

Examination Warrant Number 22-00000-17191-R1

Report of Examination of
The Grange Mutual Fire Insurance Company
Troy, Pennsylvania
As of December 31, 2022

For Informational Purposes Only

The Grange Mutual Fire 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.....	2
Committees	3
Officers	3
Corporate Records:	
Minutes	4
Articles of Agreement	4
By-Laws.....	4
Service and Operating Agreements.....	4
Reinsurance:	
Ceded.....	4
Assumed	5
Territory and Plan of Operation.....	5
Significant Operating Ratios and Trends	6
Pending Litigation.....	6
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds.....	8
Comparative Statement of Income.....	9
Comparative Statement of Capital and Surplus.....	10
Comparative Statement of Cash Flow.....	11
Summary of Examination Changes.....	12
Assets:	
Investments	12
Liabilities:	
Loss and Loss Adjustment Expense Reserves.....	13
Subsequent Events	13
Recommendations	
Prior Examination	13
Current Examination	13
Conclusion.....	14

Harrisburg, Pennsylvania
December 5, 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 22-00000-17191-R1, dated August 24, 2022, an examination was made of

The Grange Mutual Fire Insurance Company, NAIC Code: 17191

a Pennsylvania domiciled, single-state, property and casualty mutual insurance company hereinafter referred to as the "Company." The majority of this examination was conducted remotely with a few days on-site at the Company's home office, located at 5992 Fall Brook Road, Troy, Pennsylvania 16947.

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, 2017. This examination covered the 5 year period from January 1, 2018 through December 31, 2022.

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 Grange Mutual Fire Insurance Company

-2-

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 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 Brown Shultz Sheridan and Fritz ("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 March 26, 1877 and licensed by the Department on August 14, 1877.

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)(10) Livestock.

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 \$950,000 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, 2022:

Name and Address	Principal Occupation
Burton R. Adams Dushore, Pennsylvania	Retired

The Grange Mutual Fire Insurance Company

-3-

Charles L. Castle Canton, Pennsylvania	Retired
Thomas J. D'Angelo Mansfield, Pennsylvania	Insurance Agent Wert Insurance Agency Inc.
Thomas M. Elliott Towanda, Pennsylvania	Farmer
Jeremy J. Fowler Galeton, Pennsylvania	Die Setter Metal Kraft Inc.
Allan W. Harvey Benton, Pennsylvania	Insurance Agent Harvey Insurance Agency
Kimberly J. Mastrantonio Athens, Pennsylvania	Insurance Agent 2 Rivers Insurance Agency
Gerald D. Pratt Granville Summit, Pennsylvania	Retired
Bruce A. Roy Gillett, Pennsylvania	Farmer
Loren H. Roy Gillett, Pennsylvania	Farmer

The directors of the Company are elected at the Company's Annual Policyholders' Meeting. Each Director serves a staggered three-year term divided as evenly as possible.

COMMITTEES

As of December 31, 2022, the following committee was appointed by the Board and serving in accordance with the Company's by-laws:

Finance Committee

Thomas J. D'Angelo - Chair
Jeremy J. Fowler
Charles L. Castle

OFFICERS

As of December 31, 2022, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Thomas M. Elliott	President
Rebecca A. Borek	Treasurer
Wendy R. Howe	Secretary
Jeremy J. Fowler	Vice President

The Grange Mutual Fire Insurance Company

-4-

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 elect 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.
- All directors attend Board meetings regularly.

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 was not a party to any service or operating agreements during the examination period that would have a significant impact on the Company's operations.

REINSURANCE

CEDED

The Company is a party to one reinsurance contract with Grinnell Mutual Reinsurance Company ("Grinnell"). Grinnell is licensed in Pennsylvania.

The Company's ceded premium for 2022 was \$190,134 which is approximately 3.5% of its surplus. The Company's net amount recoverable for 2022 was approximately \$415,000. As of December 31, 2022, the Company had no outstanding recoverables due from its reinsurer.

Excess of Loss Contract

Effective January 1, 2022, the Company's reinsurance contract with Grinnell provides property per risk, casualty, and aggregate coverage within the same contract. The term of the contract is for 1 year.

The Grange Mutual Fire Insurance Company

-5-

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

Property Per Risk

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$100,000 per Loss Occurrence	\$20,000,000 per risk	Property

Casualty

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$50,000 per Loss Occurrence	\$1,000,00 each Loss Occurrence	Casualty

Aggregate

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
\$983,380 per Loss Occurrence	Unlimited	Property & Casualty

The Company does not utilize a reinsurance intermediary.

The reinsurance contract contains the proper insolvency and arbitration clauses. Additionally, the contract transfers risk as outlined in the NAIC SSAP No. 62R.

ASSUMED

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

TERRITORY AND PLAN OF OPERATION

The Company is only licensed in Pennsylvania.

The Company writes property coverage on fire, farmowner and homeowner policy forms and, on a limited basis, stand-alone general liability policies. The Company mainly concentrates its business in close geographic proximity of the home office by agents who are primarily directors of the Company.

The following represents the Company's written premium by line of business for the year ended December 31, 2022.

The Grange Mutual Fire Insurance Company

-6-

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2022				
Fire	\$ 386,412	\$ 39,369	\$ 347,043	24.6%
Allied lines	121,593	12,458	109,135	7.7%
Farmowners multiple peril	511,943	57,715	454,228	32.2%
Homeowners multiple peril	525,162	63,916	461,246	32.7%
Other liability - occurrence	56,768	16,676	40,092	2.8%
Totals	\$ 1,601,878	\$ 190,134	\$ 1,411,744	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis and encompass the 5 year period covered by this examination.

	Amount	Percentage
Premiums earned	1,372,628	100.0 %
Losses incurred	324,985	23.7 %
Loss expenses incurred	37,988	2.8 %
Other underwriting expenses incurred	627,265	45.7 %
Net underwriting gain or (loss)	382,390	27.8 %
Totals	1,372,628	100.0 %

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

	2022	2021	2020	2019	2018
Admitted assets	\$ 6,664,386	\$ 6,831,559	\$ 6,278,654	\$ 5,758,802	\$ 5,138,864
Liabilities	\$ 1,189,971	\$ 1,154,477	\$ 1,113,239	\$ 938,551	\$ 917,158
Surplus as regards policyholders	\$ 5,474,415	\$ 5,677,082	\$ 5,165,415	\$ 4,820,251	\$ 4,221,706
Gross premium written	\$ 1,601,878	\$ 1,520,756	\$ 1,462,316	\$ 1,463,782	\$ 1,426,086
Net premium written	\$ 1,411,744	\$ 1,337,178	\$ 1,285,711	\$ 1,240,533	\$ 1,155,468
Underwriting gain/(loss)	\$ 382,390	\$ 66,835	\$ 139,657	\$ 246,372	\$ 283,550
Investment gain/(loss)	\$ 49,857	\$ 293,118	\$ 60,350	\$ 266,970	\$ 218,525
Other gain/(loss)	\$ 11,690	\$ 7,340	\$ 7,457	\$ 7,059	\$ 6,759
Net income	\$ 342,791	\$ 291,157	\$ 129,704	\$ 411,739	\$ 385,563

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, 2022, and the results of its operations for the 5 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.

For Informational Purposes Only

The Grange Mutual Fire Insurance Company

-8-

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

	2022	2021	2020	2019	2018
Bonds	\$ 3,505,268	\$ 2,779,445	\$ 2,930,950	\$ 2,317,888	\$ 2,262,150
Preferred stocks	38,325	20,440	72,896	224,427	123,856
Common stocks	2,086,492	2,883,459	2,474,906	1,971,370	1,579,465
Real estate	81,643	88,543	95,443	102,343	109,243
Cash, cash equivalents, and short term investments	652,941	810,076	406,020	511,782	430,876
Other invested assets	0	0	0	373,074	357,622
Receivable for securities	1,911	4,356	6,055	0	0
Subtotals, cash and invested assets	6,366,580	6,586,319	5,986,270	5,500,884	4,863,212
Investment income due and accrued	30,124	9,895	18,785	17,948	17,635
Premiums and agents' balances due	236,880	231,111	232,227	230,838	232,782
Current federal and foreign income tax recoverable and interest thereon	0	4,234	41,372	9,132	6,794
Net deferred tax asset	30,802	0	0	0	18,441
Total	\$ 6,664,386	\$ 6,831,559	\$ 6,278,654	\$ 5,758,802	\$ 5,138,864
Losses	\$ 210,034	\$ 100,985	\$ 216,030	\$ 25,069	\$ 43,500
Loss adjustment expenses	6,337	10,250	13,914	5,007	16,780
Commissions payable, contingent commissions and other similar charges	50,244	67,554	49,291	67,732	52,463
Other expenses	44,226	37,632	31,073	37,426	32,392
Taxes, licenses and fees	43,370	41,839	29,611	26,004	20,812
Current federal and foreign income taxes	16,699	0	0	0	0
Net deferred tax liability	0	116,162	30,259	25,619	0
Unearned premiums	773,375	734,259	708,510	707,268	683,560
Advance premium	26,748	27,715	16,530	27,053	23,631
Ceded reinsurance premiums payable (net of ceding commissions)	15,845	15,545	15,165	14,620	41,267
Amounts withheld or retained by company for account of others	3,093	2,536	2,856	2,753	2,753
Total liabilities	1,189,971	1,154,477	1,113,239	938,551	917,158
Unassigned funds (surplus)	5,474,415	5,677,082	5,165,415	4,820,251	4,221,706
Surplus as regards policyholders	5,474,415	5,677,082	5,165,415	4,820,251	4,221,706
Totals	\$ 6,664,386	\$ 6,831,559	\$ 6,278,654	\$ 5,758,802	\$ 5,138,864

The Grange Mutual Fire Insurance Company

-9-

Comparative Statement of Income For the Year Ended December 31,

	2022	2021	2020	2019	2018
Underwriting Income					
Premiums earned	\$ 1,372,628	\$ 1,311,429	\$ 1,284,469	\$ 1,216,825	\$ 1,152,857
Deductions:					
Losses incurred	324,985	582,787	576,846	370,043	224,968
Loss expenses incurred	37,988	46,706	43,434	11,724	46,873
Other underwriting expenses incurred	627,265	615,101	524,532	588,686	597,466
Total underwriting deductions	990,238	1,244,594	1,144,812	970,453	869,307
Net underwriting gain or (loss)	382,390	66,835	139,657	246,372	283,550
Investment Income					
Net investment income earned	185,434	227,493	159,601	235,326	243,160
Net realized capital gains or (losses)	(135,577)	65,625	(99,251)	31,644	(24,635)
Net investment gain or (loss)	49,857	293,118	60,350	266,970	218,525
Other Income					
Finance and service charges not included in premiums	7,075	6,640	6,694	7,078	6,802
Aggregate write-ins for miscellaneous income	4,615	700	763	(19)	(43)
Total other income	11,690	7,340	7,457	7,059	6,759
Net income before dividends to policyholders and before federal and foreign income taxes	443,937	367,293	207,464	520,401	508,834
Federal and foreign income taxes incurred	101,146	76,136	77,760	108,662	123,271
Net income	\$ 342,791	\$ 291,157	\$ 129,704	\$ 411,739	\$ 385,563

For Informational Purposes Only

The Grange Mutual Fire Insurance Company

-10-

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

	2022	2021	2020	2019	2018
Surplus as regards policyholders,					
December 31, previous year	\$ 5,677,082	\$ 5,165,415	\$ 4,820,251	\$ 4,221,706	\$ 4,077,299
Net income	342,791	291,157	129,704	411,739	385,563
Net unrealized capital gains or (losses)	(690,223)	314,784	237,246	230,188	(378,210)
Change in net deferred income tax	146,964	(85,903)	(4,640)	(44,060)	133,399
Change in nonadmitted assets	(2,199)	(8,371)	(17,146)	678	3,655
Change in surplus as regards policyholder for the year	(202,667)	511,667	345,164	598,545	144,407
Surplus as regards policyholders,					
December 31, current year	\$ 5,474,415	\$ 5,677,082	\$ 5,165,415	\$ 4,820,251	\$ 4,221,706

For Informational Purposes Only

The Grange Mutual Fire Insurance Company

-11-

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

	2022	2021	2020	2019	2018
Cash from Operations					
Premiums collected net of reinsurance	\$ 1,403,559	\$ 1,349,803	\$ 1,276,329	\$ 1,218,508	\$ 1,180,843
Net investment income	187,530	255,814	172,615	249,804	272,976
Miscellaneous income	11,690	7,340	7,457	7,059	6,760
Total income	1,602,779	1,612,957	1,456,401	1,475,371	1,460,579
Benefit and loss related payments	215,936	697,832	385,885	388,474	281,410
Commissions, expenses paid and aggregate write-ins for deductions	677,677	629,008	580,186	586,704	608,413
Federal and foreign income taxes paid (recovered)	80,213	38,998	110,000	111,000	235,737
Total deductions	973,826	1,365,838	1,076,071	1,086,178	1,125,560
Net cash from operations	628,953	247,119	380,330	389,193	335,019
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	2,914,544	1,147,768	1,581,848	1,226,012	850,301
Stocks	382,269	1,101,169	621,697	222,059	148,235
Other invested assets	0	0	528,655	0	0
Miscellaneous proceeds	2,445	1,699	0	0	0
Total investment proceeds	3,299,258	2,250,636	2,732,200	1,448,071	998,536
Cost of investments acquired (long-term only):					
Bonds	3,869,521	1,003,058	2,171,414	1,285,538	907,410
Stocks	215,934	1,082,006	1,005,394	437,151	297,373
Other invested assets	0	0	16,346	35,486	35,469
Miscellaneous applications	0	0	6,055	0	0
Total investments acquired	4,085,455	2,085,064	3,199,209	1,758,175	1,240,252
Net cash from investments	(786,197)	165,572	(467,009)	(310,104)	(241,716)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	109	(8,635)	(19,083)	1,817	4,089
Net cash from financing and miscellaneous sources	109	(8,635)	(19,083)	1,817	4,089
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(157,135)	404,056	(105,762)	80,906	97,392
Cash and short-term investments:					
Beginning of the year	810,076	406,020	511,782	430,876	333,484
End of the year	\$ 652,941	\$ 810,076	\$ 406,020	\$ 511,782	\$ 430,876

The Grange Mutual Fire Insurance Company

-12-

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, 2022, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	3,505,268	55.1 %
Preferred stocks	38,325	0.6 %
Common stocks	2,086,492	32.8 %
Real estate	81,643	1.3 %
Cash	409,442	6.4 %
Cash equivalents	24,390	0.4 %
Short-term investments	219,109	3.4 %
Receivable for securities	1,911	0.0 %
Totals	6,366,580	100.0 %

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

NAIC Designation	Amount	Percentage
1 - highest quality	3,216,612	86.3 %
2 - high quality	467,716	12.6 %
3 - medium quality	40,050	1.1 %
Totals	3,724,378	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	676,586	18.2 %
2 to 5 years	1,454,574	39.1 %
6 to 10 years	898,776	24.0 %
11 to 20 years	93,508	2.5 %
over 20 years	200,050	5.4 %
no maturity	400,884	10.8 %
Totals	3,724,378	100.0 %

As of December 31, 2022, the Company had 55.1% of its invested assets in bonds, 32.8% common stocks, and the remaining 12.1% of its invested assets in preferred stock, real estate, cash, cash equivalents and receivables for securities. The Company's bond portfolio is

The Grange Mutual Fire Insurance Company

-13-

comprised of 98.9% in investment grade securities with its portfolio having maturities of 10 years or less.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The Company was following its investment policy at December 31, 2022.

The Company entered into a custodial agreement with The Pennsylvania Trust Company. The custodial agreement is compliant with the standards for custodial agreements pursuant to 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$210,034 for losses and \$6,337 for loss adjustment expenses ("LAE") on the December 31, 2022 Annual Statement.

The Company's appointed actuary for the examination period was Steven Regnier, ACAS, MAAA, of Regnier Consulting Group, Inc. 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, 2022.

SUBSEQUENT EVENTS

No significant subsequent events were noted during the examination.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

There are no recommendations being made as a result of the current examination.

The Grange Mutual Fire Insurance Company

-14-

CONCLUSION

As a result of this examination, the financial condition of The Grange Mutual Fire Insurance Company, as of December 31, 2022, was determined to be as follows:

	Amount	Percentage
Admitted assets	6,664,386	100.0 %
Liabilities	1,189,971	17.9 %
Surplus as regards policyholders	5,474,415	82.1 %
Total liabilities and surplus	6,664,386	100.0 %

Since the previous examination, made as of December 31, 2017, the Company's assets increased by \$1,515,138, its liabilities increased by \$118,022, and its surplus increased by \$1,397,116.

This examination was conducted by Kevin Clark and Dennis Williams, with the latter in charge.

Respectfully submitted,

Shannon Hopkins

Shannon Hopkins (Feb 16, 2024 08:18 EST)

Shannon Hopkins, CFE

Acting Director

Bureau of Financial Examinations

Dennis Williams

Dennis Williams

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.