

Examination Warrant Number 18-00000-56936-R1

**Report of Examination of**

**Serb National Federation  
Pittsburgh, Pennsylvania**

**As of December 31, 2018**

**For Informational Purposes Only**

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Harrisburg, Pennsylvania  
January 10, 2020

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00000-56936-R1, dated August 14, 2018, an examination was made of

**Serb National Federation, NAIC Code:56936**

a Pennsylvania domiciled multi-state, fraternal benefit society, hereinafter referred to as the "Society." The examination was conducted at the Society's home office, located at 615 Iron City Drive, Suite 302, Pittsburgh, Pennsylvania 15205.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Society which was last examined as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

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 Society 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 Society 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. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Society'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 Society 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 Society.

For each year during the period under examination, the certified public accounting firm of McKeever, Vargo, and Senko ("CPA") has provided an unmodified audit opinion on the Society's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Society was reviewed during the examination and incorporated into the examination workpapers.

### HISTORY

The Society was originally founded on June 15, 1901, under the name Serbian Orthodox Federation-Sbrobran. In 1921, the Serbian Orthodox Federation-Sbrobran merged with the Federation of United Serbs-Unity to form the United Society Srbobran-Sloga. In 1929, the United Society Srbobran-Sloga and the Serbian Federation Sradija merged, incorporated and commenced doing business on September 21, 1929 under its present charter and its current name, Serb National Federation.

The Society is authorized to transact business as a fraternal benefit society in Pennsylvania. As such, the Society may provide those contractual benefits as described in 40 P.S. § 991.2431, (a)(1) Death benefits, (a)(2) Endowment benefits, (a)(3) Annuity benefits, (a)(4) Temporary or permanent disability benefits, (a)(5) Hospital, medical or nursing benefits, and (a)(6) Other benefits which are authorized for insurers licensed to write life, accident and health insurance and which are not inconsistent with this sub article.

### MANAGEMENT AND CONTROL

#### BOARD OF DIRECTORS

Management of the Society is vested in its Board of Directors ("Board"). The Board is elected in its entirety at the Society's convention from among the delegates and officers at its quadrennial convention. The Board is comprised of the President, Treasurer, Secretary, 1<sup>st</sup> Vice President, 2<sup>nd</sup> Vice President, and six at large members. The Board is comprised of the following members as of the examination date, December 31, 2018:

<b>Name and Address</b>	<b>Principal Occupation</b>
Melicent Bielich Pittsburgh, Pennsylvania	Director Children's Waiting Room
Michael Borkovich Dundas, Ontario, Canada	Business Development Officer Advantage Parts Solutions
Stephen Lovrensky Arcadia, California	Auditor RGIS
John Martich Weirton, West Virginia	President Serb National Federation

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Dane Medich North Huntingdon, Pennsylvania	Manager NAPA Auto Truck Parts
Milan Momcilovich Griffith, Indiana	Machinist ArcelorMittal Steel
Michael Ogrizovich Munster, Indiana	President Esmark, Inc.
Theodore Potkonjak Antioch, Illinois	Associate Judge State of Illinois
Brian Pyevich Wausau, Wisconsin	Sales Representative Exact Sciences Corporation
Gregory Volitich Pittsburgh, Pennsylvania	Investment Consultant Three Rivers Investment Advisors
Ray Vukas Scherverville, Indiana	Investigator NIPSCO

### COMMITTEES

As of the examination date, December 31, 2018, the following committees were appointed by the Board and serving in accordance with the Society's Constitution and By-Laws:

#### Executive Committee

The Executive Committee consists of five members; President, First Vice President, Second Vice President, Secretary, and Treasurer. The Executive Committee manages the property and business of the Society. As of the examination date, December 31, 2018, the following Officers were appointed and serving in accordance with the Society's Constitution and By-Laws:

<b>Name</b>	<b>Title</b>
John Martich	President
Michael Borkovich	Secretary
Gregory Volitich	Treasurer
Dane Medich	First Vice President
Theodore Potkonjak	Second Vice President

#### Audit Committee (Internal)

The Internal Audit Committee consists of five members: Chairman, Vice Chair, Secretary, and two members. This committee meets regularly every six months to examine all books of the Society, books and records, and to ascertain that all disbursements were made in accordance with its Constitution and By-Laws.

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As of December 31, 2018, the following qualified delegates were appointed and serving on the Internal Audit Committee in accordance with its Constitution and By-Laws:

<b>Name</b>	<b>Title</b>
Lara Trbovich	Chair
Milicia Jokovic	Vice Chair
Aleksandra Slavkovic	Secretary
Pam Matejevich	Member
Lance Medich	Member

### **Audit Committee (External)**

In 2013, the Society's Executive Committee formed an "External" audit committee comprised of members of the Society. The sole function of this committee is to meet with the Society's independent CPA firm in matters pertaining to its annual statutory audit. The following three members serve on this committee:

<b>Name</b>	<b>Title</b>
Robert Zunic	Chairman
Ray Vucas	Member
Thomas Pyevich	Member

### **OFFICERS**

As of the examination date, December 31, 2018, the following officers were appointed and serving in accordance with the Society's Constitution and By-Laws:

<b>Name</b>	<b>Title</b>
John Martich	President
Gregory Volitich	Treasurer
Michael Borkovich	Secretary
Dane Medich	First Vice President
Theodore Potkonjak	Second Vice President

## **CORPORATE RECORDS**

### **MINUTES**

A review of the minutes of the meetings of the Board held during the period under examination indicated the following:

- All directors were elected at the Society's quadrennial Convention by the delegates in accordance with its Constitution and By-Laws.
- Quorums were present at all directors' meetings.
- All directors attended Board meetings regularly.

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During the review of Society's corporate minutes, it was noted the Society failed to document the ratification of all investment purchases and sales. The Pennsylvania statute in 40 P.S. § 504.1(b) requires the Board of Directors or committee thereof be charged with the duty of supervising investments and loans, to authorize or ratify any investment or loan (except loans on life policies), or an investment practice made or engaged in by a domestic company.

*It is recommended that the Society comply with 40 P.S. § 504.1(b) by formally documenting in its corporate minutes the ratification and approval of all investment transactions by its Board of Directors or a committee thereof.*

### ARTICLES OF INCORPORATION

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

### CONSTITUTION AND BY-LAWS

There were no changes to the Society's Constitution and By-Laws during the examination period.

### SERVICE AND OPERATING AGREEMENTS

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

#### **IT Services Agreement**

The Society entered into a software maintenance agreement with Pin Point Computer Systems, Inc. ("Pin Point") of Bedford Heights, Ohio. Pin Point has been the Society's software provider since 1991. The service agreement was last updated and made effective January 1, 2014. Under the terms of the agreement, Pin Point provides basic software, maintenance, hot-line, and staff. The initial agreement is for a term of one year and automatically renews in increments of one year.

#### **Real Estate Lease**

Effective March 25, 2015, the Society entered into a 72-month lease with Iron City Realty VI, LLC. The agreement stipulates the Society will lease space from Iron City Realty VI, LLC for its home office at a rate specified in the contract.

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### REINSURANCE

#### CEDED

The following summarizes the sole reinsurance contract in effect as of December 31, 2018:

The Society entered into an Automatic and Facultative Reinsurance Contract ("Contract") with Optimum Re Insurance Company effective May 15, 2012. The term of the Contract was unlimited in duration. The Society ceded \$11,216, or 6.4%, of its life related premium of \$172,924 for the year ended December 31, 2018.

The Society's retention and reinsurance limits are as follows:

Society's <u>Retention</u>	Reinsurance <u>Limits</u>	Type of business <u>Covered</u>
\$25,000	\$4,000,000	Life

The reinsurance contract meets the transfer of risk test and contains the required insolvency and arbitration clauses.

#### ASSUMED

The Society assumed no business during the examination period.

### TERRITORY AND PLAN OF OPERATIONS

The Society is licensed in the following eleven jurisdictions: Arizona, Florida, Illinois, Indiana, Michigan, Minnesota, Montana, New York, Ohio, Pennsylvania, and West Virginia.

The Society issues a flexible premium deferred annuity with either a 2-year, 6-year, or 8-year penalty term. The annuity pays interest at a rate declared by management on funds deposited into an annuitant's policy. All annuities issued by the Society have a withdrawal penalty of 6% that reduces by 1% per year. After the first year the annuitant can withdrawal 10% of the principal without incurring a penalty.

For the year ended December 31, 2018, Pennsylvania was the dominate state with regards to premium written representing \$391,791, or approximately 38.6%, of the Society's direct written premium of \$1,015,066. The following table shows the premium distribution by line of business.

December 31, 2018			
Life Insurance	\$ 172,924	\$ 11,216	\$ 161,708 16.1 %
Individual annuities	842,142		842,142 83.9 %
Accident and Health			
Aggregate write-ins for other lines of business			
Totals	<u>\$ 1,015,066</u>	<u>\$ 11,216</u>	<u>\$ 1,003,850 100.0 %</u>

The Society uses fraternal agents and home office personnel to market its products using direct marketing and advertising in the Society's fraternal newspaper, the *American Srbobran*.



**SIGNIFICANT OPERATING TRENDS**

The following table indicates the changes in key balance sheet items of the Society during the period covered by this examination:

	2018	2017	2016	2015	2014
Admitted Assets	46,069,277	44,816,512	42,181,632	41,208,481	41,141,315
Liabilities	42,914,559	41,692,344	39,233,506	38,659,035	38,854,268
Surplus	3,154,718	3,124,169	2,948,125	2,549,447	2,287,047
Net Premiums Written	1,003,850	1,785,980	940,683	688,650	829,678
Benefits to Members	1,354,816	1,824,860	1,567,935	1,674,730	1,400,510
Net Investment Income	2,354,283	2,238,288	2,185,839	2,183,698	2,191,670
Net Income	209,342	286,740	406,545	312,110	248,235

Since the prior examination, the Society has experienced the following changes in its total number of certificates in-force, the overall amount of insurance in-force, and the average amount of insurance in-force per policy:

Life Insurance	Certificates In Force	Life Insurance In Force	Average Policy In Force
December 31, 2013	12,842	\$ 50,410,000	\$ 3,925
December 31, 2018	11,850	47,840,000	4,037
Net increase/(decrease)	(992)	\$ (2,570,000)	\$ 112

  

Annuities	Number of Annuities	Annuities In Force	Average Annuity In Force
December 31, 2013	1,904	\$ 22,042,000	\$ 11,577
December 31, 2018	1,991	25,534,000	12,825
Net increase/(decrease)	87	\$ 3,492,000	\$ 1,248

**PENDING LITIGATION**

The Society is not involved in any lawsuits whose outcome could have a material impact on its financial condition as of the date of this examination report.

**FINANCIAL STATEMENTS**

The financial condition of the Society, as of December 31, 2018, 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;
- Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Society'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,**

	2018	2017	2016	2015	2014
Bonds	\$ 42,242,615	\$ 41,241,391	\$ 39,258,407	\$ 38,660,711	\$ 38,229,003
Preferred stocks	1,916,880	1,708,923	1,708,923	979,691	0
Cash, cash equivalents and short-term investments	1,001,150	953,110	327,812	687,750	2,057,599
Contract loans	314,393	308,024	302,422	300,046	289,287
Subtotal, cash and invested assets	45,475,038	44,211,448	41,597,564	40,628,198	40,575,889
Investment income due and accrued	587,797	597,815	578,971	574,460	559,180
Premiums and considerations:					
Uncollected premiums and agents balances in the course of collection	6,442	7,249	7,097	5,823	6,246
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	46,069,277	44,816,512	42,181,632	41,208,481	41,141,315
Total	\$ 46,069,277	\$ 44,816,512	\$ 42,181,632	\$ 41,208,481	\$ 41,141,315
Aggregate reserve for life contracts	\$ 36,612,000	\$ 35,545,000	\$ 34,210,000	\$ 33,616,000	\$ 33,252,000
Aggregate reserve for accident and health contracts					
Liability for deposit-type contracts	91,000	125,000			
Contract claims:					
Life	82,000	60,000	55,000	55,000	73,000
Premiums and annuity considerations received in advance	11,686	14,911	15,487	17,336	14,877
Interest maintenance reserve	1,626,973	1,763,091	1,510,662	1,604,315	1,651,030
Commissions to fieldworkers due or accrued	2,288	167	706	848	3,662
General expenses due or accrued	32,885	13,954	17,719	9,264	11,210
Taxes, licenses and fees due or accrued	88,000	66,074	44,035	22,132	133
Amounts withheld or retained by Society as agent or trustee	4,008,986	3,681,415	3,081,519	3,087,626	3,638,419
Miscellaneous liabilities:					
Asset valuation reserve	358,941	422,732	296,378	246,514	209,937
Aggregate write-ins for liabilities		(1)	1	(1)	
Total liabilities excluding Separate Accounts business	42,914,559	41,692,343	39,233,507	38,659,034	38,654,268
Total liabilities	42,914,559	41,692,343	39,233,508	38,659,035	38,654,268
Unassigned funds (surplus)	3,154,718	3,124,169	2,948,125	2,549,447	2,267,047
Surplus	3,154,718	3,124,169	2,948,125	2,549,447	2,267,047
Totals	\$ 46,069,277	\$ 44,816,512	\$ 42,181,631	\$ 41,208,482	\$ 41,141,315

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

	2018	2017	2016	2015	2014
Premiums and annuity considerations for life and A&H contracts	\$ 1,006,269	\$ 1,786,708	\$ 943,808	\$ 685,768	\$ 832,140
Considerations for supplementary contracts with life contingencies					
Net investment income	2,274,748	2,242,169	2,171,916	2,171,940	2,134,317
Amortization of interest maintenance reserve (IMR)	92,052	92,950	94,154	91,908	84,982
Aggregate write-ins for miscellaneous income	954	2,234	1,714	17,685	17,512
<b>Totals</b>	<b>3,374,023</b>	<b>4,124,061</b>	<b>3,211,590</b>	<b>2,967,281</b>	<b>2,967,281</b>
Death benefits	280,724	288,318	255,973	318,671	354,388
Matured endowments	1,000	4,743	8,500	1,000	10,099
Annuity benefits	945,847	1,250,164	1,183,031	1,244,821	966,493
Disability benefits and benefits under accident and health contracts					
Surrender benefits and withdrawals for life contracts	117,518	106,052	65,954	37,527	46,461
Interest and adjustments on contract or deposit-type funds	65,727	55,583	54,477	56,711	59,848
Payments on supplementary contracts with life contingencies	(34,000)	125,000			
Increase in aggregate reserves for life and A&H policies and contracts	1,067,000	1,335,000	594,000	364,000	704,000
<b>Totals</b>	<b>2,443,816</b>	<b>3,164,860</b>	<b>2,161,935</b>	<b>2,020,730</b>	<b>2,141,289</b>
Commissions on premiums, annuity considerations & deposit-type funds (direct)	17,902	25,197	9,757	7,122	16,292
General insurance expenses and fraternal expenses	640,957	593,849	576,379	578,391	577,667
Insurance taxes, licenses and fees	62,006	53,415	56,974	48,908	85,468
Increase in loading on deferred and uncollected premiums					
<b>Totals</b>	<b>3,164,681</b>	<b>3,837,321</b>	<b>2,805,045</b>	<b>2,655,151</b>	<b>2,820,716</b>
Net gain from operations before refunds to members	209,342	286,740	406,545	312,130	248,235
Refunds to members	0	0			
Net gain from operations after refunds to members and before realized capital gains or (losses)	0	0			
Net realized capital gains or (losses) less capital gains tax (excluding gains/losses transferred to the IMR)	0	0		(20)	
<b>Net income</b>	<b>\$ 209,342</b>	<b>\$ 286,740</b>	<b>\$ 406,545</b>	<b>\$ 312,110</b>	<b>\$ 248,235</b>

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

	2018	2017	2016	2015	2014
Surplus, December 31, previous year	\$ 3,124,169	\$ 2,948,125	\$ 2,549,447	\$ 2,287,047	\$ 2,093,925
Net income	209,342	286,740	406,545	312,110	248,235
Change in net unrealized capital gains or (losses)	(240,243)		36,598	(32,235)	
Change in nonadmitted assets and related items	720	7,017			
Change in reserve on account of changes in valuation basis					
Change in asset valuation reserve	63,791	(124,354)	(51,864)	(36,577)	(22,416)
Aggregate write-ins for gains and losses in surplus	(3,061)	6,641	7,399	19,102	(32,697)
Net change in surplus for the year	30,549	176,044	398,678	262,400	193,122
Surplus, December 31, current year	<u>3,154,718</u>	<u>3,124,169</u>	<u>2,948,125</u>	<u>2,549,447</u>	<u>2,287,047</u>

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

	2018	2017	2016	2015	2014
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 1,003,850	\$ 1,785,980	\$ 940,683	\$ 688,850	\$ 829,678
Net investment income	2,354,283	2,238,288	2,185,839	2,183,068	2,191,670
Miscellaneous income	954	2,234	1,714	17,665	17,512
<b>Total</b>	<b>3,359,087</b>	<b>4,026,502</b>	<b>3,128,236</b>	<b>2,890,013</b>	<b>3,038,860</b>
Benefit and Loss related Payments	1,354,816	1,824,880	1,567,935	1,674,730	1,400,510
Commissions, expenses paid and aggregate write-ins for deductions	878,087	854,726	812,894	817,182	715,067
Dividends paid to policyholders					
<b>Total deductions</b>	<b>2,032,903</b>	<b>2,479,586</b>	<b>2,180,829</b>	<b>2,291,912</b>	<b>2,115,577</b>
<b>Net Cash from Operations</b>	<b>1,326,184</b>	<b>1,546,916</b>	<b>947,407</b>	<b>598,101</b>	<b>923,283</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	4,589,326	1,919,753	2,682,120	1,884,383	2,773,922
Stocks					
Mortgage loans					
Real estate					
Other invested assets					
Miscellaneous proceeds				12,100	
<b>Total investment proceeds</b>	<b>4,589,326</b>	<b>1,919,753</b>	<b>2,682,120</b>	<b>1,896,483</b>	<b>2,773,922</b>
Cost of investments acquired (long-term only):					
Bonds	5,704,130	3,574,322	3,295,748	2,097,956	2,434,035
Stocks	448,200		729,232	879,691	
Real estate					
Other invested assets					
Miscellaneous applications					
<b>Total investments acquired</b>	<b>6,152,330</b>	<b>3,574,322</b>	<b>4,024,980</b>	<b>3,077,647</b>	<b>2,434,035</b>
Net increase (decrease) in policy loans and premium notes	6,389	5,602	2,376	10,759	22,190
<b>Net cash from investments</b>	<b>(1,566,373)</b>	<b>(1,660,171)</b>	<b>(1,345,236)</b>	<b>(1,391,923)</b>	<b>317,697</b>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Net deposits on deposit-type contracts and other insurance liabilities	(34,000)	125,000			
Other cash provided or (applied)	325,229	613,552	37,892	(576,028)	119,772
<b>Net cash from financing and miscellaneous sources</b>	<b>291,229</b>	<b>738,552</b>	<b>37,892</b>	<b>(576,028)</b>	<b>119,772</b>
<b>Reconciliation of cash, cash equivalents, and short-term investments:</b>					
Net change in cash, cash equivalents, and short-term investments	48,040	625,297	(359,937)	(1,369,850)	1,369,752
Cash, cash equivalents, and short-term investments:					
Beginning of the year	953,109	327,812	687,749	2,057,599	696,847
End of the year	1,001,149	953,109	327,812	687,749	2,057,599

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**SUMMARY OF EXAMINATION CHANGES**

The Society has reported \$470,393 of non-policyholder scholarship funds as admitted assets in the December 31, 2018 Annual Statement. These funds should be reported as non-admitted assets in accordance with *Statement of Statutory Accounting Principles* (“SSAP”) Number 4, Paragraph 3 which states, “Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet.”

In accordance with the SSAP 4 cited above, the Department has determined that dedicated scholarship money cannot be used to pay policyholder obligations. The Society currently incorporates these funds into surplus. As a result of this adjustment, the Society’s reported surplus should be reduced by \$470,393 to \$2,653,776.

**NOTES TO FINANCIAL STATEMENTS**

**ASSETS**

**INVESTMENTS**

As of December 31, 2018, the Society’s invested assets were distributed as follows:

	<b>Amount</b>	<b>Percentage</b>
Bonds	\$ 42,242,615	92.9 %
Preferred stocks	1,916,880	4.2 %
Cash	1,001,150	2.2 %
Contract loans	314,393	0.7 %
<b>Totals</b>	<b>\$ 45,475,038</b>	<b>100.0 %</b>

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

<b>NAIC Designation</b>	<b>Amount</b>	<b>Percentage</b>
1 - highest quality	\$ 19,660,759	46.5 %
2 - high quality	20,059,845	47.5 %
3 - medium quality	504,570	1.2 %
4 - low quality	1,000,000	2.4 %
5 - lower quality	1,017,441	2.4 %
<b>Totals</b>	<b>\$ 42,242,615</b>	<b>100.0 %</b>

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Years to Maturity	Amount	Percentage
1 year or less	\$ 0	0.0 %
2 to 5 years	1,709,121	4.0 %
6 to 10 years	6,891,796	16.3 %
11 to 20 years	14,434,530	34.2 %
over 20 years	19,207,168	45.5 %
Totals	<u>\$ 42,242,615</u>	<u>100.0 %</u>

The Society has a written investment policy as required by 40 P.S. § 504.1(c). A review of the corporate minutes shows that the Society failed to document the annual review approval of its investment policy for all years during the examination period as required by 40 P.S. § 504.1(c), which says, "Any domestic company subject to the provisions of this act is required to have a formal investment plan which shall be updated on an annual basis as authorized by the board of directors...."

*It is recommended that the Society document in its Board minutes, the annual review and approval of its investment policy as required by 40 P.S. § 504.1(c).*

In reviewing the investment policy for compliance with relevant statutes, it was noted the Society did not include a Other Than Temporary Impairment ("OTTI") Policy. An OTTI provision may be required by the Insurance Department under 40 P.S. § 653b(b) which states, "...the investment plan, and such other information as the Insurance Department may require in order to determine the impact of the investment plan on the solvency of the Company shall be made available to the Insurance Department during the course of a financial examination..."

*It is recommended that the Society include an Other Than Temporary Impairment provision in its investment policy as required by 40 P.S. § 653b(b).*

## LIABILITIES

### POLICYHOLDER AND CLAIMS RESERVES

The Society's actuarial reserves as of December 31, 2018 have been summarized as follows:

	Amount	Percentage
Life insurance contracts	\$ 11,077,000	30.3 %
Deposit-type contracts	25,534,000	69.7 %
Disability	1,000	0.00 %
Total	<u>\$ 36,612,000</u>	<u>100.0 %</u>

For years 2014 and 2015, the Society's appointed actuary was Grant Hemphill, FSA, MAAA, of Bruce and Bruce Company. For years 2016-2018, the Society's appointed actuary was Edward F. Cowman, FSA, MAAA, of Miller & Newberg, Inc. The Department was notified of the change of appointed actuary in accordance with 31 Pa. Code 84.b.5(c).



The Society's appointed actuary concluded the December 31, 2018 reserves make an adequate provision for the anticipated cash flows required by the contractual obligations and related expenses of the Society. The Society's appointed actuary opined the December 31, 2018 reserves and related actuarial values:

- A. Are computed in accordance with presently accepted Actuarial Standards of Practice consistently applied and are fairly stated, in accordance with sound actuarial principles,
- B. Are based on assumptions and methods that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions,
- C. Meet the requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania, and are as great as the minimum aggregate amounts required by any state,
- D. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year-end,
- E. Include provision for all actuarial reserves and related Annual Statement items which ought to be established.

In conjunction with the on-site financial examination, the Department's internal life actuaries conducted a review of the actuarial assumptions and methods used in determining reserves and related actuarial items. Compliance with statutory requirements was also evaluated. The Department's life actuaries' review also concluded there were no material recommendations or adjustments concerning the Society's reported reserves. The Department accepted the appointed actuary's conclusion that the Society's reserves as of December 31, 2018, make an adequate provision for all actuarial reserves and related actuarial values which ought to be established.

During the examination, the examiner identified several unpaid claims that met the definition of abandoned or unclaimed property pursuant to Pennsylvania statute governing unclaimed property, Disposition of Abandoned and Unclaimed Property Act in 72 P.S. § 1301 et. seq.

The statute requires that holders of abandoned or unclaimed property that should be in the custody of the Commonwealth of Pennsylvania are required to report the property to the Pennsylvania Treasury Department annually on or before April 15. In those annual reports, the Pennsylvania Treasury Department will accept information about unclaimed property that should be in the custody of other states and refer that information to the proper state.

The Society did not document a policy or procedure to identify and report abandoned or unclaimed property, nor provide annual reports to the Pennsylvania Treasury Department.

***It is recommended that the Society develop and document a written policy to review and determine which assets must be escheated to the Pennsylvania State Treasury to comply with 72 P.S. § 1301 et. seq.***

*It is recommended that the Society comply with 72 P.S. § 1301 et. seq. and submit all escheatable monies to the Pennsylvania Treasury Department by April 15 of each year.*

## **SUBSEQUENT EVENTS**

At the Society's quadrennial convention held in Pittsburgh, Pennsylvania September 6-8, 2019, Dane Medich was elected President. Mr. Medich succeeded President John Martich who chose not to seek re-election.

At its quadrennial convention, the Society amended its Constitution and By-Laws to formally charter its internal and external audit committees. These changes were formally approved by the Department on December 27, 2019.

On October 10, 2019, the Society received a Certificate of Authority from Wisconsin authorizing them to transact life and annuities policies in the state.

## **RECOMMENDATIONS**

### **PRIOR EXAMINATION**

The prior examination report contained no recommendations.

### **CURRENT EXAMINATION**

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

- 1. It is recommended that the Society comply with 40 P.S. § 504.1(b) by formally documenting in its corporate minutes the ratification and approval of all investment transactions by its Board of Directors or a committee thereof. (See "Minutes", page 5.)*
- 2. It is recommended that the Society document in its Board minutes, the annual review and approval of its investment policy as required by 40 P.S. § 504.1(c). (See "Investments", page 14.)*
- 3. It is recommended that the Society include an Other Than Temporary Impairment provision in its investment policy as required by 40 P.S. § 653b(b). (See "Investments", page 14.)*
- 4. It is recommended that the Society develop and document a written policy to review and determine which assets must be escheated to the Pennsylvania State Treasury to comply with 72 P.S. § 1301 et. seq. (See "Policyholder and Claims Reserves", page 15.)*
- 5. It is recommended that the Society comply with 72 P.S. § 1301 et. seq. and submit all escheatable monies to the Pennsylvania Treasury Department by April 15 of each year. (See "Policyholder and Claims Reserves", page 15.)*

# Serb National Federation

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## CONCLUSION

As a result of this examination, the financial condition of Serb National Federation, as of December 31, 2018, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 46,069,277	100.0 %
Liabilities	\$ 42,914,559	93.1 %
Capital and Surplus	3,154,718	6.9 %
Total liabilities, capital and surplus	\$ 46,069,277	100.0 %

Since the previous examination, made as of December 31, 2013, the Society's assets increased by \$5,942,979, its liabilities increased by \$4,882,186, and its surplus increased by \$1,060,793.

This examination was conducted by David Smith, CISA, and Robert W. Smith, CFE, with the latter in charge.

Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Philip M. Judge, CFE  
Examination Manager



Robert W. Smith, 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.