

REPORT ON EXAMINATION
OF
DELAWARE GRANGE MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

DELAWARE GRANGE MUTUAL INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By:

Brandi Biddle

Date: June 23, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
DELAWARE GRANGE MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 23rd day of June, 2014

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SALUTATION

May 9, 2014

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.025, dated March 19, 2014, an examination has been made of the affairs, financial condition and management of

DELAWARE GRANGE MUTUAL INSURANCE COMPANY

hereinafter referred to as the “Company” or “DGM” and incorporated under the laws of the State of Delaware as a mutual company. The examination was conducted at the statutory home offices of the Company, located at 9 East Loockerman Street Suite #212, Dover, DE 19901. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2008. This examination covered the period of January 1, 2009 through December 31, 2012, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of

the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The examination report addresses regulatory issues reviewed during the examination process. During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Buffamante Whipple Buttafaro, P.C. Certain work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Statutory Deposits
- Fidelity Bonds and Other Insurance
- Loss Experience
- Pensions/Ownership/Employee benefits
- All Asset and Liability items not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendation for non-adverse findings.

SUBSEQUENT EVENTS

Per letter dated January 8, 2013, the Delaware Department of Insurance (DOI) approved the payment surplus note in the amount of \$50,000 to The First National Bank of Wyoming. The Surplus Note was fully repaid.

COMPANY HISTORY

The Company was chartered by the Delaware Legislature in 1887. In 1924, a new charter was provided for the Company's perpetual existence. The Company is a property and casualty insurance company organized under the laws of and domiciled in the State of Delaware. The Company is licensed to transact business only in the State of Delaware. The Company is authorized to write the following lines of business: Standard Fire, Allied Lines and Homeowners coverage through a network of independence agents throughout Delaware.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws (most recently amended in 2009), all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of no more than fourteen directors. The directors need not be residents of the State of Delaware. A director shall hold office for the term of three years.

The persons elected and serving as Directors of the Company at December 31, 2012 were:

<u>Name</u>	<u>Primary Business Affiliation</u>
Warner (Bud) J. Clark	Williams Agency – Agent for Company
William J. O’Day	Farmer Sussex County
Ronald Martin	City of Newark
Albert Holmes, Jr.	Insurance Agent for Company
Melvin Warren	Pfister Insurance Inc. - Agent for Company
William Lehnert	Retired Marketing Rep Lititz Company, Marketing Rep for Company, Part Time
Paul Davis	PD – Retired – Outside Director
Mervin Richard	Retired – Outside Director
Gary D. Evans	Retired – Outside Director
Francis O’Neill	Retired – Outside Director
Richard B. Harper	Retired – Outside Director
Michael Lynch	Retired – Outside Director
Robin Blendt *	Retired – No longer on board resigned 2012
Edward Williams	Retired – Outside Director

* - resigned in fourth quarter 2012, replacement named in 2013 at next Board meeting.

The following Committees duly appointed by the board as of December 31, 2012:

Executive Committee:

- Warner Clark, Chairman, President
- William O’Day, Vice President
- Ronald Martin, Treasurer
- Members at Large: Albert Holmes, Francis O’Neill

Personnel Committee

- Paul Davis, Chairman
- Melvin Warren
- Richard Harper

Underwriting/Products

- Melvin Warren, Chairman
- William Lehnert
- Gary Evans

- Bud Clark
- Richard Harper

Agency Appointment:

- Francis O’Neill, Chairman
- William Lehnert
- Gary Evans

The persons elected and serving as Officers of the Company at December 31, 2012 were:

<u>Officers</u>	<u>Title</u>
Warner J. (Bud) Clark	President
William J. O’Day	Vice President
Ronald Martin	Treasurer
Janice Mayo	Secretary

Corporate Records

The minutes of the meetings of the Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period. A review of the Company’s bylaws revealed that a change was made during the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 “any change of directors, officers”; notice, “Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers”. The Company did not notify the Commissioner. As a result, the following exam recommendation will be made:

It is recommended that the Company initiate procedures to comply with 18 Del. C. § 4919 “Notify the Commissioner of any change of directors and officers”.

INSURANCE HOLDING COMPANY SYSTEM

The Company is not a member of an insurance holding company system.

TERRITORY AND PLAN OF OPERATION

As mentioned above, DGM is licensed in Delaware only. The business is entirely written in Delaware. The Company writes business that was predominately personal lines, concentrated in homeowners, both preferred and standard and Dwelling Fire. Inland Marine and Other Liability Occurrence represented approximately 9% of the book of business. The business is produced by independent agents. The following is the breakdown of the Company net premiums written as of December 31, 2012:

<u>Direct Business</u>		<u>% of Total</u>
Fire	\$ 488,925	53.83%
Homeowners Mutiple Peril	339,698	37.40%
Unland marine	3,408	0.38%
Other Liability Occurrence	<u>76,276</u>	8.40%
Total Direct	<u>\$ 908,307</u>	100.00%
<u>Ceded Premium</u>		
Fire	\$ 371,793	55.38%
Homeowners Mutiple Peril	258,776	38.55%
Unland marine	112	0.02%
Other Liability Occurrence	<u>40,636</u>	6.05%
Total Direct	<u>\$ 671,317</u>	100.00%
Total Net Premiums Written	<u><u>\$ 236,990</u></u>	

REINSURANCE

For the year ended December 31, 2012, the Company reported the following distribution of premiums written:

Direct	\$ 908,307
Ceded	<u>(671,317)</u>
Net	<u>\$ 236,990</u>

The company ceded 73.9% of its direct premiums in 2012. The ceding percentage over the exam period has remained near the current percentage.

As of December 31, 2012, the Company's ceded reinsurance program was as follows:

Property

Obligatory First Surplus Treaty

Coverage: 10 times the Company's net retention, with a maximum cession of \$600,000. The Company's minimum retention on all risks is \$40,000.

Aggregate Excess of Loss Reinsurance

Coverage: The reinsurer is liable for 95% of 320% of subject net premiums earned, or 95% of \$1,094,400, whichever is lesser in excess of 70% of gross net premiums earned, or \$159,600, whichever is greater.

Supplemental Excess of Loss Reinsurance

Coverage: The reinsurer will provide coverage of 100% of 610% of the Company's gross net premiums earned or \$1,738,500 whichever is lesser, in excess of an amount equal to the sum of the Company's net retention plus coverage provided by the Aggregate Excess of Loss Reinsurance coverage.

Casualty

Excess of Loss First Layer:

Coverage: 100% of \$580,000 in excess of \$20,000 net loss per occurrence, covering bodily injury and property damage, including medical payments.

Second Layer: \$500,000 excess \$500,000 combined net loss, per occurrence.

Growth of Company

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premium</u>	<u>Net Income</u>
2008	\$ 1,201,076	\$ 191,092	\$ 1,009,984	\$ 247,232	\$ 69,638
2009	\$ 1,206,255	\$ 255,440	\$ 950,815	\$ 252,608	\$ (27,601)
2010	\$ 1,283,236	\$ 259,588	\$ 1,023,678	\$ 249,986	\$ 45,693
2011	\$ 1,250,005	\$ 166,596	\$ 1,083,409	\$ 236,461	\$ 125,133
2012	\$ 1,359,072	\$ 195,971	\$ 1,163,501	\$ 236,990	\$ 58,750

Since December 2008 to December 31, 2012, the Company's financial results were as follows:

- 13.15% increase in admitted assets
- 2.55% increase in liabilities
- 15.20% increase in policyholders' surplus

- 4.14% decrease in net written premium
- 15.64% decrease in net income

Assets

The Company's total admitted assets increased in the amount of \$157,996 or 13.15% from 2008 to 2012. Most significant increases were in invested assets. The following line items contributed to this increase:

- **Common Stocks (“CS”)**- CS represented \$521,838 or 38.39% of total admitted assets at December 31, 2012. This was an increase of \$179,633 from prior year CS. 100% was in unaffiliated CS
- **Current FIT (“FIT”)** – FIT was reported in the amount of \$19,878 due to overpayment of taxes during 2012.

Liabilities

Total Liabilities increased \$4,879 or 2.55% from 2008 to 2012. Material individual liability line items consisted primarily of Unearned Premium, Advanced Premium and LAE. The following is a discussion and analytical review of the primary liabilities as of December 31, 2012:

- **Unearned Premiums (“UE”)** – UE represented \$168,029 or 86% of total liabilities at December 31, 2012, after deducting \$297,731 in ceded reinsurance. This represents approximately 18% of direct premiums written of \$908,306. UE appears reasonable.
- **Advanced Premium (“AP”)** – represented \$21,626 or 10.87% of total liabilities at December 31, 2012. AP is accrued for quarterly payments for new and renewal policies.

Policyholders’ Surplus

Policyholders’ Surplus (“PHS”) was reported in the amount of \$1,163,501 at December 31, 2012. That amount was a 15.20% or \$153,517 increase from 2008. The 2012 amount includes a surplus note of \$50,000. The original surplus note, issued in 2004 was \$150,000. \$50,000 was paid on the note in 2009 and \$50,000 was paid in 2011. The note was retired in early 2013. The Company exceeds the required statutory minimum surplus requirements for operating in the State of Delaware for the products offered.

Net Premiums Written

Net Premiums Written (“NPW”) was reported in the amount of \$236,900 as of December 31, 2012. NPW decreased \$10,242 or 4.14% from 2008 to 2012. Decrease was due to slow economy.

ACCOUNTS AND RECORDS

The Company maintains its records on various systems. The Company is not required to have a financial audit performed by an independent CPA firm. The Company's financial statements are prepared by the accounting firm of Buffamante Whipple Buttafaro, P.C. (BWB). The financial statements are presented to the Board for approval prior to filing. The Board is very active in its oversight of the Company operations.

As part of our review we inquired as to status of the prior recommendation regarding the custodian agreement. As it was noted in the previous examination and recommended again;

It is recommended the Company enter into a custodian agreement for its invested securities. The custodian agreement should contain the safeguard language recommended in the NAIC Examiners Handbook

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2012, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2012
Statement of Liabilities, Surplus and Other Funds, December 31, 2012
Underwriting and Investment Exhibit, Statement of Income, December 31, 2012
Reconciliation of Surplus from Prior Examination
Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2012

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 344,808		\$ 344,808	1
Preferred stocks	229,340		229,340	1
Common stocks	521,838		521,838	1
Cash and short-term investments	223,128		223,128	
Investment income due and accrued	3,460		3,460	
Uncollectible premiums and agents' balances in course of collection	8,235	\$ 988	7,247	
Deferred Premiums	4,624		4,624	
Amounts recoverable from reinsurers	4,202		4,202	
Current federal and foreign income tax recoverable	19,878		19,878	
Aggregate write-ins for other than invested assets	547		547	
Total Assets	<u>\$ 1,360,060</u>	<u>\$ 988</u>	<u>\$ 1,359,072</u>	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2012

<u>Liabilities, Surplus and Other Funds</u>		<u>Note</u>
Losses	\$ 6,133	2
Loss adjustment expense	16,000	2
Commission payable	9,795	
Other expenses	7,971	
Net deferred tax liability	299	
Unearned premium	168,029	
Advanced premium	21,626	
Ceded reinsurance premiums payable	(48,779)	
Amounts withheld or retained by company	14,498	
Total Liabilities	<u>\$ 195,572</u>	
Unassigned funds (surplus)	<u>\$ 1,113,501</u>	
Surplus as regards policyholders	<u>\$ 1,163,501</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 1,359,073</u></u>	

Statement of Income
As of December 31, 2012

Premiums earned	\$ 234,239
Losses incurred	71,421
Loss adjustment expense	58,898
Other underwriting expenses incurred	93,215
Total underwriting deductions	<u>\$ 223,534</u>
Net underwriting gain (loss)	<u>\$ 10,705</u>
Net investment income	30,029
Net realized capital gains (losses)	14,055
Net investment gain (loss)	<u>\$ 44,084</u>
Net gain from agents or premium bal charged off	3,659
Finance and service charge	2,475
Total other income	<u>\$ 6,134</u>
Net income before taxes	60,923
Dividends to policyholders	-
Net income after taxes	<u>\$ 60,923</u>
Federal and foreign income taxes incurred	2,173
Net Income	<u><u>\$ 58,750</u></u>

Reconciliation of Surplus from Prior Examination

Capital and Surplus Account		Notes	2008	2009	2010	2011	2012
Surplus as regards Policyholders prior reporting year			971,379	1,009,984	950,815	1,023,678	1,083,409
Net income or (loss)	1		69,638	(27,601)	45,693	125,133	58,750
Change in unrealized capital gains (losses)	1		(6,010)	28,821	10,733	(10,976)	16,371
Change in net deferred income tax	1		(22,335)	25,320	(6,433)	(14,481)	(3,103)
Change in non admitted assets	1		(2,688)	(35,619)	22,870	1,055	8,074
Change in Surplus Note			2	(50,000)	2	(50,000)	-
Net change in Capital and Surplus for the year			38,605	(59,169)	72,863	59,731	80,092
Surplus as regards Policyholders, December 31			<u>1,009,984</u>	<u>950,815</u>	<u>1,023,678</u>	<u>1,083,409</u>	<u>1,163,501</u>

Note 1 - Amount represents Net Income, Change in Unrealised Capital Gain, Change in Deferred income tax an non admitted

Note 2 - Payment of \$100,000 for a \$150, 000 Surplus Note. The remianing \$50,000 payment was approved in January 2013.

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no financial examination adjustments.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds	\$344,808
Preferred Stocks	\$229,340
Common Stock	\$521,838

Investments in bonds and stocks are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

Bonds	
Unaffiliated domestic securities	\$ 344,808
<hr/>	
Preferred Stocks	
Unaffiliated	229,340
<hr/>	
Common Stocks	
Investment in mutual funds	348,059
Unaffiliated - Publically traded equity securities	173,779
	<hr/>
	521,838
	<hr/>
Total	\$ 1,095,986
	<hr/> <hr/>

Of the Company's bond holdings, which comprised 31.1% of the Company's total invested assets and 25.3% of total admitted assets at December 31, 2012, 100% were categorized as Class 1 with respect to NAIC credit quality standards and with maturity dates consistent with the Company expected reserve payout.

The Company did not hold any loan backed securities for which the yield has become negative at December 31, 2012. The Company did not have any Other Than Temporary Impaired securities during 2012.

Preferred Stocks comprised 20.9% of the Company's total invested assets and 16.8% of total admitted assets at December 31, 2012, which consisted of mainly unaffiliated stocks.

Common Stocks comprised 47.5% of the Company's total invested assets and 38.3% of total admitted assets at December 31, 2012, which consisted mainly of mutual funds and unaffiliated publically equity securities.

Based on DE Limitation Calculation, the Company is in Compliance with 18 Del C. §1305 (2), equity securities in excess of statutory limitations.

Note 2 – Losses
LAE

\$ 6,133
\$ 16,000

The Company reported at December 31, 2012 Loss and LAE reserves of \$6,133 and \$16,000 respectively. Loss and LAE reserves were consistent throughout the exam period due to the Company's ability to clear most losses by the end of the year. Loss and LAE reserves are stated at the Company's estimate of the ultimate cost, net of reinsurance, of settling all incurred but unpaid claims. Reserves are not discounts and salvage and subrogation recoveries are not anticipated when setting reserves.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The examination reviewed the December 31, 2008 Report on Examination along with the Company's compliance with the prior examination recommendations, comments and concerns. Based on that review, the Company has not complied with all applicable prior Report on Examination recommendations, comments and concerns. Prior examination recommendations are noted below:

It was recommended the Company submit its bylaws to the Delaware Insurance Department in accordance with Section 4912 of the Insurance Code.

The Company has complied with recommendation.

It was recommended that all members of the Board of Directors who are insurance agents sign conflict of interest acknowledgements, and that conflict of interest acknowledgements be executed by all insurance agents on a regular basis.

The Company has complied with recommendation.

It was recommended the Company prepare its financial statements and report individual line items in accordance with SSAP and the NAIC Annual Statement Instructions.

The Company has complied with recommendation.

It was recommended the Company execute contracts with its accounting, actuarial and claims adjusting firms. Said contracts should detail each parties' obligations and responsibilities, and include a listing of fees and services.

The Company has complied with recommendation.

It was recommended the Company enter into a custodian agreement for its invested securities. The custodian agreement should contain the safeguard language as recommended in the NAIC Examiners Handbook.

The Company has not complied with recommendation. Repeat finding noted below.

It was recommended the Company properly prepare the Loss and Loss Adjustment Expense Reserve Schedule in the quarterly financial statements filed with the Delaware Insurance Department. Specifically, the Company should report losses in the correct incurred year.

The Company has complied with recommendation.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company initiate procedures to notify the Commissioner of any change of directors and officers in accordance with 18 Del. C. § 4919.

It is again recommended the Company enter into a custodian agreement for its investment securities. The custodian agreement should contain the safeguard language recommended in the NAIC Examiners Handbook.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Delaware Grange Mutual Insurance Company

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2012</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,201,076	\$ 1,359,072	\$ 157,996
Liabilities	\$ 191,092	\$ 195,571	\$ 4,479
Surplus Note	150,000		(150,000)
Gross Paid In and Contributed Surplus	-	50,000	50,000
Unassigned Funds (Surplus)	859,984	1,113,501	253,517
Total Surplus	\$ 1,009,984	\$ 1,163,501	\$ 153,517
Totals	\$ 1,201,076	\$ 1,359,072	\$ 157,996

In addition to the undersigned, Anthony Cardone CFE, CPA (Examination Supervisor) participated in the examination.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE
 Examiner-In-Charge
 State of Delaware