

Statutory Financial Examination of

ALASKA TIMBER INSURANCE EXCHANGE

FE 17-02

as of December 31, 2016

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:
June 13, 2018**

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 17-02)
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 17-02) 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 June 5, 2018.

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

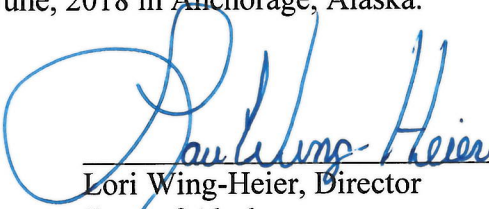
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska Timber Insurance Exchange (FE 17-02) 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 13, 2018.

Dated this 13th day of June, 2018 in Anchorage, Alaska.



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

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.....	2
Territory and Plan of Operation.....	3
Reinsurance.....	4
Summary of Actuarial Review.....	4
Financial Statements	4
Statement of Assets, Liabilities and Surplus.....	5
Statement of Operations.....	6
Statement of Changes in Surplus Account.....	7
Analysis of Changes in Financial Statements Resulting from Examination	8
Comments on Financial Statement Items	8
Compliance with Recommendations in Prior Report of Examination.....	8
Findings and Recommendations	8
Closing	10
Affidavit.....	11



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of Commerce, Community,
and Economic Development**

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, AK 99501-3567
Main: 907.269.7900
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June 13, 2018

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 risk-focused examination of Alaska Timber Insurance Exchange. The last examination covered the period of January 1, 2011 through December 31, 2013. This examination covers the three year period January 1, 2014 through December 31, 2016.

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 and is managed by its attorney-in-fact, the Alaska Timber Exchange Management Corporation (ATEMC), a wholly-owned subsidiary of the Exchange. On March 28, 1980 ATIE 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.

Management and Control

Subscribers own the Exchange and 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 Subscriber's Agreement limit the control of any single subscriber regarding matters critical to the Exchange. The Subscriber's 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 member's 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, 2016:

Name	City, State	Affiliation
Martin Pihl, Chairman	Ketchikan, Alaska	None (Formerly Ketchikan Pulp Company)
John Beedle	Juneau, Alaska	Northern Sales Company, Inc.
Brian Brown	Ketchikan, Alaska	Evergreen Timber, LP
James Byron	Ketchikan, Alaska	Byron Brothers Cutting
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
Tom 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. It issues policies only in the state of Alaska. The Exchange's marketing strategy utilizes appointed agents to attract subscribers outside of the timber industry.

Reinsurance

The Exchange's workers' compensation retention is \$500,000 each occurrence. Reinsurance coverage at December 31, 2016 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 \$10,00,000
- 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.

ACTUARIAL REVIEW

As of December 31, 2016, ATIE carried \$7,224,503 in net loss and expense reserves and \$19,743,000 in gross loss and expense reserves. For the actuarial review, ATIE 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 ATIE as well as the Milliman, Inc. actuarial report in support of the 2016 Statement of Actuarial Opinion. Based on these reviews, ATIE'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, 2016. 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, 2016

	<u>As Reported</u> <u>12/31/2016</u>
<u>Assets</u>	
Bonds	\$ 11,440,391
Common stock	584,129
Cash, cash equivalents & short term investments	2,308,620
Investment income due and accrued	57,234
Premiums and agents' balances in course of collection	22,215
Deferred premium and agents' balances	388,639
Amounts recoverable from reinsurers	539,181
Net deferred tax assets	81,629
Guaranty funds receivable or on deposit	72,051
Electronic data processing equipment and software	7,884
Aggregate write-ins for other-than-invested assets	<u>179,879</u>
Total Admitted Assets	<u><u>\$ 15,681,852</u></u>
 <u>Liabilities, Surplus and Other Funds</u>	
<u>Liabilities</u>	
Losses	\$ 5,638,991
Loss adjustment expenses	1,585,512
Commission payable and contingent commissions	34,610
Other expenses (excluding taxes, licenses and fees)	165,483
Taxes, licenses and fees	9,600
Ceded reinsurance premiums payable	<u>273,198</u>
Total Liabilities	<u><u>\$ 7,707,394</u></u>
 <u>Surplus</u>	
Aggregate write-ins for other than special surplus funds	1,502,889
Gross paid-in and contributed surplus	2,474,904
Unassigned funds (surplus)	<u>3,996,665</u>
Surplus as regards policyholders	<u>\$ 7,974,458</u>
Total Liabilities and Surplus	<u><u>\$ 15,681,852</u></u>

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
As of December 31, 2016

	As Reported 12/31/2016
<u>Underwriting Income</u>	
<u>Revenue</u>	
Premiums earned	\$ 3,878,272
Total Revenue	\$ 3,878,272
<u>Deductions</u>	
Losses incurred	\$ 1,863,653
Loss adjustment expenses incurred	859,226
Other underwriting expenses	961,182
Total underwriting deductions	\$ 3,684,061
Net underwriting gain or loss	\$ 194,211
<u>Investment Income</u>	
Net investment income earned	\$ 197,253
Net realized capital gains or (losses)	16,708
Net investment gain or (loss)	\$ 213,961
<u>Other Income</u>	
Net gain (loss) from agents' or premium balances charged off	\$ 87
Aggregate write-ins for miscellaneous income	17,995
Total other income	\$ 18,082
Net income before dividends to policyholders	\$ 426,254
Dividends to policyholders	1,600,000
Net income before federal income tax	\$ (1,173,746)
Federal income tax incurred	0
Net income (loss)	\$ (1,173,746)

FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN SURPLUS ACCOUNT
As of December 31, 2016

	Special and Other Than Special Surplus Funds	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2013	\$ 1,766,966	\$ 2,244,438	\$ 5,127,877	\$ 9,139,281
Surplus Contributed, Net		150,911		150,911
Reserve for Policy Deposit	50,583			50,583
Net income – 2014			(66,622)	(66,622)
Change in net deferred income tax			(3)	(3)
Change in net deferred income tax			29,291	29,291
Change in nonadmitted assets			(16,118)	(16,118)
Balance at December 31, 2014	<u>\$ 1,817,549</u>	<u>\$ 2,395,349</u>	<u>\$ 5,074,425</u>	<u>\$ 9,287,323</u>
Surplus Contributed, Net		21,793		21,793
Reserve for Policy Deposit	(62,883)			(62,883)
Net income – 2015			116,802	116,802
Change in net unrealized capital gains or (losses)			10,147	10,147
Change in net deferred income tax			(45,768)	(45,768)
Change in nonadmitted assets			(550)	(550)
Balance at December 31, 2015	<u>\$ 1,754,665</u>	<u>\$ 2,417,142</u>	<u>\$ 5,155,057</u>	<u>\$ 9,326,864</u>
Surplus Contributed, Net		57,762		57,762
Reserve for Policy Deposit	(251,776)			(251,776)
Net income – 2016			(1,173,746)	(1,173,746)
Change in net unrealized capital gains or (losses)			33,399	33,399
Change in net deferred income tax			401,954	401,954
Change in nonadmitted assets			(419,999)	(419,999)
Balance at December 31, 2016	<u><u>\$ 1,502,889</u></u>	<u><u>\$ 2,474,904</u></u>	<u><u>\$ 3,996,665</u></u>	<u><u>\$ 7,974,458</u></u>

Analysis of Changes in Financial Statements Resulting From the Examination

No adjustments to the financial statements filed as of December 31, 2016 were made to surplus as a result of the examination.

Comments on Financial Statement Items

There were no additional comments on the financial statements filed as of December 31, 2016 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 ATIE'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 2015 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 ATIE'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 2018 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.

Also participating in the examination from the Alaska Division of Insurance was Property & Casualty Actuary Michael Ricker, ACAS, CIE, CPCU, and Darin Benck, Director, CFE, with Risk and Regulatory Consulting, LLC.

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,



David Phifer, CFE
Examiner-in-Charge



Maxine Froemling, CFE
Chief Financial Examiner

AFFIDAVIT

June 13, 2018

Anchorage, Alaska)
June 4, 2018)
)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2016, 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.

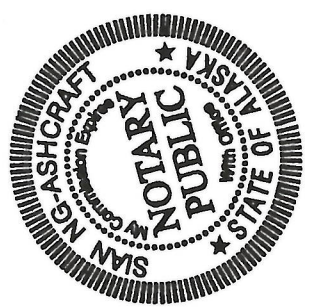
David Phifer

David Phifer, CFE
Chief Financial Examiner

Maxine Froemling

Maxine L. Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 13th day of June, 2018.



Sanjiv Ashcraft

Notary Public for the State of Alaska

My commission expires: with office