

REPORT OF EXAMINATION
OF THE
MENNONITE AID PLAN OF THE PACIFIC COAST
AS OF
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to read "D. DeFina", is positioned above the filing date.

Filed on June 13, 2023

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Oakland, California
May 12, 2023

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 also referred to as the Company). The Company's statutory home office is located at 1110 J Street, Reedley, California 93654.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively as well as an evaluation of the overall financial statement presentation, and management's compliance with California Insurance Code Section 9080 et al.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management. The examination does not attest to the fair presentation of the financial

statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact 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.), were not included within the examination report but separately communicated to the Company.

COMPANY HISTORY

The Company is located in Reedley, California. The Company commenced business as a fraternal organization on January 1, 1922 to provide property insurance for the members of the Mennonite and Brethren in Christ Churches (Mennonite Anabaptist faith). 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 (CIC) 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 fraternal fire organization still operating in California. It is licensed to write fire insurance in the states of California and Oregon. Pursuant to CIC Section 9080, the Company is not governed by the provisions of this code or other insurance laws applicable to other California insurers.

MANAGEMENT AND CONTROL

The Company is 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:

Mennonite Aid Plan of the Pacific Coast (California) Mennonite Insurance Services, Inc. (Non-Insurer)

The operations and affairs of the Company are subject to the supervision and control of a twelve-member Board of Directors. The members of the Board of Directors and principal officers serving on December 31, 2021 are as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Janine Kroeker Bergdahl Madera, California	Retired
Jim Brandt Reedley, California	Retired
Ernest James "Jim" Enns Clovis, California	Retired
John Hochstetler Salem, Oregon	Farm Equipment Dealer Rickreal Farms
Ira "Ike" Kauffman, Jr. Lebanon, Oregon	Retired
Dennis Langhofer Spokane, Washington	Retired
Mike Livingston ⁽¹⁾ Moor Park, California	Executive Director Vinia
Larry Miller Clovis, California	Self-Employed Consultant

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
LeAnne Quenzer Visalia, California	Nurse
Mike Schellenberg Reedley, California	Outreach Pastor
Alan Whaley Phoenix, Arizona	Pastor
Ron Wiens San Jose, California	Business Owner Ron Wiens Machining

Principal Officers

<u>Name</u>	<u>Title</u>
Jim Brandt	President
Larry Miller	Secretary
Ernest James "Jim" Enns	Chief Financial Officer

The following changes in Board of Directors occurred subsequent to the examination date:

- (1) Effective August 1, 2022, Mike Livingston resigned and Ellis Stutzman was elected as Board Member in his place.

Management Agreements

Expense Allocation Agreement: The Company and its subsidiary, 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 monthly payments of \$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.

Effective January 1, 2018, the Company started offering personal liability coverage, personal injury coverage, and medical payments pursuant to CIC Section 9095(a)(2)(J). As of December 31, 2021, the Company was authorized to write insurance in the states of California and Oregon, and wrote on a surplus line basis in the states of Arizona and Washington. During 2021, direct premiums written were \$1.5 million. California and Oregon accounted for 91.9% and 5.3%, respectively, of direct premiums written during the year and the remaining 2.8% of premiums were written in Arizona and Washington.

Business is produced by its wholly-owned subsidiary, MIS. There are seven 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

Pursuant to California Insurance Code (CIC) Section 9080.3, religious organizations engaged in the business of writing fire insurance solely for its members and its churches shall not write insurance in excess of 10% of its capital and surplus on any one risk without immediately reinsuring the excess.

The following is a summary of the principal reinsurance agreements in-force as of December 31, 2021. All of the reinsurers listed below are authorized/certified except Employers Mutual Casualty Company (AM AGRI); Farmers Mutual Reinsurance Plan, Inc.; American Agricultural Insurance Company; Aspen Re American Inc. o/b/o Aspen Ins (UK); and Partner Renaissance U.S. Inc.

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Facultative	Fire	Employers Mutual Casualty Company (20.0%) Farmers Mutual Hail Insurance Company of Iowa (8.75%) Hannover Ruck SE (7.5%) Renaissance Reinsurance U.S. Inc. (20.08%) Swiss Reinsurance America Corporation (FMRP) (18.50%) The Toa Reinsurance Company of America (1.17%) American Agricultural Insurance Company (18.5%) Aspen Re American Inc. o/b/o Aspen Ins (UK) (2.5%) Partner Renaissance U.S. Inc. (3.0%)	\$45,000	2,500,000 per risk
Obligatory First Surplus Treaty	Fire	<u>Regional Treaty Services Facility</u> Employers Mutual Casualty Company (27.5%) Farmers Mutual Hail Insurance Company of Iowa (17.05%) Renaissance Reinsurance U.S. Inc. (12.55%) Employers Mutual Casualty Company (AM AGRI) (34.5%) Farm Mutual Reinsurance Plan (8.4%)	\$150,000	\$900,000 per risk

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Casualty Quota Share	Liability	<u>Regional Treaty Services Facility</u> Employers Mutual Casualty Company (27.5%) Farmers Mutual Hail Insurance Company of Iowa (17.05%) Renaissance Reinsurance U.S. Inc. (12.55%) Employers Mutual Casualty Company (AM AGRI) (34.5%) Farm Mutual Reinsurance Plan (8.4%)	None	100% of amounts due for extra contractual obligations and loss in excess of policy limits subject to maximum policy limit of \$500,000

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 735 requires that a designated officer of the Company inform the board of directors regarding the receipt of the report of examination and that the fact that such officer did so inform the members present be entered in the minutes of such meeting. The Company was not in compliance with CIC Section 735 because no entry was made in the meeting minutes of the board of directors noting that the members were informed about the receipt of the prior report of examination. It is recommended that the Company institute procedures to ensure compliance with CIC Section 735.

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, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017
through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 4,156,971	\$	\$ 4,156,971	
Common stocks	9,907,127	423,754	9,483,373	
Real estate	142,553		142,553	
Cash, cash equivalents, and short-term investments	1,400,945		1,400,945	
Investment income due and accrued	52,266		52,266	
Reinsurance recoverable from reinsurers	506,089		506,089	
Federal income tax recoverable	14,271		14,271	
Electronic data processing equipment and software	7,947		7,947	
Furniture and equipment	10,055	10,055		
Receivables from parent, subsidiaries and affiliates	95,818	95,818		
Aggregate write-ins for other-than-invested assets	5,918		5,918	
	<hr/>		<hr/>	
Total assets	\$ 16,299,960	\$ 529,627	\$ 15,770,333	

Liabilities, Surplus, and Other Funds

Notes

Losses and Loss adjustment expenses		\$ 113,162	(1)
Net deferred tax liability		758,628	
Unearned premiums		93,329	
Advance premiums		61,184	
Ceded reinsurance premiums payable		397,588	
Amounts withheld or retained by company for account of others		5,154	
Provision for reinsurance		<hr/> 7,000	
Total liabilities		1,436,045	
Unassigned funds (surplus)	<hr/> \$ 14,334,288		
Surplus as regards policyholders		<hr/> 14,334,288	
Total liabilities, surplus, and other funds		<hr/> <hr/> \$ 15,770,333	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Underwriting Income

Premiums earned		\$ 308,217
Deductions:		
Losses	\$ 373,456	
Loss expenses incurred	16,036	
Other underwriting expenses incurred	442,380	
Total underwriting deductions		<u>831,872</u>
Net underwriting loss		(523,655)

Investment Income

Net investment income earned	\$ 50,382	
Net realized capital gain	<u>1,007,527</u>	
Net investment gain		<u>1,057,909</u>
Net income before federal income taxes incurred		534,254
Federal income taxes incurred		<u>94,753</u>
Net income		<u>\$ 439,501</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 13,532,507
Net income	\$ 439,501	
Change in net unrealized capital gains	575,900	
Change in net deferred income tax	(120,939)	
Change in non-admitted assets	<u>(92,681)</u>	
Change in surplus as regards policyholders for the year		<u>801,781</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 14,334,288</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2017			\$ 11,889,118 <u>Notes</u>
Net income	\$ 1,083,193	\$	
Change in net unrealized capital gains	1,509,321		
Change in net deferred income tax		43,541	
Change in non-admitted assets		103,803	
Total gains and losses	\$ 2,592,514	\$ 147,344	
Net increase in surplus as regards policyholders			2,445,170
Surplus as regards policyholders, December 31, 2021			\$ 14,334,288

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A review of the Company's 2021 claims paid through May 9, 2023 indicated that the Company's reported loss and loss adjustment expense reserves at December 31, 2021 were adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 7): It is recommended that the Company institute procedures to ensure compliance with California Insurance Code Section 735.

Previous Report of Examination

None.

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,

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

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California