

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY AND  
ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST 7TH AVENUE, SUITE 1560  
ANCHORAGE, AK 99501-3567

Order FE 20-02 )  
In the Matter of Examination of )  
Alaska Timber Insurance Exchange )

FINDINGS OF FACT

1. A report of examination of Alaska Timber Insurance Exchange, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Alaska Timber Insurance Exchange.

2. The Report of Examination of Alaska Timber Insurance Exchange (FE 20-02) has been transmitted to Michael Hinchey, President of Alaska Timber Insurance Exchange (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on May 19, 2021.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent considered necessary in accordance with AS 21.06.150(b).

ORDER

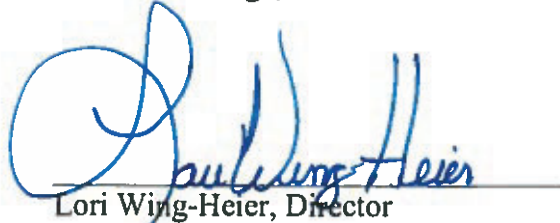
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska Timber Insurance Exchange (FE 20-02) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be posted on the Division of Insurance website and be available for public inspection.

This order is effective June 16, 2021.

Dated this 16th day of June 2021 in Anchorage, Alaska.

A handwritten signature in blue ink, appearing to read "Lori Wing-Heier", is written over a horizontal line.

Lori Wing-Heier, Director  
State of Alaska  
Division of Insurance

Statutory Financial Examination of  
**ALASKA TIMBER INSURANCE EXCHANGE**

FE 20-02

as of December 31, 2019

Issued by  
**STATE OF ALASKA**  
**DEPARTMENT OF COMMERCE, COMMUNITY AND**  
**ECONOMIC DEVELOPMENT**  
**DIVISION OF INSURANCE**

NAIC Company Code: 38687  
NAIC Group Code: 000

**Final REPORT:**  
**May 3, 2021**

## TABLE OF CONTENTS

Salutation .....	1
Scope of Examination .....	1
Summary of Examination Findings .....	2
Significant Findings .....	2
Description of Company .....	2
Company History .....	2
Corporate Records .....	2
Management and Control .....	3
Territory and Plan of Operation .....	3
Growth of Company .....	4
Loss Experience .....	4
Reinsurance .....	4
Accounts and Records .....	4
Statutory Deposits .....	5
Summary of Actuarial Review .....	5
Financial Statements .....	5
Statement of Assets, Liabilities and Surplus .....	6
Statement of Underwriting and Investment .....	7
Statement of Capital and Surplus Account .....	8
Analysis of Changes in Financial Statements Resulting from Examination .....	9
Compliance with Recommendations in Prior Report of Examination .....	9
Findings and Recommendations .....	9
Closing .....	11
Affidavit .....	12

May 3, 2021

Lori Wing-Heier, Director  
Division of Insurance  
Department of Commerce, Community  
and Economic Development  
State of Alaska  
550 West 7th Avenue, Suite 1560  
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Alaska Timber Insurance Exchange (“the Exchange”)  
2417 Tongass Avenue, Suite 214  
Ketchikan, AK 99901

(NAIC CoCode 38687)

### **SCOPE OF EXAMINATION**

We have performed our single-state examination of Alaska Timber Insurance Exchange. The last examination covered the period of January 1, 2014 through December 31, 2016. This examination covers the three year period January 1, 2017 through December 31, 2019.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. 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.

This examination report includes significant findings of fact, as required by AS 21.06.150 and general information about the insurer 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.

## **SUMMARY OF EXAMINATION FINDINGS**

### **Significant Findings**

The Exchange does not have a written contingency plan for its uninterrupted and continued operation in the event of a catastrophe. The lack of a written contingency plan was a finding from prior examinations that has not been addressed. (Prior Exam Finding 1)

## **DESCRIPTION OF COMPANY**

### **Company History**

The Alaska Timber Insurance Exchange is organized as a reciprocal insurance exchange pursuant to Title 21, Chapter 75, of the Alaska Statutes. On March 28, 1980 it received a Certificate of Authority from the State of Alaska, as an unincorporated association authorized to offer property and casualty insurance (excluding vehicle) pursuant to AS 21.12.060 and AS 21.12.070. It issues non-assessable workers' compensation policies to its subscribers. On September 3, 1998, the Exchange Board of Governors broadened reciprocal membership from just timber-related companies to companies outside the timber industry.

### **Corporate Records**

The bylaws and minutes of the Board of Governors and the Alaska Timber Exchange Management Corporation ("ATEMC") were reviewed during this examination. All board meeting notices appear to have been given as required by the bylaws and all meetings had quorums. All actions of both ATEMC and the Exchange that required board approval were taken by resolution at a meeting or by resolution without a meeting as permitted by the bylaws.

The Exchange bylaws require that an annual meeting and an organizational meeting be held in the fourth quarter of each year. The annual meetings of the Exchange and of ATEMC were held as required by the bylaws for each year covered by this examination, and attendance included a quorum. All elections were held in accordance with bylaws and statute. No changes to the Exchange's bylaws were made during the examination period.

**Management and Control**

Subscribers own the Exchange. ATEMC serves as the attorney-in-fact for the Exchange and is wholly owned by the Exchange. ATEMC manages the daily operations of the reciprocal under a Management Agreement. ATEMC receives no compensation for its services other than reimbursement of reasonable expenses. The Exchange has no other subsidiaries or affiliates.

Alaska Statute and the Subscribers Agreement limit the control of any single subscriber regarding matters critical to the Exchange. The Subscribers Agreement limits each subscriber to one vote on the questions of terminating the attorney-in-fact; merging with another reciprocal insurer; converting to a stock or mutual insurer; or calling a special meeting of the Board. Subscribers have proportional voting on other matters based on the amount of surplus contributed to the Exchange. Proportional voting rights are determined on April 30 of each year.

The Restated Rules of the Exchange and minutes of the Board of Governors meetings were reviewed during this examination. Subscribers elect board members at the annual members meeting pursuant to the Restated Rules of the Exchange and statute. Three board members are elected to three-year terms annually. All actions requiring board approval were taken by resolution at a meeting or by resolution without a meeting as provided by the Restated Rules. The Audit Committee and Investment Committee are the only committees designated by the Board.

The following members of the Board of Governors were serving as of December 31, 2019:

Name	City, State	Affiliation
Martin Pihl, Chairman	Ketchikan, Alaska	None (Formerly Ketchikan Pulp Company)
Kirk Dahlstrom	Craig, Alaska	Viking Lumber Company, Inc.
Brian Brown	Ketchikan, Alaska	Evergreen Timber, LP
Daniel Montagna	Anchorage, Alaska	Northern Sales Company, Inc.
Eugene Desjarlais	Anchorage, Alaska	BEK of Alaska, Inc.
Leo Gellings	Hillsboro, Oregon	Phoenix Logging Company
Keaton Gildersleeve	Gaston, Oregon	None (Formerly Gildersleeve, Inc.)
Linda Lewis	Ketchikan, Alaska	Phoenix Logging Company
Thomas McFarland	Leavenworth, Washington	None (Formerly Alaska Pulp Company)

**Territory and Plan of Operation**

The Exchange specializes in workers' compensation policies and is licensed solely in the State of Alaska. The Exchange issues policies only in the State of Alaska. The Exchange's

marketing strategy utilizes appointed agents to attract subscribers outside of the timber industry.

**Growth of the Company**

The following schedule summarizes the year-end balance sheet for the years ending December 31, 2017 through December 31, 2019. The figures are reported in the annual statements of the Exchange for the years 2017 through 2019:

Year	Admitted Assets	Liabilities	Surplus	Dividends to Policyholders
2019	\$15,019,943	\$7,220,312	\$7,799,631	\$1,080,000
2018	15,652,815	7,275,880	8,376,935	500,000
2017	15,573,770	7,655,787	7,917,983	500,000

**Loss Experience**

The following schedule shows the premiums earned and loss experience for the years ended December 31, 2017 through December 31, 2019. The figures are reported in the annual statements of the Exchange for the years 2017 through 2019:

Year	Losses			Loss Expenses	
	Earned Premiums	Incurred	% of Earned Premium	Incurred	% of Earned Premium
2019	\$3,160,447	\$1,502,385	47.5%	\$740,014	23.4%
2018	3,558,430	1,042,469	29.3%	726,684	20.4%
2017	3,633,548	1,485,881	40.9%	815,903	22.5%

**Reinsurance**

The Exchange's workers' compensation retention is \$500,000 each occurrence. Reinsurance coverage at December 31, 2019 is outlined below:

- First Excess of Loss Layer \$1,500,000 Excess of \$500,000
- Second Excess of Loss Layer \$8,000,000 Excess of \$2,000,000
- Third Excess of Loss Layer \$10,000,000 Excess of \$10,000,000
- Fourth Excess of Loss Layer \$10,000,000 Excess of \$20,000,000

The reinsurance program has a maximum \$10,000,000 coverage on any one life.

**Accounts and Records**

Accounts and records are maintained electronically using various software programs for adjusting claims, data management and reporting, accounting and security.



A written contingency plan is paramount to the continued operations of an insurance company in order to maintain operations during an unexpected interruption of normal business activities. The Exchange has not developed a written contingency plan (see Current Finding 1.) This is a repeat finding from prior exams (see Prior Finding 1.)

### **Statutory Deposits**

Alaska statute AS 21.09.090 requires, in part, that insurers maintain a deposit in trust through the Director for the benefit of all its policyholders of no less than \$300,000. The Exchange maintains the required statutory deposit at First Bank in Ketchikan, Alaska.

### **SUMMARY OF ACTUARIAL REVIEW**

As of December 31, 2019, the Exchange carried \$6,878,997 in net loss and expense reserves and \$10,693,000 in gross loss and expense reserves. For the actuarial review, the Exchange provided medical, indemnity and loss adjustment expense data by accident year. Using this information, along with information obtained through interviews of company staff, the Division actuary reviewed the reserves held by the Exchange as well as the Milliman, Inc. actuarial report in support of the 2019 Statement of Actuarial Opinion. Based on these reviews, the Exchange's overall reserve position is determined to be within a reasonable range of reserve estimates and is accepted as stated.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the company with the Alaska Division of Insurance and present the financial condition of the company for the period ending December 31, 2019. The accompanying comments on financial statements should be considered an integral part of the financial statements.

**FINANCIAL STATEMENTS**  
**STATEMENT OF ASSETS, LIABILITIES AND SURPLUS**  
As of December 31, 2019

	As Reported 12/31/2019	Adjustments	As Adjusted 12/31/2019
<u>Assets</u>			
Bonds	\$ 9,752,183		\$ 9,752,183
Common stock	1,262,929		1,262,929
Cash, cash equivalents & short term investments	3,292,507		3,292,507
Investment income due and accrued	47,092		47,092
Premiums and agents' balances in course of collection	13,361		13,361
Deferred premium and agents' balances	310,065		310,065
Amounts recoverable from reinsurers	211,191		211,191
Guaranty funds receivable or on deposit	22,700		22,700
Electronic data processing equipment and software	7,177		7,177
Aggregate write-ins for other-than-invested assets	100,739		100,739
Total Admitted Assets	<u>\$ 15,019,944</u>		<u>\$ 15,019,944</u>
<u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses	\$ 5,141,304		\$ 5,141,304
Loss adjustment expenses	1,737,693		1,737,693
Commission payable and contingent commissions	34,367		34,367
Other expenses (excluding taxes, licenses and fees)	128,469		128,469
Net deferred tax liability	34,623		34,623
Ceded reinsurance premiums payable	125,857		125,857
Provision for reinsurance	18,000		18,000
Total Liabilities	<u>\$ 7,220,313</u>		<u>\$ 7,220,313</u>
<u>Surplus</u>			
Aggregate write-ins for other than special surplus funds	1,375,080		1,375,080
Gross paid-in and contributed surplus	2,293,251		2,293,251
Unassigned funds (surplus)	4,131,300		4,131,300
Surplus as regards policyholders	<u>\$ 7,799,631</u>		<u>\$ 7,799,631</u>
Total Liabilities and Surplus	<u>\$ 15,019,944</u>		<u>\$ 15,019,944</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF UNDERWRITING AND INVESTMENT**  
As of December 31, 2019

	As Reported 12/31/2019	<u>Adjustments</u>	As Adjusted 12/31/2019
<u>Underwriting Income</u>			
<u>Revenue</u>			
Premiums earned	\$ 3,160,447		\$ 3,160,447
Total Revenue	<u>\$ 3,160,447</u>		<u>\$ 3,160,447</u>
<u>Deductions</u>			
Losses incurred	\$ 1,502,385		\$ 1,502,385
Loss adjustment expenses incurred	740,014		740,014
Other underwriting expenses	877,977		877,977
Total underwriting deductions	<u>\$ 3,120,376</u>		<u>\$ 3,120,376</u>
Net underwriting gain or (loss)	<u>\$ 40,071</u>		<u>\$ 40,071</u>
<u>Investment Income</u>			
Net investment income earned	\$ 298,601		\$ 298,601
Net realized capital gains or (losses)	(15,223)		(15,223)
Net investment gain or (loss)	<u>\$ 283,378</u>		<u>\$ 283,378</u>
<u>Other Income</u>			
Net gain (loss) from agents' or premium balances charged off	\$ 427		\$ 427
Aggregate write-ins for miscellaneous income	8,672		8,672
Total other income	<u>\$ 9,099</u>		<u>\$ 9,099</u>
Net income before dividends to policyholders	\$ 332,548		\$ 332,548
Dividends to policyholders	1,080,000		1,080,000
Net income before federal income tax	\$ (747,452)		\$ (747,452)
Federal income tax incurred	0		0
Net income (loss)	<u>\$ (747,452)</u>		<u>\$ (747,452)</u>
<u>Capital and Surplus Account</u>			
Surplus, December 31, prior year	<u>\$ 8,376,935</u>		<u>\$ 8,376,935</u>
<u>Gains and (Losses) in Surplus</u>			
Net income (loss)	\$ (747,452)		\$ (747,452)
Change in net unrealized capital gains (losses)	220,581		220,581
Change in net deferred income tax	173,889		173,889
Change in nonadmitted assets	(191,119)		(191,119)
Change in provision for reinsurance	(7,200)		(7,200)
Surplus adjustments: Paid in	24,262		24,262
Aggregate write-ins for gains and losses in surplus	(50,264)		(50,264)
Change in surplus as regards policyholders	<u>\$ (577,303)</u>		<u>\$ (577,303)</u>
Surplus for the period ended December 31, 2013	<u>\$ 7,799,632</u>		<u>\$ 7,799,632</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF CAPITAL AND SURPLUS ACCOUNT**  
As of December 31, 2019

	Special and Other Than Special Surplus Funds	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2016	\$ 1,502,889	\$ 2,474,904	\$ 3,996,665	\$ 7,974,458
Surplus Contributed, Net		(103,319)		(103,319)
Reserve for Policy Deposit	(127,483)			(127,483)
Net income – 2017			103,071	103,071
Change in net unrealized capital gains or (losses)			104,072	104,072
Change in net deferred income tax			(288,044)	(288,044)
Change in nonadmitted assets			255,228	255,228
Balance at December 31, 2017	<u>\$ 1,375,406</u>	<u>\$ 2,371,585</u>	<u>\$ 4,170,992</u>	<u>\$ 7,917,983</u>
Surplus Contributed, Net		(102,596)		(102,596)
Reserve for Policy Deposit	49,938			49,938
Net income – 2018			579,099	579,099
Change in net unrealized capital gains or (losses)			(58,726)	(58,726)
Change in net deferred income tax			(136,918)	(136,918)
Change in provision for reinsurance			(10,800)	(10,800)
Change in nonadmitted assets			138,955	138,955
Balance at December 31, 2018	<u>\$ 1,425,344</u>	<u>\$ 2,268,989</u>	<u>\$ 4,682,602</u>	<u>\$ 8,376,935</u>
Surplus Contributed, Net		24,262		24,262
Reserve for Policy Deposit	(50,264)			(50,264)
Net income – 2019			(747,452)	(747,452)
Change in net unrealized capital gains or (losses)			220,581	220,581
Change in net deferred income tax			173,889	173,889
Change in provision for reinsurance			(7,200)	(7,200)
Change in nonadmitted assets			(191,119)	(191,119)
Balance at December 31, 2019	<u>\$ 1,375,080</u>	<u>\$ 2,293,251</u>	<u>\$ 4,131,301</u>	<u>\$ 7,799,632</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS  
RESULTING FROM THE EXAMINATION**

No adjustments to the financial statements filed as of December 31, 2019 were made as a result of the examination.

**COMPLIANCE WITH RECOMMENDATIONS IN  
PRIOR REPORT OF EXAMINATION**

The following recommendation from the prior report of examination was found to be unresolved during the current examination:

**Prior Finding 1 - Lack of Written Contingency Plan**

The Exchange has not developed a written contingency plan. The Exchange's general manager, statutory accountant and claims manager all commute to the Exchange from various locations outside Alaska and work onsite at the Exchange's offices in Ketchikan less than 50% of the time. Other work is conducted via remote connections and by telephone. Therefore, it is especially critical that everyone understand their responsibilities in the event of an unexpected interruption to normal business activities. Officers and staff should be provided with a board approved contingency plan that will assure data, systems and operations can be successfully recovered and continuity established. This is a repeat finding from past examinations.

**Recommendation:** It is recommended that a written contingency plan be developed and formally approved by the Board of Governors during or prior to its 2021 Annual Meeting. The approved plans should then be submitted to the Division of Insurance for review. Once approved by the Division, the contingency plans should be communicated to all Exchange personnel and IT consultants.

**FINDINGS AND RECOMMENDATIONS**

**Finding 1 - Lack of Written Contingency Plan**

The Exchange has not developed a written Business Continuity Plan. The Exchange's General Manager and statutory accountant commute to the Exchange from various locations outside Alaska and work on-site at the Exchange's offices in Ketchikan less than 50% of the time. Other work is conducted via remote connections and by telephone. Therefore, it is especially critical that everyone understand their responsibilities in the event of an unexpected interruption to normal business activities. Officers and staff should be provided with a board approved Business Continuity Plan that will assure data, systems and operations can be successfully recovered and continuity established. This is a repeat finding from past examinations.

**Recommendation:** It is recommended that a written contingency plan be developed and formally approved by the Board of Governors during or prior to its 2021

Alaska Timber Insurance Company  
As of December 31, 2019  
FE 20-02

Annual Meeting. The approved plan should then be submitted to the Division of Insurance for review. Once approved by the Division, the plan should be communicated to all Exchange personnel and IT consultants.

**CLOSING**

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

An affidavit of the Examiner-in-Charge, Taylor Phillips, CFE with Risk & Regulatory Consulting, LLC is on file with the Alaska Division of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Alaska Division of Insurance and the NAIC *Financial Condition Examiners Handbook*. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of Alaska Timber Insurance Exchange as of December 31, 2019.

Also participating in the examination from the Alaska Division of Insurance were Insurance Financial Examiner Jeffrey Bethel and Property & Casualty Actuary Michael Ricker.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Alaska Timber Insurance Exchange during the course of this examination.

This report is respectfully submitted,

*Taylor Phillips*

---

Taylor Phillips, CFE  
Examiner-in-Charge

Alaska Timber Insurance Company  
As of December 31, 2019  
FE 20-02

AFFIDAVIT

Anchorage, Alaska )  
May 27, 2021 )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2019, of Alaska Timber Insurance Exchange, an Alaska-domiciled company holding Certificate of Authority #D-1271, is true to the best of my knowledge and belief.

  
\_\_\_\_\_  
David Phifer, CFE  
Chief Financial Examiner

Subscribed and sworn to before me this 10<sup>th</sup> day of JUNE, 2021.



  
\_\_\_\_\_  
Notary Public for the State of Alaska

My commission expires: WITH OFFICE