

REPORT OF EXAMINATION
OF THE
MENNONITE AID PLAN
OF THE PACIFIC COAST
AS OF
DECEMBER 31, 2017

Filed on May 17, 2019

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San Francisco, California
March 29, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MENNONITE AID PLAN OF THE PACIFIC COAST

(hereinafter referred to as the Company) at its home office located at 1110 J Street
Reedley, California 93654.

SCOPE OF EXAMINATION

We have performed our single state examination of Mennonite Aid Plan of the Pacific Coast. The previous examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2017. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles, Annual Statement instructions, and California Insurance Code Section 9080 et al. All accounts and activities of the Company were considered in accordance with the

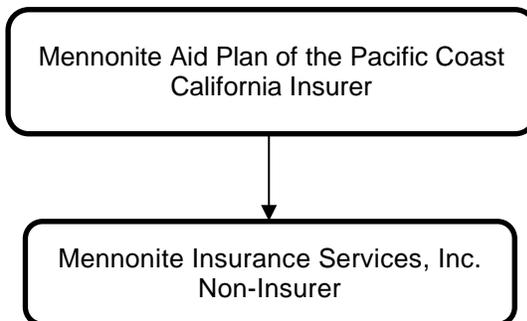
risk-focused examination process.

COMPANY HISTORY

The Company is located in Reedley, California. The Company commenced business as a religious fraternal organization on January 1, 1922 to provide fire insurance for the members of the Mennonite and Brethren in Christ Churches (Mennonite Anabaptist faith) and its churches. It was incorporated under the laws of the state of California on September 14, 1979 and received a Certificate of Exemption pursuant to California Insurance Code Section 9080.1 on July 2, 1954. The Company is not subject to most of the insurance laws applicable to other California insurers because of its statutory exemption. The Company is the only religious fraternal fire organization still operating in California.

MANAGEMENT AND CONTROL

The Company has a wholly owned subsidiary, Mennonite Insurance Services, Inc. (MIS). Directors, officers, and employees of the Company hold the same position with MIS. The following organization chart depicts this relationship:



The operations and affairs of the Company are subject to the supervision and control of a thirteen-member Board. A listing of the members of the Board of Directors and principal officers serving on December 31, 2017 is as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Jim Brandt Reedley, California	Retired
Larry Miller Clovis, California	Self-Employed Consultant
E. James "Jim" Enns Clovis, California	Retired
Paul Neufeld Wasco, California	Retired
Janine Bergdahl Madera, California	High School Teacher
John Hochstetler Salem, Oregon	Farm Equipment Dealer, Rickreal Farms
Ira Kauffman Lebanon, Oregon	Retired
Dennis Langhofer Spokane, Washington	Retired
LeAnne Quenzer Visalia, California	Nurse
Mike Schellenberg Reedley, California	Outreach Pastor
Marianne Unruh Reedley, California	Fruit and Vegetable Broker
Alan Whaley Phoenix, Arizona	Pastor
Ron Wiens San Jose, California	Business Owner

Principal Officers

<u>Name</u>	<u>Title</u>
Jim Brandt	President and Board Chairman
Larry Miller	Secretary
E. James "Jim" Enns	Chief Financial Officer and Board Treasurer
Paul Neufeld	Vice President

Intercompany Agreements

The Company and its subsidiary, Mennonite Insurance Services, Inc. (MIS) entered into an Expense Allocation Agreement on October 17, 2015. Under the terms of this agreement, the Company will pay MIS the amounts incurred for gross employee wages, contributions to the employee retirement plan, employer taxes, and any net employee health benefits. In return, MIS will pay the Company \$6,100 for its share of payroll expenses and \$4,525 for its share of rent, utilities, maintenance, and overhead. Payments are to be paid within 30 days following the end of each month. The Boards of the Company and MIS will review this allocation agreement at each annual meeting. Any changes to the agreement must be in writing and be approved by the respective boards at a duly called meeting.

TERRITORY AND PLAN OF OPERATION

The Company operates under a Certificate of Exemption pursuant to California Insurance Code (CIC) Section 9080.1 which authorizes it to write fire insurance and provide extended coverage for other types of losses as allowed under CIC Section 9095.

As of December 31, 2017, the Company was authorized to write insurance in the states of California and Oregon, and wrote on a surplus lines basis in the states of Arizona and Washington. During 2017, direct premiums written were \$1.32 million. California and Oregon accounted for 88.3% and 6.8%, respectively, of direct premiums written during the year and the remaining 4.8% of premiums were written in Arizona and Washington.

Business is produced by its wholly-owned subsidiary, Mennonite Insurance Services, Inc. (MIS). There are six licensed agents at MIS. New business is acquired through referrals and contacts with potential clients from church directories and advertisement.

REINSURANCE

Assumed

The Company had no assumed reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2017:

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Reinsurer(s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Treaty (Obligatory First Surplus)	Fire	<u>Authorized</u> Farmers Mutual Hail Insurance Company of Iowa (17.5%) Berkley Insurance Company (25.0%) Employers Mutual Casualty Company (30.5%) <u>Unauthorized</u> Employers Mutual Casualty Company (AM AGRI) (27.0%)	\$150,000	\$750,000 per risk
Facultative	Fire	<u>Authorized</u> Hannover Rück SE (7.0%) Swiss Reinsurance America Corporation (20.00%) The Toa Reinsurance Company of America (16.50%) The following are part of the Regional Treaty Services Corporation (RTSC): Berkley Insurance Company (14.00%) Employers Mutual Casualty Company (15.25%) Farmers Mutual Hail Insurance Company of Iowa (8.75%) <u>Unauthorized RTSC</u> American Agricultural Insurance Company (18.50%)	\$45,000	\$2,500,000 per risk

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 4,326,421	\$	\$ 4,326,421	
Common stocks	8,242,608	423,754	7,818,854	
Real estate	163,916		163,916	
Cash and short-term investments	416,554		416,554	
Other invested assets	8,715		8,715	
Investment income due and accrued	49,939		49,939	
Amount recoverable from reinsurers	219,667		219,667	
Electronic data processing equipment and software	2,857		2,857	
Furniture and equipment	2,070	2,070		
Receivable from parent, subsidiaries, and affiliates	<u>85,669</u>		<u>85,669</u>	
 Total assets	 <u>\$ 13,509,691</u>	 <u>\$ 425,824</u>	 <u>\$ 13,083,867</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 60,386	(1)
Current federal and foreign income taxes			73,452	
Net deferred tax liability			715,086	
Unearned premiums			201,325	
Advance premiums			42,818	
Ceded reinsurance premiums payable			97,892	
Amounts withheld or retained by company for account of others			3,710	
Aggregate write-ins for liabilities			<u>80</u>	
 Total liabilities			 1,194,749	
 Unassigned funds (surplus)		 <u>\$ 11,889,118</u>		
 Surplus as regards policyholders			 <u>11,889,118</u>	
 Total liabilities, surplus and other funds			 <u>\$ 13,083,867</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$ 407,144
Deductions:		
Losses	\$ 433,417	
Loss expenses incurred	10,493	
Other underwriting expenses incurred	491,116	
Total underwriting deductions		<u>935,026</u>
Net underwriting loss		(527,882)

Investment Income

Net investment income earned	\$ 109,367	
Net realized capital gain	995,403	
Net investment gain		1,104,770

Other Income

Dividends to policyholders	\$ 36,954	
Total other income		<u>36,954</u>
Net income before federal and foreign income taxes		539,934
Federal and foreign income taxes incurred		<u>148,535</u>
Net income		<u>\$ 391,399</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 11,056,595
Net income	\$ 391,399	
Change in net unrealized capital gains	667,849	
Change in net deferred income tax	(227,068)	
Change in nonadmitted assets	343	
Change in surplus as regards policyholders for the year		<u>832,523</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 11,889,118</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013 per Examination			\$ 10,575,691
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 1,222,653	\$	
Change in net unrealized capital gains	138,496		
Change in net deferred income tax		47,088	
Change in nonadmitted assets	<u> </u>	<u>638</u>	
Total gains and losses	<u>\$ 1,361,149</u>	<u>\$ 47,722</u>	
Net increase in surplus as regards policyholders			<u>1,313,427</u>
Surplus as regards policyholders, December 31, 2017, per Examination			<u>\$ 11,889,118</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A review of the Company's 2017 claims paid through February 28, 2019 indicated that the Company's reported loss and loss adjustment expense reserves at December 31, 2017 were adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

Comments on Management and Control – Expense Allocation (Page 4): It was recommended that the Company put in place a written cost allocation agreement with its subsidiary, Mennonite Insurance Services, Inc., which describes how wages, rent, and payroll expenses are to be allocated between the two entities. In addition, the terms of the agreement should be approved by the board of directors of both entities. The Company has complied with this recommendation.

Comments on Financial Statement Items (Page 10): It was recommended that the Company computes its ceded and retained loss reserves in accordance with the reinsurance contracts and apply the same method for all loss reserves subject to the reinsurance program. The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Vicky Au-Yeung
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner Supervisor
Department of Insurance
State of California