

Examination Warrant Number 21-00000-17531-R1

**Report of Examination of
Old Elizabeth Mutual Fire Insurance Company
West Alexander, Pennsylvania**

As of December 31, 2021

For Informational Purposes Only

Old Elizabeth Mutual Fire Insurance Company

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Harrisburg, Pennsylvania
July 5, 2023

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

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 21-00000-17531-R1, dated August 9, 2021, an examination was made of

Old Elizabeth Mutual Fire Insurance Company, NAIC Code: 17531

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 257 Ealy Road West Alexander, Pennsylvania, 15376.

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.

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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 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 on March 18, 1872, licensed by the Department on May 31, 1872 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 surplus 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.

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	Principal Occupation
Shirley A. Bedillion West Alexander, Pennsylvania	Retired
Terriann LoveJoy Monongahela, Pennsylvania	Retired
Corey N. McConn Burgettstown, Pennsylvania	Business Development Sunnyside Supply
Vincent P. Makovics Belle Vernon, Pennsylvania	Self-Employed
William J. Melilli Belle Vernon, Pennsylvania	Retired

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Paul M. Williams
Monongahela, Pennsylvania

Farmer

Directors are elected at the Company's annual policyholders' meeting and serve for a three-year term. Terms are staggered such that approximately one-third of the Board is elected annually.

As of December 31, 2021, and subsequent, the Board of the Company consisted of only six directors.

It is recommended that the Company increase the number of its Board members to seven directors to meet the requirements of 15 PA C.S.A. § 3131(b).

COMMITTEES

As of December 31, 2021, there were no committees established by the Board.

OFFICERS

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

Name	Title
Paul M. Williams	President
Corey N. McConn	Treasurer
Shirley A. Bedillion	Corporate Secretary

CORPORATE RECORDS

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.
- The Company's investment transactions were approved by the Board.
- All directors attend Board meetings regularly.
- The Company's Board minutes show approval of its reinsurance contracts.

CHARTER

There were no changes to the Company's Charter during the examination period.

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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 significant impact on its operations..

REINSURANCE

CEDED

The Company's ceded premium for 2021 was \$28,035 which is approximately 4.6% of its surplus. The Company did not report any amounts due from its reinsurers at December 31, 2021.

The following two contracts summarized below are through the Company's reinsurance intermediary, Guy Carpenter & Company, LLC ("Guy Carpenter"). The participating reinsurers and their percentages in the pool are listed below:

<u>Reinsurers</u>	<u>Reinsurance Percentage</u>
American Agricultural Insurance Company	18.50%
Aspen Re America, Inc.	2.50%
Employers Mutual Casualty Company	21.50%
Farmers Mutual Hail Insurance Company of Iowa	8.75%
Hannover Ruck SE	8.50%
Partner Reinsurance Company of the US	3.00%
Renaissance Reinsurance U.S. Inc.	22.58%
Swiss Reinsurance America Corporation	12.67%
The Toa Reinsurance Company of America	2.00%

Aggregate Excess of Loss

Effective January 1, 2021, the Company entered into an Aggregate Excess of Loss reinsurance contract.. The term of the contract is for one year.

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

<u>Type of Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurance Limits</u>
Property	\$9.50 per \$1,000 of average net fire insurance in force	\$101.15 per \$1,000 of average net fire insurance in force

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Property Facultative Pro Rata

Effective January 1, 2021, the Company entered into a Property Facultative Pro Rata reinsurance contract. The term of the contract is for one year.

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

<u>Type of Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurance Limits</u>
Property	\$5,000	\$150,000

The Company's reinsurance intermediary, 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.

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

ASSUMED

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

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in Pennsylvania and writes business primarily in rural communities in nearby counties. There have been no changes to the Company's marketing strategy since the prior examination.

The table below shows the Company's premium distribution by line of business as of December 31, 2021.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2021				
Fire	\$ 58,086	\$ 28,035	\$ 30,051	100.0%
Totals	<u>\$ 58,086</u>	<u>\$ 28,035</u>	<u>\$ 30,051</u>	<u>100.0%</u>

All policies are written by the directors on the Board and are reviewed and approved by the Board prior to policy issuance.

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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	\$ 169,615	100.0 %
Losses incurred	5,094	3.0 %
Loss expenses incurred	159	0.1 %
Other underwriting expenses incurred	269,683	159.0 %
Net underwriting gain or (loss)	(105,321)	(62.1)%
Totals	\$ 169,615	100.0 %

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	\$ 639,328	\$ 599,505	\$ 553,141	\$ 470,642	\$ 558,592
Liabilities	\$ 26,345	\$ 26,012	\$ 26,067	\$ 27,006	\$ 31,439
Surplus as regards policyholders	\$ 612,983	\$ 573,493	\$ 527,074	\$ 443,636	\$ 527,153
Gross premium written	\$ 58,086	\$ 63,551	\$ 64,451	\$ 69,556	\$ 75,658
Net premium written	\$ 30,051	\$ 34,651	\$ 36,227	\$ 38,875	\$ 29,810
Underwriting gain/(loss)	\$ (23,784)	\$ (22,753)	\$ (17,859)	\$ (10,324)	\$ (30,601)
Investment gain/(loss)	\$ 1,771	\$ 68,027	\$ 29,447	\$ 22,535	\$ 6,988
Other gain/(loss)	\$ 0	\$ 0	\$ 121	\$ 165	\$ 0
Net income	\$ (22,013)	\$ 45,274	\$ 11,709	\$ 12,376	\$ (23,613)

Due to the size of the Company, they are heavily reliant on investment income. The years that the Company experienced low investment gains the Company also experienced a net loss.

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.

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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.

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

	2021	2020	2019	2018	2017
Preferred stocks	\$ 0	\$ 0	\$ 0	\$ 0	\$ 49,738
Common stocks	589,758	543,950	505,874	393,218	439,273
Cash, cash equivalents, and short term investments	47,002	43,920	45,428	76,596	66,289
Subtotals, cash and invested assets	636,760	587,870	551,302	469,814	555,300
Premiums and agents' balances due	2,568	11,635	1,839	828	3,292
Total	\$ 639,328	\$ 599,505	\$ 553,141	\$ 470,642	\$ 558,592
Losses	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Other expenses	18,500	18,500	18,250	18,250	25,000
Taxes, licenses and fees	(109)	(18)	(224)	(173)	(356)
Ceded reinsurance premiums payable (net of ceding commissions)	2,620	2,586	2,772	4,169	2,416
Amounts withheld or retained by company for account of others	3,334	2,944	3,269	2,760	2,379
Total liabilities	26,345	26,012	26,067	27,006	31,439
Unassigned funds (surplus)	612,983	573,493	527,074	443,636	527,153
Surplus as regards policyholders	612,983	573,493	527,074	443,636	527,153
Totals	\$ 639,328	\$ 599,505	\$ 553,141	\$ 470,642	\$ 558,592

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Comparative Statement of Income For the Year Ended December 31,

Underwriting Income	2021	2020	2019	2018	2017
Premiums earned	\$ 30,051	\$ 34,651	\$ 36,228	\$ 38,875	\$ 29,810
Deductions:					
Losses incurred	0	1,344	560	(3,448)	6,638
Loss expenses incurred	0	35	138	(28)	14
Other underwriting expenses incurred	53,835	56,025	53,389	52,675	53,759
Total underwriting deductions	53,835	57,404	54,087	49,199	60,411
Net underwriting gain or (loss)	(23,784)	(22,753)	(17,859)	(10,324)	(30,601)
Investment Income					
Net investment income earned	2,940	10,505	19,251	27,918	6,776
Net realized capital gains or (losses)	(1,169)	57,522	10,196	(5,383)	212
Net investment gain or (loss)	1,771	68,027	29,447	22,535	6,988
Other Income					
Finance and service charges not included in premiums	0	0	121	165	0
Total other income	0	0	121	165	0
Net income before dividends to policyholders and before federal and foreign income taxes	(22,013)	45,274	11,709	12,376	(23,613)
Net income	\$ (22,013)	\$ 45,274	\$ 11,709	\$ 12,376	\$ (23,613)

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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	\$ 573,493	\$ 527,074	\$ 443,636	\$ 527,154	\$ 540,930
Net income	(22,013)	45,274	11,709	12,376	(23,613)
Net unrealized capital gains or (losses)	61,503	1,145	71,729	(95,894)	9,837
Change in surplus as regards policyholder for the year	39,490	46,419	83,438	(83,518)	(13,776)
Surplus as regards policyholders,					
December 31, current year	<u>\$ 612,983</u>	<u>\$ 573,493</u>	<u>\$ 527,074</u>	<u>\$ 443,636</u>	<u>\$ 527,154</u>

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

	2021	2020	2019	2018	2017
Cash from Operations					
Premiums collected net of reinsurance	\$ 39,152	\$ 24,669	\$ 33,820	\$ 43,092	\$ 37,009
Net investment income	2,940	10,505	19,251	27,918	6,776
Miscellaneous income	0	0	121	0	0
Total income	42,092	35,174	53,192	71,010	43,785
Benefit and loss related payments	0	1,379	698	(3,476)	3,056
Commissions, expenses paid and aggregate write-ins for deductions	53,926	55,569	53,440	59,242	52,246
Total deductions	53,926	56,948	54,138	55,766	55,302
Net cash from operations	(11,834)	(21,774)	(946)	15,244	(11,517)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Stocks	380,320	1,225,887	46,433	530,183	573,045
Total investment proceeds	380,320	1,225,887	46,433	530,183	573,045
Cost of investments acquired (long-term only):					
Stocks	365,794	1,205,296	77,164	535,666	656,947
Total investments acquired	365,794	1,205,296	77,164	535,666	656,947
Net cash from investments	14,526	20,591	(30,731)	(5,483)	(83,902)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	390	(325)	509	546	2,379
Net cash from financing and miscellaneous sources	390	(325)	509	546	2,379
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	3,082	(1,508)	(31,168)	10,307	(93,040)
Cash and short-term investments:					
Beginning of the year	43,920	45,428	76,596	66,289	159,329
End of the year	\$ 47,002	\$ 43,920	\$ 45,428	\$ 76,596	\$ 66,289

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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
Common stocks	589,758	92.6 %
Cash	47,002	7.4 %
Totals	<u>\$ 636,760</u>	<u>100.0 %</u>

The Company's investment portfolio is comprised of mutual funds and trusts (4%), Industrial and Miscellaneous publicly traded stocks (26%), and Closed-End Funds (70%).

In December 2020, the Company entered into a custodial agreement with Comerica Bank and Trust, National Association. The custodial agreement meets the standards required by 31 Pa. Code § 148a.3.

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 its Board. The Company was following its investment policy at December 31, 2021.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$2,000 for losses and \$0 for loss adjustment expenses ("LAE") on the December 31, 2021 Annual Statement.

For each year during the period under review, 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.

Given the lack of an actuarial opinion and corresponding workpapers, the exam team conducted a retrospective analysis of the posted loss and LAE reserves. This analysis, based on post exam claim payments, indicated the posted liability was adequate to discharge the liabilities in the periods immediately following the exam year.

SUBSEQUENT EVENTS

There were no material subsequent transactions or events at the close of the examination.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company increase the number of Board members to seven directors to meet the requirements of 15 Pa C.S. § 3131.

The Company has not complied with this recommendation which will be repeated under the Current Examination section below.

2. It is recommended that the Company's securities be held by a valid custodian pursuant to all of the requirements of 31 Pa. Code § 148a.3.

The Company has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendation is being made and is repeated from the prior examination:

1. *It is recommended that the Company increase the number of Board members to seven directors to meet the requirements of 15 PA C.S.A. § 3131(b).* (See "Board of Directors" Page 3)

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CONCLUSION

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

	Amount	Percentage
Admitted assets	\$ 639,328	100.0 %
Liabilities	\$ 26,345	4.1 %
Surplus as regards policyholders	612,983	95.9 %
Total liabilities and surplus	\$ 639,328	100.0 %

Since the previous examination, made as of December 31, 2021, the Company's assets increased by \$73,215, its liabilities increased by \$1,162, and its surplus increased by \$72,053.

This examination was conducted by Jordan Fulton, CFE.

Respectfully submitted,

Shannon Hopkins

Shannon Hopkins (Aug 29, 2023 09:34 EDT)

Shannon Hopkins, CFE

Acting Director

Bureau of Financial Examinations

Jordan Fulton

Jordan 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.