</u>	<u>142,452</u>	<u>142,414</u>
Net income before dividends to policyholders and before federal and foreign income taxes	209,864	578,154	93,120	1,113,891	1,798,338
Federal and foreign income taxes incurred	331	52,600	75	166,353	516,850
Net income	<u>\$ 209,533</u>	<u>\$ 525,654</u>	<u>\$ 93,045</u>	<u>\$ 947,538</u>	<u>\$ 1,281,488</u>

For Informational Purposes Only

Bedford Grange Mutual Insurance Company

-14-

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

	2021	2020	2019	2018	2017
Surplus as regards policyholders,					
December 31, previous year	\$ 8,557,072	\$ 8,029,098	\$ 7,051,616	\$ 6,582,387	\$ 5,060,563
Net income	209,533	525,654	93,045	947,538	1,281,488
Net unrealized capital gains or (losses)	479,647	387,642	880,938	(503,319)	325,086
Change in net deferred income tax	(16,361)	5,055	(3,662)	(20,321)	(106,391)
Change in nonadmitted assets	137,803	(390,377)	7,161	45,331	21,641
Aggregate write-ins for gains and losses in surplus	78,800	0	0	0	0
Change in surplus as regards policyholder for the year	889,422	527,974	977,482	469,229	1,521,824
Surplus as regards policyholders,					
December 31, current year	\$ 9,446,494	\$ 8,557,072	\$ 8,029,098	\$ 7,051,616	\$ 6,582,387

For Informational Purposes Only

Bedford Grange Mutual Insurance Company

-15-

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

	2021	2020	2019	2018	2017
Cash from Operations					
Premiums collected net of reinsurance	\$ 5,646,432	\$ 5,573,121	\$ 5,469,542	\$ 5,371,515	\$ 5,048,113
Net investment income	220,396	461,281	222,716	188,401	120,671
Miscellaneous income	135,657	139,530	142,090	142,452	142,414
Total income	6,002,485	6,173,932	5,834,348	5,702,368	5,311,198
Benefit and loss related payments	1,946,418	2,343,015	2,623,243	1,733,317	841,167
Commissions, expenses paid and aggregate write-ins for deductions	3,880,365	3,179,734	2,965,115	2,981,242	2,891,957
Federal and foreign income taxes paid (recovered)	164,215	0	0	575,000	294,500
Total deductions	5,990,998	5,522,749	5,588,358	5,289,559	4,027,624
Net cash from operations	11,487	651,183	245,990	412,809	1,283,574
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	0	440,690	0	0	2,343,001
Stocks	1,113,576	2,737,063	3,020,673	5,355,759	4,239,436
Total investment proceeds	1,113,576	3,177,753	3,020,673	5,355,759	6,582,437
Cost of investments acquired (long-term only):					
Bonds	0	0	0	234,570	15,373
Stocks	1,345,188	2,989,255	2,879,554	5,965,395	8,264,867
Real estate	0	0	0	0	66,012
Total investments acquired	1,345,188	2,989,255	2,879,554	6,199,965	8,346,252
Net cash from investments	(231,612)	188,498	141,119	(844,206)	(1,763,815)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	215,787	(380,784)	16,168	82,159	(3,943)
Net cash from financing and miscellaneous sources	215,787	(380,784)	16,168	82,159	(3,943)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(4,338)	458,897	403,277	(349,238)	(484,184)
Cash and short-term investments:					
Beginning of the year	1,771,486	1,312,589	909,312	1,258,550	1,742,734
End of the year	\$ 1,767,148	\$ 1,771,486	\$ 1,312,589	\$ 909,312	\$ 1,258,550

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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, 2021, the Company’s invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 4,368,697	31.2 %
Common stocks	7,813,941	55.8 %
Real estate	63,279	0.5 %
Cash	1,767,148	12.5 %
Totals	<u>\$ 14,013,066</u>	<u>100.0 %</u>

The Company’s bond investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 4,368,697	100.0 %
Totals	<u>\$ 4,368,697</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
no maturity	4,368,697	100.0 %
Totals	<u>\$ 4,368,697</u>	<u>100.0 %</u>

The Company’s investment portfolio contains a mix of asset classes with the majority of investments in common stocks, representing approximately 55.8% of its total invested assets, and 82.7% of surplus. Approximately 43.6% of total invested assets are held in bonds, cash, and cash equivalents.

The Company’s common stock holdings include stock of its affiliate, BGMIC, Inc., that is valued on a generally accepted accounting principles (“GAAP”) equity basis. The investment in BGMIC, Inc. represents about 10.0% of total invested assets.

The real estate owned by the Company is property occupied by the Company, and represents about 0.5% of total invested assets.

Bedford Grange Mutual Insurance Company

-17-

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.

During review of the investment policy, it was determined that the Company was not following its investment policy, as the investment policy named an investment committee with the duty of oversight of investments. The Company does not have an investment committee, and oversight of investments is the duty of the full Board.

It is recommended that the Company update its investment policy to reflect the Company's current operations as relates the oversight of investments.

The Company entered into a custodial agreement with SEI Private Trust Company and with Somerset Trust Company. During review of the custodial agreements, it was determined that the agreement with SEI Private Trust Company complies with the standards for custodial agreements pursuant to 31 Pa. Code § 148a.3 and that the agreement with Somerset Trust Company does not comply with the standards.

It is recommended that the Company enter into a custodial agreement with Somerset Trust Company that complies with the requirements of 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$825,349 for losses and \$250,802 for loss adjustment expenses ("LAE") on the December 31, 2021 Annual Statement.

For 2017 and 2018, the Company's appointed actuary was Joseph L. Petrelli, ACAS, ASA, MAAA, of Demotech, Inc. For 2019 through 2021, the Company's appointed actuary was Robert Daniel, FCAS, MAAA, of Merlinos & Associates, a Davies Company. For each year of the examination period, the Company received a Statement of Actuarial Opinion stating that the loss and LAE reserve amounts made a reasonable provision for all unpaid loss and LAE obligations of the Company.

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the Department's property and casualty actuarial examiner performed a risk-focused review of the Company's loss and LAE reserving processes.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company's carried loss and LAE reserve amounts are reasonably stated as of December 31, 2021.

SUBSEQUENT EVENTS

During 2022, Richard J. Barkley; Vondalee G. Swanson; and Anthony R. Madoskey, members of the Company's Board, passed away.

On December 14, 2022, Brian K. Patterson was appointed by the Board as the Company's Treasurer.

On March 15, 2023, the Company's policyholders appointed Amy Barfield as a member of the Company's Board and H. Eugene Garner as an emeritus member of the Company's Board.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

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

- 1. It is recommended that the Company file with the Department's Company Licensing Division a request to increase its underwriting authority to include 40 P.S. § 382(c)(5) Boiler and Machinery. (See "History," page 2)*
- 2. It is recommended that the Company's Board, or a committee thereof charged with the duty of supervising investments, authorize or ratify the Company's investment transactions on at least an annual basis, and document such authorization or ratification within the Board's or committee's Minutes. (See "Minutes," page 5)*
- 3. It is recommended that the Company enter into a written service agreement with BGMIC, Inc. DBA MAS for the claim adjusting services. In addition, it is recommended that the Company file for prior approval of the service agreement pursuant to the requirements of 40 P.S. § 991.1405(a)(2)(v) and 31 Pa. Code § 25.21. (See "Service and Operating Agreements," page 6)*
- 4. It is recommended that the Company update its investment policy to reflect the Company's current operations as relates the oversight of investments. (See "Investments," page 17)*
- 5. It is recommended that the Company enter into a custodial agreement with Somerset Trust Company that complies with the requirements of 31 Pa. Code § 148a.3. (See "Investments," page 17)*

Bedford Grange Mutual Insurance Company

-19-

CONCLUSION

As a result of this examination, the financial condition of Bedford Grange Mutual Insurance Company, as of December 31, 2021, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 15,323,166	100.0 %
Liabilities	\$ 5,876,672	38.4 %
Surplus as regards policyholders	9,446,494	61.6 %
Total liabilities and surplus	\$ 15,323,166	100.0 %

Since the previous examination, made as of December 31, 2016, the Company's assets increased \$5,228,829, its liabilities increased \$842,899, and its surplus increased by \$4,385,931.

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Bedford Grange Mutual Insurance Company

-20-

This examination was conducted by David M. Smith, CISA, CPDSE, AES, CFE; James Di Santo, and Jessica Fulton, CFE, with the latter in charge.

Respectfully submitted,

Shannon Hopkins
Shannon Hopkins (Nov 30, 2023 12:26 EST)

Shannon Hopkins, CFE
Acting Director
Bureau of Financial Examinations

Stephanie Ohnmacht

Stephanie Ohnmacht, CFE
Examination Manager

Jessica H. Fulton

Jessica Fulton, CFE
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.

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