

Examination Warrant Number 19-00000-27219-R1

Report of Examination of
Center Valley Mutual Fire Insurance Company
Kittanning, Pennsylvania
As of December 31, 2019

For Informational Purposes Only

Center Valley Mutual Fire Insurance Company

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Harrisburg, Pennsylvania
November 17, 2021

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 19-00000-27219-R1, dated July 15, 2019, an examination was made of

Center Valley Mutual Fire Insurance Company, NAIC Code: 27219

a Pennsylvania domiciled single-state, mutual insurance company hereinafter referred to as the “Company.”

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, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019.

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 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

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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 Company was exempt from filing an audited financial statement prepared by a certified public accountant by meeting the criteria outlined in 31 PA Code § 147.13(e).

HISTORY

The Company was incorporated and licensed by the Department on October 30, 1890 and commenced business on or 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.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

The Company's minimum net worth requirement to conduct the business described above, pursuant to 40 P.S. § 386 is \$50,000 in minimum net worth. 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 December 31, 2019:

| Name and Address | Principal Occupation |
|--|--|
| Eugene H. Everhart Kittanning, Pennsylvania | Retired |
| John C. Heilman Kittanning, Pennsylvania | Retired |
| Charlene S. Bundy Kittanning, Pennsylvania | Office Clerk ACAAA |
| Daniel E. Boback Kittanning, Pennsylvania | Sales Center Valley Mutual Fire Insurance Co. |

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| | |
|---|--|
| Mary L. Huston Ford City, Pennsylvania | Treasurer Center Valley Mutual Fire Insurance Co. |
| Vaughn J. Shoemaker Punksutawney, Pennsylvania | Equipment Operator Smith's Logging |
| Billy J. Porter Vandergrift, Pennsylvania | Farmer |
| Lori A. Boback Kittanning, Pennsylvania | Secretary Center Valley Mutual Fire Insurance Co. |
| Jennifer L. Tarr Adrian, Pennsylvania | Manager Center Valley Mutual Fire Insurance Co. |
| Michael C. Heilman Kittanning, Pennsylvania | Self-Employed |
| Shirley A. Wilson Worthington, Pennsylvania | Retired |

The by-laws of the Company provide that its directors are elected to a three-year term. The Board is to be comprised of nine to twelve members.

COMMITTEES

As of the December 31, 2019, there were no committees appointed by the Board.

OFFICERS

As of December 31, 2019, the following officers were appointed and serving in accordance with the Company's by-laws:

| Name | Title |
|--------------------|----------------|
| Eugene H. Everhart | President |
| Mary L. Huston | Treasurer |
| Lori A. Boback | Secretary |
| Shirley A. Wilson | Vice President |

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

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- 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.
- The policyholders ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's financial reports including the investment transactions are approved quarterly by the Board.

ARTICLES OF AGREEMENT

There were no changes to the Company's Articles of Agreement 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 not party to any service or operating agreements.

REINSURANCE

CEDED

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, 2019:

Center Valley Mutual Fire Insurance Company

Apollo 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 within 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, the contract transfers risk as required by the Statement of Statutory Accounting Principles ("SSAP") No. 62.

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ASSUMED

The only business assumed by the Company during the examination period is noted above under the "CEDED" section of this report.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed and writing business in Pennsylvania. All business is produced by members of the Company's Board and all policies are written on an assessable basis.

| Line of Business | Direct and Assumed Premium | Ceded Premium | Net Written Premium | Percentage of Total |
|--------------------------|----------------------------|------------------|---------------------|---------------------|
| December 31, 2019 | | | | |
| Fire | 146,335 | 59,537 | 86,798 | 80.0% |
| Allied lines | 36,581 | 14,884 | 21,697 | 20.0% |
| Totals | <u>\$ 182,916</u> | <u>\$ 74,421</u> | <u>\$ 108,495</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>633,571</u> | <u>100.0 %</u> |
| Losses incurred | <u>309,862</u> | <u>48.9 %</u> |
| Loss expenses incurred | 6,875 | 1.1 % |
| Other underwriting expenses incurred | 514,610 | 81.2 % |
| Net underwriting gain or (loss) | <u>(197,776)</u> | <u>(31.2)%</u> |
| Totals | <u>633,571</u> | <u>100.0 %</u> |

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Admitted assets | \$ 2,578,671 | \$ 2,657,681 | \$ 2,601,112 | \$ 2,547,136 | \$ 2,519,767 |
| Liabilities | \$ 101,583 | \$ 104,924 | \$ 100,717 | \$ 107,154 | \$ 109,116 |
| Surplus as regards policyholders | \$ 2,477,088 | \$ 2,552,767 | \$ 2,500,394 | \$ 2,439,982 | \$ 2,410,651 |
| Gross premium written | \$ 182,916 | \$ 186,935 | \$ 200,199 | \$ 230,570 | \$ 188,860 |
| Net premium written | \$ 108,495 | \$ 112,462 | \$ 125,327 | \$ 153,907 | \$ 111,610 |
| Underwriting gain/(loss) | \$ (141,234) | \$ (13,310) | \$ 8,727 | \$ (24,365) | \$ (27,594) |
| Investment gain/(loss) | \$ 65,190 | \$ 65,373 | \$ 51,335 | \$ 53,246 | \$ 45,218 |
| Other gain/(loss) | \$ 375 | \$ 300 | \$ 350 | \$ 450 | \$ 600 |
| Net income | \$ (75,669) | \$ 52,363 | \$ 60,412 | \$ 29,331 | \$ 18,224 |

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, 2019, 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.

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash, cash equivalents, and short term investments | \$ 2,559,754 | \$ 2,640,792 | \$ 2,584,074 | \$ 2,531,772 | \$ 2,487,876 |
| Subtotals, cash and invested assets | 2,559,754 | 2,640,792 | 2,584,074 | 2,531,772 | 2,487,876 |
| Investment income due and accrued | 18,917 | 16,889 | 17,038 | 15,364 | 13,605 |
| Amounts recoverable from reinsurers | 0 | 0 | 0 | 0 | 18,286 |
| Total | <u>\$ 2,578,671</u> | <u>\$ 2,657,681</u> | <u>\$ 2,601,112</u> | <u>\$ 2,547,136</u> | <u>\$ 2,519,767</u> |
| Losses | \$ 400 | \$ 400 | \$ 400 | \$ 400 | \$ 400 |
| Loss adjustment expenses | 100 | 100 | 100 | 100 | 100 |
| Other expenses | 18,000 | 16,000 | 12,000 | 12,512 | 16,100 |
| Taxes, licenses and fees | 4,500 | 7,781 | 4,500 | 4,500 | 4,500 |
| Unearned premiums | 78,583 | 80,643 | 83,718 | 89,642 | 88,016 |
| Total liabilities | <u>101,583</u> | <u>104,924</u> | <u>100,718</u> | <u>107,154</u> | <u>109,116</u> |
| Unassigned funds (surplus) | <u>2,477,088</u> | <u>2,552,767</u> | <u>2,500,394</u> | <u>2,439,982</u> | <u>2,410,651</u> |
| Surplus as regards policyholders | <u>2,477,088</u> | <u>2,552,767</u> | <u>2,500,394</u> | <u>2,439,982</u> | <u>2,410,651</u> |
| Totals | <u>\$ 2,578,671</u> | <u>\$ 2,657,691</u> | <u>\$ 2,601,112</u> | <u>\$ 2,547,136</u> | <u>\$ 2,519,767</u> |

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Comparative Statement of Income For the Year Ended December 31,

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------|------------|------------|------------|------------|
| Underwriting Income | | | | | |
| Premiums earned | \$ 110,558 | \$ 115,537 | \$ 131,251 | \$ 152,281 | \$ 123,944 |
| Deductions: | | | | | |
| Losses incurred | 131,468 | 31,548 | 20,854 | 85,631 | 40,361 |
| Loss expenses incurred | 700 | 1,350 | 1,360 | 1,010 | 2,455 |
| Other underwriting expenses incurred | 119,624 | 95,949 | 100,310 | 90,005 | 108,722 |
| Total underwriting deductions | 251,792 | 128,847 | 122,524 | 176,646 | 151,538 |
| Net underwriting gain or (loss) | (141,234) | (13,310) | 8,727 | (24,365) | (27,594) |
| Investment Income | | | | | |
| Net investment income earned | 65,190 | 65,373 | 51,335 | 53,246 | 45,218 |
| Net investment gain or (loss) | 65,190 | 65,373 | 51,335 | 53,246 | 45,218 |
| Other Income | | | | | |
| Finance and service charges not included in premiums | 375 | 300 | 350 | 450 | 600 |
| Total other income | 375 | 300 | 350 | 450 | 600 |
| Net income before dividends to policyholders and before federal and foreign income taxes | (75,669) | 52,363 | 60,412 | 29,331 | 18,224 |
| Net income | \$ (75,669) | \$ 52,363 | \$ 60,412 | \$ 29,331 | \$ 18,224 |

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------|--------------|--------------|--------------|--------------|
| Surplus as regards policyholders, | | | | | |
| December 31, previous year | \$ 2,552,756 | \$ 2,500,393 | \$ 2,439,981 | \$ 2,410,650 | \$ 2,392,426 |
| Net income | (75,669) | 52,363 | 60,412 | 29,331 | 18,224 |
| Change in surplus as regards policyholder for the year | (75,669) | 52,363 | 60,412 | 29,331 | 18,224 |
| Surplus as regards policyholders, | | | | | |
| December 31, current year | \$ 2,477,087 | \$ 2,552,756 | \$ 2,500,393 | \$ 2,439,981 | \$ 2,410,650 |

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|
| Cash from Operations | | | | | |
| Premiums collected net of reinsurance | \$ 108,498 | \$ 112,462 | \$ 125,327 | \$ 153,907 | \$ 111,610 |
| Net investment income | 63,162 | 65,522 | 49,661 | 51,487 | 43,728 |
| Miscellaneous income | 375 | 300 | 350 | 450 | 600 |
| Total income | 172,035 | 178,284 | 175,338 | 205,844 | 155,938 |
| Benefit and loss related payments | 132,168 | 32,898 | 22,214 | 68,355 | 50,074 |
| Commissions, expenses paid and aggregate write-ins for deductions | 120,905 | 88,668 | 100,822 | 93,593 | 104,722 |
| Total deductions | 253,073 | 121,566 | 123,036 | 161,948 | 154,796 |
| Net cash from operations | (81,038) | 56,718 | 52,302 | 43,896 | 1,142 |
| Reconciliation of cash and short-term investments: | | | | | |
| Net change in cash and short-term investments | (81,038) | 56,718 | 52,302 | 43,896 | 1,142 |
| Cash and short-term investments: | | | | | |
| Beginning of the year | 2,640,792 | 2,584,074 | 2,531,772 | 2,487,876 | 2,486,734 |
| End of the year | \$ 2,559,754 | \$ 2,640,792 | \$ 2,584,074 | \$ 2,531,772 | \$ 2,487,876 |

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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, 2019, the Company's invested assets were distributed as follows:

| | Amount | Percentage |
|--------|------------------|----------------|
| Cash | 2,559,754 | 100.0 % |
| Totals | <u>2,559,754</u> | <u>100.0 %</u> |

The Company's invested assets were distributed in certificates of deposit ("CDs") with various maturity dates. The Company also maintained savings and checking accounts.

During review of the Company's assets, it was noted that many of the Company's CDs with maturities greater than twelve months, were reported as cash on Schedule E, Part 1. SSAP 26, as well as the NAIC *Annual Statement Instructions – Property and Casualty* for the 2019 Reporting Year ("Annual Statement Instructions") require CDs with a maturity greater than twelve months at time of acquisition be reported on Schedule D - Part 1 of the Annual Statement.

It is recommended that the Company ensure all CDs with maturities greater than 12 months from the date of acquisition are correctly reported in accordance with SSAP 26 and the Annual Statement Instructions on Schedule D - Part 1.

It was also noted during the examiner's review of the Company's assets, that all of the Company's CDs are being held in a book entry system with its Investment Manager, Edward Jones, which is also a broker. Under Pa. Code § 148a.2, this is not a permissible method for an insurance company to hold its investments as Edward Jones does not meet the definition of a custodian according to 31 Pa. Code § 148a.1 and there is not a written custodial agreement executed meeting all requirements of 31 Pa. Code § 148a.3.

It is recommended that the Company comply with 31 Pa. Code § 148a.2 regarding permissible methods of holding securities for its invested assets including executing a compliant custodial agreement meeting all provisions of 31 Pa. Code § 148a.3 with a qualified custodian that meets the definition outlined in 31 Pa. Code 148a.1.

The Company appears to review its investment strategy annually as noted in the examiner's review of its Board minutes, however, the Company does not have a formal written investment policy. 40 P.S. § 653b(b), requires that a Company have a written investment plan

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that is reviewed and approved by its Board annually. The investment plan shall include, at a minimum, a description of the investment strategy of the Company designed to provide for liquidity and diversity of its investment portfolio.

It is recommended that the Company establish a formal investment plan in compliance with 40 P.S. § 653b(b). The plan should be reviewed and potentially updated annually.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$400 for losses and \$100 for loss adjustment expenses (“LAE”) on its December 31, 2019 Annual Statement.

For each year in the examination period, the Company was exempt from the requirement to file an actuarial opinion on the adequacy of its loss reserves as provided in the NAIC *Annual Statement Instructions – Property and Casualty*. 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 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, 2019.

SUBSEQUENT EVENTS

Director Shirley A. Wilson passed away on March 28, 2020.

During examination work, it was noted that the Company invested in an annuity which is not a permissible investment under 40 P.S. § 653c(a). The Company was advised by the Department to initiate a plan to liquidate this investment and to submit a written liquidation plan to the Department.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

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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.

The Company has complied 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 ensure all CDs with maturities greater than 12 months from the date of acquisition are correctly reported in accordance with SSAP 26 and the Annual Statement Instructions on Schedule D - Part 1 (see "Investments", page 11).*
2. *It is recommended that the Company comply with 31 Pa. Code § 148a.2 regarding permissible methods of holding securities for its invested assets including executing a compliant custodial agreement meeting all provisions of 31 Pa. Code § 148a.3 with a qualified custodian that meets the definition outlined in 31 Pa. Code 148a.1 (see "Investments", page 11).*
3. *It is recommended that the Company establish a formal investment plan in compliance with 40 P.S. § 653b(b). The plan should be reviewed and potentially updated annually (see "Investments", page 12).*

CONCLUSION

As a result of this examination, the financial condition of Center Valley Mutual Fire Insurance Company, as of December 31, 2019, was determined to be as follows:

| | Amount | Percentage |
|----------------------------------|-----------|------------|
| Admitted assets | 2,578,671 | 100.0 % |
| Liabilities | 101,583 | 3.9 % |
| Surplus as regards policyholders | 2,477,088 | 96.1 % |
| Total liabilities and surplus | 2,578,671 | 100.0 % |

Since the previous examination, made as of December 31, 2014, the Company's assets increased by \$68,794, its liabilities decreased by \$15,867, and its surplus increased by \$84,661.

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This examination was conducted by Jessica Fulton, CFE.

Respectfully submitted,



Matthew C. Milford, CFE
Director
Bureau of Financial Examinations



Shannon Hopkins (Nov 23, 2021 08:50 EST)

Shannon Hopkins, CFE
Examination Manager



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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