

Examination Warrant Number 11-00000-16969-R1

**Report of Examination of
Clearfield County Grange Mutual Fire Insurance
Company
Clearfield, PA**

As of December 31, 2011

For Informational Purposes Only

Clearfield County Grange Mutual Fire Insurance Company

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Harrisburg, Pennsylvania
November 18, 2013

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-00000-16969-R1, dated, February 25, 2011, an examination was made of

**Clearfield County Grange Mutual Fire Insurance Company, NAIC
Code: 16969**

a Pennsylvania domiciled mutual property and casualty company, hereinafter referred to as "Company." The examination was conducted at the Company's home office, located at 1214 South Second Street, Suite D, Clearfield, PA 16830.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006.

This examination covered the five-year period from January 1, 2007 through December 31, 2011, and consisted of a general survey of the Company's business practices, management and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

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

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

During the period under examination, the Certified Public Accounting ("CPA") firm of Fiore Fedeli Snyder Carothers, LLP provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles for each year ended 2009,

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2010 and 2011. The Company was granted an exemption from filing a CPA audit report for each year ended 2007 and 2008 by the Department. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was incorporated on September 7, 1910, licensed by the Department on August 29, 1910 and commenced business on September 10, 1910.

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) (4) Other Liability, (c)(6) Burglary and Theft and (c)(13) Personal Property Floater.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

The Company's minimum surplus requirement to conduct the aforescribed business, pursuant to 40 P.S. § 386.1 is \$350,000 in minimum surplus. The Company has met all governing surplus requirements throughout the examination period.

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, 2011:

Name and Address	Principal Occupation
Betsy Ann Guthrie Mineral Springs, PA	Office Secretary/Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Randall Lynn Guthrie Mineral Springs, PA	Secretary/Treasurer Clearfield County Grange Mutual Fire Insurance Company
Howard George Harkleroad Westover, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Joseph Howard Harkleroad Westover, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company

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George Walter Kurten Grampian, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Joseph Paul Lemmon Marion Center, PA	President/Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Dennis Joseph Marino West Decatur, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Arthur Paul Orcutt Rockton, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Barry Gene Peoples Clearfield, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Robert Clair Wrigglesworth Grampian, PA	Insurance Agent Clearfield County Grange Mutual Fire Insurance Company
Edith Jean Yarger Houtzdale, PA	Retired Insurance Agent

Directors are divided into classes, each serving terms of five (5) years. One to three directors are elected each year at the Annual Policyholders' meeting held the second Tuesday of March.

The Board of Directors appoints an Executive Committee, comprised of five (5) directors, to act on behalf of the full Board between the regular annual meetings of the Board.

The Executive Committee met monthly for all years under examination, reviewed the investment activities and reinsurance program of the Company, and met with the external auditor to discuss the annual audit.

The Executive Committee was acting in accordance with the Company's By-laws for all years under examination.

COMMITTEES

The Directors and/or Officers assigned to serve on the Executive Committee as of December 31, 2011 were:

Randall Lynn Guthrie
Joseph Paul Lemmon
Barry Gene Peoples

George Walter Kurten
Dennis Joseph Marino

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OFFICERS

As of the examination date, December 31, 2011, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Joseph Paul Lemmon	President/COO
Randall Lynn Guthrie	Treasurer/Secretary/CFO
George Walter Kurten	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.
- The Policyholders ratified the prior year's actions of the Officers and Directors.
- The Company's Officers were appointed at the Annual Organizational Meeting of the Board of Directors immediately following the Annual Policyholders' Meeting.
- Quorums were present at all meetings.
- The Company's investment transactions are approved by the Board/Executive Committee.
- The Company's reinsurance program changes and renewals were approved by the Board/Executive Committee.
- Directors attended Board/Executive Committee meetings regularly.

ARTICLES OF AGREEMENT

On or about March 13, 1984, the Company submitted a Certificate of Amendment and Restatement of its Articles of Agreement, which states under Article VIII that "the number of Directors shall consist of fifteen (15) members". However, the Company's By-laws state under Article IV, Section 1, that "the affairs of this Company shall be managed by a Board of Directors consisting of no less than seven (7) or more than fifteen (15) members". Accordingly, this discrepancy between the Company's Articles of Agreement and its By-laws describing the required number of directors must be reconciled.

A recommendation was included in the prior examination for the Company to either amend its Articles of Agreement or its By-laws in order for these documents to be in agreement as regards the proper number of members on its Board of Directors.

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The Company's March 11, 2008 Board of Director meeting minutes included an approval to amend the Company's Articles of Agreement stating "the affairs of this company shall be managed by a Board of Directors consisting of no less than 7 or more than 15 members" to comply with the Company's By-laws as regards the number of members on its Board of Directors.

The proposed amendment was included in the meeting minutes but was not filed with the Pennsylvania Department of State.

It is recommended that the Company file its approved amended Articles of Agreement with the Pennsylvania Department of State as required by 15 Pa. Code § 1916 and with the Department.

BY-LAWS

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

SERVICE AND OPERATING AGREEMENTS

The Company did not have service and operating agreements during the examination period.

REINSURANCE

CEDED

Effective January 1, 2011, the Company renewed its reinsurance program through Guy Carpenter & Company, LLC. The reinsurance agreements are discussed below:

Subscribing Reinsurers and Percentage

Allied World Reinsurance Company (5%)
Arch Reinsurance Company (20%)
Employers Mutual Casualty Company (19%)
Hannover Ruckversicherung AG (5%)
Lloyd's Underwriting Syndicate No. 2987 BRIT (14%)
QBE Reinsurance Corporation (25%)
The TOA Reinsurance Company of America (12%)

The Company entered into various reinsurance agreements with the above subscribing reinsurers effective January 1, 2011. The terms of the contracts are one year, with the Company renewing annually at the then agreed upon terms.

- Property First Surplus Reinsurance: Covers all lines of business classified by the Company as property. Coverage includes ten (10) times the Company's net retention, per

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risk, subject to a maximum cession of \$500,000 and a minimum retention of \$50,000. This agreement contains a loss corridor clause.

- **Aggregate Excess of Loss Reinsurance:** Covers all lines of business including bodily injury and property damage liability. Coverage is 95% in excess of 90% of subject net premiums or \$306,000, whichever is greater, and Extra Contractual Obligations /Excess of Policy Limits ("ECO/XPL") 90% less 10% subject to a maximum of \$45,000 Property per claim.
- **Casualty Excess of Loss Reinsurance:** Covers all lines of business classified by the Company as liability. Coverage defined as 100% of \$590,000 in excess of \$20,000 combined net loss and net loss adjustment expenses per occurrence, covering bodily injury and property damage liability, including medical payments. Coverage is additionally provided for ECO/XPL.
- **Special Casualty Excess of Loss Reinsurance:** Covering 100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence covering bodily injury and property damage liability including medical payments.

The Company additionally entered into a facultative pro rata share reinsurance contract through Guy Carpenter & Company, LLC to indemnify the Company as a result of a loss or losses under policies classified as property.

The subscribing reinsurers for this agreement are:

Arch Reinsurance Company (25%)
Employers Mutual Casualty Company (30%)
Hannover Ruckversicherung AG (5%)
Lloyd's Underwriting Syndicate No. 2987 BRIT (25%)
The TOA Reinsurance Company of America (15%)

The Company did not have any reinsurance recoverables in dispute as of December 31, 2011 or subsequent and the amounts receivable were all current. The reinsurance recoverable to policyholder surplus at December 31, 2011 was 0.2%.

The Company's reinsurance intermediary, Guy Carpenter & Company, LLC is licensed by the Department as required by 40 P.S. §321.2 (a) Reinsurance intermediaries; licensing. The Company also has this program operating pursuant to a properly executed written agreement between the Company and Guy Carpenter & Company, LLC as required by 40 PS § 321.3.

All reinsurance contracts contain appropriate insolvency and arbitration clauses.

All Reinsurance contracts noted above appear to meet the required transfer of risk as noted in SSAP No. 62R.

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TERRITORY AND PLAN OF OPERATION

The Company was licensed in the Commonwealth of Pennsylvania during the examination period.

As of December 31, 2011, the Company was writing assessable policies for personal fire, homeowners and other liability insurance through an agency system, consisting of thirteen (13) independent agents and one (1) insurance agency, Burns & Burns Associates, Inc. which employs two additional agents. No lines of business have shown adverse experience during the examination period or subsequent.

The Company's marketing philosophy and territory of operations has not changed during the period under examination. The company relies on referrals for business and does not use advertising as a marketing tool.

The Company's territory is primarily geographically concentrated in Clearfield and Indiana Counties of Pennsylvania with additional policies written in Jefferson, Elk, Cambria and Centre Counties. As of December 31, 2011, Clearfield and Indiana Counties accounted for eighty percent (80%) of the Company's direct written premium.

The Company's lines of business and their respective percentages are listed below:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2011				
Fire	\$ 482,522	\$ 194,725	\$ 287,797	56.4%
Homeowners multiple peril	607,780	409,793	197,987	38.8%
Other liability - occurrence	41,299	17,012	24,287	4.8%
Totals	<u>\$ 1,131,601</u>	<u>\$ 621,530</u>	<u>\$ 510,071</u>	<u>100.0%</u>

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	\$ 2,188,767	100.0 %
Losses incurred	\$ 1,011,933	46.3 %
Loss expenses incurred	128,800	5.9 %
Other underwriting expenses incurred	865,357	39.5 %
Net underwriting gain or (loss)	182,677	8.3 %
Totals	<u>\$ 2,188,767</u>	<u>100.0 %</u>

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

	2011	2010	2009	2008	2007
Admitted assets	\$ 3,343,294	\$ 3,350,912	\$ 3,192,172	\$ 3,079,136	\$ 2,842,871
Liabilities	\$ 397,813	\$ 400,634	\$ 368,468	\$ 319,210	\$ 342,706
Surplus as regards policyholders	\$ 2,945,481	\$ 2,950,278	\$ 2,823,704	\$ 2,759,926	\$ 2,500,165
Gross premium written	\$ 1,131,601	\$ 1,094,538	\$ 1,071,439	\$ 1,042,101	\$ 1,040,974
Net premium written	\$ 510,071	\$ 478,017	\$ 452,719	\$ 401,222	\$ 432,955
Underwriting gain/(loss)	\$ (36,492)	\$ 94,591	\$ 17,297	\$ 206,766	\$ (99,485)
Investment gain/(loss)	\$ 30,006	\$ 34,158	\$ 60,936	\$ 69,176	\$ 78,636
Other gain/(loss)	\$ 14,861	\$ 7,949	\$ 8,210	\$ 7,867	\$ 7,523
Net income	\$ (4,305)	\$ 125,126	\$ 63,414	\$ 261,403	\$ (40,289)

The Company experienced underwriting losses in 2007 and 2011 which the Company attributed to significant fire related losses.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained at the home office in Clearfield, PA on a stand-alone computer system using customized software. This accounting system is used for premiums, claims and general ledger processes. Information is input manually by employees with adjusting entries prepared by the external CPA.

PENDING LITIGATION

A legal representation letter was obtained from the Company's external General Counsel in which no material non-insurance related claims were disclosed. The Company stated no material litigation currently occurring or anticipated in its management representation letter.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2011, 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

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

	2011	2010	2009	2008	2007
Bonds	\$ 999,358	\$ 400,000	\$ 900,000	\$ 1,500,000	\$ 622,242
Common stocks	6,611	6,592	6,592	4,978	4,978
Cash, cash equivalents, and short term investments	2,337,622	2,931,899	2,243,431	1,512,024	2,037,296
Subtotals, cash and invested assets	3,343,591	3,338,491	3,150,023	3,017,002	2,664,516
Investment income due and accrued	12,263	7,700	23,790	31,009	19,775
Premiums and agents' balances due	(17,806)	(18,345)	(18,248)	(13,218)	(11,761)
Amounts recoverable from reinsurers	4,748	9,888	36,607	44,343	170,341
Current federal and foreign income tax recoverable and interest thereon	498	13,178	0	0	0
Total	\$ 3,343,294	\$ 3,350,912	\$ 3,192,172	\$ 3,079,136	\$ 2,842,871
Losses	\$ 102,973	\$ 131,859	\$ 152,129	\$ 58,150	\$ 135,629
Loss adjustment expenses	3,639	1,275	(3,765)	0	(2,571)
Taxes, licenses and fees	1,218	462	(786)	(2,124)	(7,463)
Current federal and foreign income taxes	0	0	(4,351)	(4,880)	3,537
Unearned premiums	248,511	234,024	219,365	204,900	211,160
Ceded reinsurance premiums payable (net of ceding commissions)	38,685	30,121	3,133	60,867	0
Amounts withheld or retained by company for account of others	2,787	2,893	2,743	2,297	2,414
Total liabilities	397,813	400,634	368,468	319,210	342,706
Unassigned funds (surplus)	2,945,481	2,950,278	2,823,704	2,759,926	2,500,165
Surplus as regards policyholders	2,945,481	2,950,278	2,823,704	2,759,926	2,500,165
Totals	\$ 3,343,294	\$ 3,350,912	\$ 3,192,172	\$ 3,079,136	\$ 2,842,871

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

	Underwriting Income		Investment Income		Other Income	
	2011	2010	2009	2008	2007	
Premiums earned	\$ 495,584	\$ 463,358	\$ 438,254	\$ 407,482	\$ 384,089	
Deductions:						
Losses incurred	279,354	170,440	220,227	30,144	311,768	
Loss expenses incurred	38,990	17,816	22,796	25,731	23,467	
Other underwriting expenses incurred	213,732	180,511	177,934	144,841	148,339	
Total underwriting deductions	532,076	368,767	420,957	200,716	483,574	
Net underwriting gain or (loss)	(36,492)	94,591	17,297	206,766	(99,485)	
Net investment income earned	30,006	34,158	60,936	67,176	78,636	
Net realized capital gains or (losses)	0	0	0	2,000	0	
Net investment gain or (loss)	30,006	34,158	60,936	69,176	78,636	
Finance and service charges not included in premiums	14,861	7,949	8,210	7,867	7,523	
Total other income	14,861	7,949	8,210	7,867	7,523	
Net income before dividends to policyholders and before federal and foreign income taxes	8,375	136,698	86,443	283,809	(13,326)	
Federal and foreign income taxes incurred	12,680	11,572	23,029	22,406	26,963	
Net income	\$ (4,305)	\$ 125,126	\$ 63,414	\$ 261,403	\$ (40,289)	

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

	2011	2010	2009	2008	2007
Surplus as regards policyholders,					
December 31, previous year	\$ 2,950,278	\$ 2,823,704	\$ 2,759,926	\$ 2,500,165	\$ 2,540,454
Net income	(4,305)	125,126	63,414	261,403	(40,289)
Net unrealized capital gains or (losses)	(623)	0	1,614	0	0
Change in nonadmitted assets	131	1,448	(1,250)	(1,642)	0
Change in surplus as regards policyholder for the year	(4,797)	126,574	63,778	259,761	(40,289)
Surplus as regards policyholders,					
December 31, current year	\$ 2,945,481	\$ 2,950,278	\$ 2,823,704	\$ 2,759,926	\$ 2,500,165

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

	2011	2010	2009	2008	2007
Cash from Operations					
Premiums collected net of reinsurance	\$ 517,869	\$ 506,190	\$ 400,292	\$ 461,904	\$ 425,156
Net investment income	25,443	50,248	68,155	55,942	75,473
Miscellaneous income	14,861	7,949	8,210	7,867	7,523
Total income	558,173	564,387	476,657	525,713	508,152
Benefit and loss related payments	339,727	176,767	145,073	4,785	449,968
Commissions, expenses paid and aggregate write-ins for deductions	212,976	179,263	176,596	139,502	150,988
Federal and foreign income taxes paid (recovered)	0	20,399	22,500	30,823	31,200
Total deductions	552,703	376,429	344,169	175,110	632,156
Net cash from operations	5,470	187,958	132,488	350,603	(124,004)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	0	700,000	800,000	724,242	175,758
Total investment proceeds	0	700,000	800,000	724,242	175,758
Cost of investments acquired (long-term only):					
Bonds	600,000	200,000	200,000	1,600,000	0
Total investments acquired	600,000	200,000	200,000	1,600,000	0
Net cash from investments	(600,000)	500,000	600,000	(875,758)	175,758
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	253	510	(1,081)	(117)	415
Net cash from financing and miscellaneous sources	253	510	(1,081)	(117)	415
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(594,277)	688,468	731,407	(525,272)	52,169
Cash and short-term investments:					
Beginning of the year	2,931,899	2,243,431	1,512,024	2,037,296	1,985,127
End of the year	\$ 2,337,622	\$ 2,931,899	\$ 2,243,431	\$ 1,512,024	\$ 2,037,296

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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, 2011, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 999,358	29.9 %
Common stocks	6,611	0.2 %
Cash	2,337,622	69.9 %
Totals	<u>\$ 3,343,591</u>	<u>100.0 %</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 999,358	100.0 %
Totals	<u>\$ 999,358</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
6 to 10 years	999,358	100.0 %
Totals	<u>\$ 999,358</u>	<u>100.0 %</u>

The Company utilizes the Clearfield Bank & Trust Company to safeguard its invested assets. The custodial agreement, which was amended in 2007, does not comply with all provisions of 31 Pa. Code § 148a3.

It is recommended that the Company execute a custodial agreement with Clearfield Bank & Trust Company that is compliant with 31 Pa. Code § 148a3 for all invested assets.

The Company has a written investment policy as required by 40 P.S. § 653 b. The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company, at December 31, 2011, was following its investment policy.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported \$102,973 for losses and \$3,639 for loss adjustment expense reserves on the December 31, 2011 annual statement. These amounts are being accepted for the purposes of this examination.

The Company was granted an exemption from filing a Statement of Actuarial Opinion for all years under examination, based on the nature of business exemption.

The Company's reserves were reviewed with the assistance of the Department's internal property and casualty actuarial staff. The Company's carried reserves were redundant in four of the last five years, with 2008 showing immaterial adverse development. The Exam Team also considered that reserves to surplus ratios are low. There have been no changes in the Company's reserving methodology since the prior examination.

SUBSEQUENT EVENTS

No material events were noted, subsequent to December 31, 2011 and through the date of this exam report, that would have a material adverse effect on the financial condition of the Company.

A legal representation letter was obtained from the Company's external General Counsel, which describes that the Company is involved in eight claims related litigations, each with an unknown potential loss amount. We have received confirmation from the Company that these claims have no established case reserve, nor have they been reported to the reinsurer.

The Department will require the Company to retain a qualified actuary to prepare and file a Statement of Actuarial Opinion starting with the December 31, 2013 Annual Statement filing.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company either amend its Article of Agreement or its By-laws in order for these documents to agree on the proper number of members on its Board of Directors.

The Company amended the Articles of Agreement but did not file the amendment with the Pennsylvania Insurance Department or the Pennsylvania Department of State. This will be included as a recommendation in the current examination.

CURRENT EXAMINATION

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

1. It is recommended that the Company file its approved amended Articles of Agreement with the Pennsylvania Department of State as required by 15 Pa. Code § 1916 and with the Department. (See Articles of Agreement, page 5)
2. It is recommended that the Company execute a custodial agreement with Clearfield Bank & Trust Company that is compliant with 31 Pa. Code § 148a3 for all invested assets. (See Investments, page 14)

CONCLUSION

As a result of this examination, the financial condition of Clearfield County Grange Mutual Fire Insurance Company, as of December 31, 2011, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 3,343,294	100.0 %
Liabilities	\$ 397,813	11.9 %
Surplus as regards policyholders	2,945,481	88.1 %
Total liabilities and surplus	\$ 3,343,294	100.0 %

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Since the previous examination, made as of December 31, 2006, the Company's assets increased by \$553,509, its liabilities increased by \$148,482 and its surplus increased by \$405,027.

This examination was conducted by Robin Roberts, CFE.

Respectfully



Annette B. Szady, CPA
Director, Bureau of Financial Examinations



David R. Evans, CFE
Examination Manager



Robin Roberts, 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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