

Statutory Financial Examination of
ARECA INSURANCE EXCHANGE

FE 12-01

as of December 31, 2011

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

NAIC Company Code: 16926
NAIC Group Code: 000

FINAL REPORT:
April 26, 2013

1
2
3 CERTIFIED MAIL
RETURN RECEIPT REQUESTED
4

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

8 Order FE 12-01
9 In the Matter of Examination of
ARECA Insurance Exchange
10

11 FINDINGS OF FACT

12
13 1. A report of examination of Specialty Insurance Company, domiciled in the State of
Alaska, has been issued by the State of Alaska, Division of Insurance, to ARECA
Insurance Exchange.

14 2. The Report of Examination of ARECA Insurance Exchange (FE 12-01) has been
15 transmitted to Mrs. Marilyn Leeland, President, ARECA Insurance Exchange
(Examinee), and Examinee has been accorded at least 30 days opportunity to review and
16 comment on this Report of Examination. A response from the examinee was received on
June 19, 2013.

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

19 CONCLUSIONS OF LAW

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

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

23 3. The Director of the Division of Insurance has reviewed the Report of Examination,
24 the examinee response and any other relevant work papers as set forth in Finding of Fact
No. 3 to the extent he considered necessary in accordance with AS 21.06.150(b).
25
26

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST SEVENTH AVENUE, SUITE 1560
ANCHORAGE, ALASKA 99501-3557
PHONE: (907) 269-7900
FAX: (907) 269-7910
TDD: (907) 465-5437

ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b) (1), the Report of Examination of ARECA Insurance Exchange (FE 12-01) is approved as filed.
2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.
3. The Examinee will implement all recommendations within a reasonable amount of time but no later than one year from the issue date of this examination report, unless otherwise recommended in the Report of Examination. Failure to implement compliance recommendations may result in action against the Examinee for violation of this order.

This order is effective June 21, 2013.

Dated this ^{21st} day of June, 2013 at Anchorage, Alaska.



Bret S. Kolb, Director
State of Alaska
Division of Insurance

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE
Anchorage Office

550 W. 7th Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
Fax: 907.269.7910
TDD: 907.465.5437

April 26, 2013

Mr. Bret S. Kolb, 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 Kolb:

ARECA Insurance Exchange ("the Exchange")
703 West Tudor Road
Anchorage, Alaska 99503

SCOPE OF EXAMINATION

This examination covers the three-year period from January 1, 2009 through December 31, 2011. Transactions subsequent to this period were reviewed where deemed appropriate. The most recent prior examination of the Exchange covered the period from January 1, 2006 through December 31, 2008.

The examination was conducted in accordance with the guidelines and procedures recommended by the Financial Condition (E) Committee of the NAIC and the rules, regulations, and directives of the Division of Insurance, State of Alaska. The work papers of the independent certified public accountants, KPMG LLP (KPMG), were reviewed and used where it was determined to be appropriate. The appropriate KPMG work papers have been incorporated into the exam work paper file.

The assets of the Exchange were evaluated and verified, and its liabilities were analyzed to determine its financial condition as of December 31, 2011. An actuarial evaluation of the reserves as of December 31, 2011 was performed by Sarah K. McNair-Grove, ACAS, MAAA, Actuary for the Division of Insurance, State of Alaska, as a part of this examination.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

The Company was found to be out of compliance and/or conformance with the following items:

- Reinsurance contracts permit reinsurers Gen Re and EWI the unilateral right to modify reinsurance agreements which does not comply with Alaska Statute 3 AAC 21.635(5).
- Conflict of Interest statements are not being obtained from all board members on an annual basis as required by company policy.
- A liability to Alaska Power Association is reported on the wrong line of the annual statement and does not comply with NAIC Annual Statement Instructions.
- The Service Agreement between Alaska Power Association and the Exchange does not comply with SSAP No. 25, which requires timely settlement of the amount owed with a specified due date.
- ARECA reports an investment concentration that exceeds the 10% of Net Admitted Assets limitation in violation of 3 AAC 21.330(b)(2).
- Reinsurance credits for workers' compensation in 2007 were calculated incorrectly during the exam period.

SUBSEQUENT EVENTS

The examiners performed a review of Exchange transactions, activities, and events subsequent to December 31, 2011 and through June 30, 2012 to ensure all significant events subsequent to the exam period end that could require adjustment of, or disclosure in, the financial statements or foot notes were identified.

DESCRIPTION OF COMPANY

Company History

The Exchange is an Alaska-domiciled insurance company organized pursuant to Title 21, Chapter 75, of the Alaska Statutes. The Exchange is an unincorporated reciprocal exchange for assessable policies that was formed to provide workers' compensation, property, boiler and machinery, general, and automotive liability insurance to members of the Alaska Power Association (APA), formerly known as the Alaska Rural Electric Cooperative Association (the Association). ARECA Insurance Management, Inc. (AIM) is the wholly-owned attorney-in-fact for the Exchange. The Exchange received a Certificate of Authority, #D-1530, from the State of Alaska on December 30, 1983, authorizing them to transact the business of property, casualty, surety, boiler and machinery, marine and transportation, and health insurance. As of December 31, 2011, ARECA was licensed only in Alaska.

Corporate Records

The bylaws and minutes of the Board of Directors/Trustees of AIM and of the Exchange were reviewed during this examination. All board meeting notices appear to have been given as required by the bylaws. All meetings had quorums. All actions of both AIM 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 and an organizational meeting be held each year in August or September. The annual meetings of the Exchange and of AIM 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 bylaws were made during the exam period.

Management and Control

The Exchange is an unincorporated association of subscribers that insure the other subscribers in the Exchange. Membership in the Exchange is effective following the execution and approval of a Subscriber's Agreement between the Exchange and each member. Each subscriber has a contingent assessment liability, as provided in the subscribers' agreement, for payment of actual losses and expenses incurred while the subscriber's policy was in force. Subscribers may be required to make contributions to surplus of the Exchange from time to time as required by the Trustees in order to maintain adequate levels of surplus. However, pursuant to the bylaws, no subscriber shall be assessed an aggregate liability in any one calendar year in excess of an amount equal to the direct premium for such policy during that year.

During the period under review three subscribers left the Exchange: Copper Valley Electric, Thomas Bay Power Authority and OTZ Telephone Cooperative. One new subscriber joined the Exchange: Matanuska Electric Association.

The Exchange has a subscribers' advisory committee (Board of Trustees) that consists of one person selected by the governing body of each member. The Board of Trustees elects the Chairman of the Board of Trustees, and any other officers as the business of the Exchange may require. Following is a list of officers so elected/appointed for the Exchange as of December 31 of each year covered by this examination, as reported in the minutes of the Board of Trustees.

ARECA Insurance Exchange

NAME	TITLE	December 31,		
		2009	2010	2011
Meera Kohler	Chairman	X	X	X
Bill Nordmark	Vice Chairman	X	X	X
Cliff Davidson	Treasurer	X	X	X
Marilyn LeLand	Secretary	X	X	X

Pursuant to the bylaws of AIM, the attorney-in-fact shall have seven directors from the members of the governing bodies of the subscribers of the Exchange, and no subscriber shall provide more than one director. Any subscriber credited with more than 20% of capital and surplus of the Exchange shall be entitled to designate one director to the Board of Directors of the attorney-in-fact.

Fidelity Bond and Other Insurance

The Exchange has fidelity bonding issued by Fidelity and Deposit Company of Maryland that is limited to \$1,000,000 with a \$5,000 deductible for each type of coverage. Bonding covers all employees of the attorney-in-fact. Coverage is deemed adequate.

The Exchange carries insurance coverage for Excess Liability (Umbrella), Commercial General Liability, Property and Business, Workers' Compensation, Directors and Officers insurance, Domestic Reciprocal Insurer Bond, and Automobiles, in addition to the fidelity bonding as listed above. Coverage appears adequate.

Affiliated Companies

Pursuant to a management agreement dated December 16, 1983, the affairs of the Exchange are handled by the attorney-in-fact, AIM, which is a wholly owned subsidiary of the Exchange. A Services Contract between the Exchange and the Alaska Rural Electric Cooperative Association dated August 9, 2011, requires that the attorney-in-fact receives reimbursement of proportionate employee costs from the Exchange. The Alaska Rural Electric Cooperative Association changed its name to the Alaska Power Association (APA) in 2004.

Officers', Employees' and Agents' Welfare and Pension Plans

The Exchange does not have employees. However, the personnel costs incurred by APA to manage the Exchange are allocated to the Exchange. Included in the cost allocation are the employee pension and retirement plans.

Territory and Plan of Operation

The Exchange is authorized to transact the following lines of business: property, casualty, surety, health, marine, and transportation policies. As of December 31, 2011, they were licensed only in Alaska. Per inquiry of management, the Exchange does not maintain a written plan for the acquisition of business and does not employ an agency system.

Based on the lines of business for which the Exchange is licensed, and pursuant to the requirements of AS 21.09.070, the Exchange is required to maintain minimum policyholders' surplus of \$4,125,000.

Growth of the Company

The following schedule shows the annual results of operations from the year ended December 31, 2009 through December 31, 2011. The figures are as reported in the annual statement of the Exchange filed with the Division for the years 2009 through 2011:

Year	Admitted Assets (000's)	Liabilities (000's)	Surplus (000's)
2009	\$22,054	\$6,428	\$15,626
2010	\$23,406	\$4,762	\$18,644
2011	\$27,269	\$7,384	\$19,885

Loss Experience

The following schedule shows the loss experience during the period of examination:

Year	Net Premiums Earned (000's)	Net Losses Incurred (000's)	Ratio	Loss Expense Incurred (000's)	Ratio
2009	\$3,893	\$1,456	37.4%	\$733	18.8%
2010	\$4,616	\$1,273	27.6%	\$356	7.7%
2011	\$4,084	\$3,681	90.1%	\$268	6.6%

Reinsurance

The Exchange has reinsured its various risks through specific excess of loss per occurrence reinsurance agreements through direct placements with reinsurers and primarily with General Reinsurance Corporation.

As of December 31, 2011, the Exchange had a maximum retention per occurrence of \$500,000 on automobile liability, general liability and railroad protective; \$1,000,000 retention on

workers' compensation. Automobile liability is reinsured to \$1,000,000 over the company retention. The Exchange and its members are reinsured for General Liability over the company retention up to the policy limits of \$2,000,000 general aggregate and \$500,000 each occurrence. The Exchange is reinsured for workers' compensation over the company retention up to the policy limit of \$5,500,000. Excess of loss property reinsurance covers 100% of losses up to \$50,000,000 excess of \$1,000,000 of all physical perils excluding Boiler and Machinery, Earthquake and Flood, and 100% of losses up to \$50,000,000 excess of member deductibles with respect to Boiler and Machinery, Earthquake and Floods. The Exchange does not assume any reinsurance.

Accounts and Records

The accounting and recordkeeping system employed by the Exchange is maintained in the Anchorage office and is designed to provide support for the Annual Statement. All claims have been handled in-house since late 1996. The Exchange utilizes software for processing claims and maintaining loss reserves and premiums.

KPMG LLP audited the records of the Exchange annually. For each year in the examination period, KPMG issued an unqualified opinion.

Statutory Deposits

The Exchange maintains a statutory deposit of \$300,000 at Wells Fargo Bank, N.A. for the benefit of all Alaska policyholders.

SUMMARY OF ACTUARIAL REVIEW

As of December 31, 2011, the Exchange carried \$6,080,369 in net loss and loss adjustment expense reserves and \$7,383,351 in gross loss and loss adjustment expense reserves. Using data provided by the Exchange and discussions with the insurer's staff, the division actuary reviewed the reserves held by the Exchange, as well as the Willis of Tennessee, Inc. actuaries report in support of the 2011 Statement of Actuarial Opinion. Based on this review, the overall reserve position is within a reasonable range of acceptable reserve estimates and should be accepted as stated.

FINANCIAL STATEMENTS

The following financial statements represent the financial position of the Exchange as of December 31, 2011, as reported to the division in the amended annual statement filed June 27, 2012, and as determined by the examiners.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2011

	Net Admitted	
	Assets	Examination
	(As Amended)	Adjustments
		As
		Adjusted
<u>Assets</u>		
Bonds	\$ 15,469,920	\$ 15,469,920
Preferred stock		
Common stock	6,625,345	6,625,345
Properties occupied by the Exchange	211,934	211,934
Properties held for production of income	225,643	225,643
Cash & short term		
Investments	4,231,075	4,231,075
Receivable for securities	0	0
Investment income due and accrued	117,777	117,777
Premiums and agents' balances in course of collection	51,813	51,813
Amounts recoverable from reinsurers	313,692	313,692
Current federal and foreign income tax recoverable and interest thereon	21,724	21,724
	<hr/>	<hr/>
Total Admitted Assets	<u>\$ 27,268,923</u>	<u>\$ 27,268,923</u>
<u>Liabilities, Surplus and Other Funds</u>		
<u>Liabilities</u>		
Losses	\$ 5,467,403	\$ 5,467,403
Loss adjustment expenses	612,986	612,986
Other expenses	335,501	335,501
Unearned premiums	287,136	287,136
Payables for securities	614,230	614,230
Aggregate write-ins for liabilities	66,275	66,275
	<hr/>	<hr/>
Total Liabilities	<u>\$ 7,383,531</u>	<u>\$ 7,383,531</u>
<u>Surplus</u>		
Gross paid-in and contributed surplus	\$ 17,641,435	\$ 17,641,435
Unassigned funds (surplus)	(347,235)	(347,235)
Surplus allocated to policyholders	2,591,192	2,591,192
Surplus as regards policyholders	<u>\$ 19,885,392</u>	<u>\$ 19,885,392</u>
	<hr/>	<hr/>
Total Liabilities and Surplus	<u>\$ 27,268,923</u>	<u>\$ 27,268,923</u>

FINANCIAL STATEMENTS
STATEMENT OF UNDERWRITING AND INVESTMENT
As of December 31, 2011

	<u>As Amended</u>	<u>Examination Adjustments</u>	<u>As Adjusted</u>
<u>Underwriting Income</u>			
Premiums earned	\$ 4,083,684		\$ 4,083,684
Total Revenue	<u>\$ 4,083,684</u>		<u>\$ 4,083,684</u>
<u>Deductions</u>			
Losses incurred	\$ 3,681,263		\$ 3,681,263
Loss expenses incurred	267,606		267,606
Other underwriting expenses	1,407,808		1,407,808
Total underwriting deductions	<u>\$ 5,356,677</u>		<u>\$ 5,356,677</u>
Net underwriting gain or (loss)	<u>\$ (1,272,993)</u>		<u>\$ (1,272,993)</u>
<u>Investment Income</u>			
Net investment income earned	\$ 438,494		\$ 438,494
Net realized capital gains or (losses)	3,383,042		3,383,042
Net investment gain or (loss)	<u>\$ 3,821,536</u>		<u>\$ 3,821,536</u>
Aggregate write-ins for Misc. Income	7,235		7,235
Federal and foreign income tax incurred	<u>(35,414)</u>		<u>(35,414)</u>
Net Income (Loss)	<u>\$ 2,591,192</u>		<u>\$ 2,591,192</u>
<u>Capital and Surplus Account</u>			
Surplus, Dec. 31, prior year	<u>\$ 18,644,257</u>		<u>\$ 18,644,257</u>
<u>Gains and (Losses) in Surplus</u>			
Net income (loss)	\$ 2,591,192		\$ 2,591,192
Net unrealized capital gains or (losses)	(1,194,223)		(1,194,223)
Change in non-admitted assets	26,296		26,296
Surplus adjustments: Paid in	2,541,443		2,541,443
Aggregate write-ins for gains or (losses) in surplus	<u>(2,723,573)</u>		<u>(2,723,573)</u>
Change in surplus as regards policyholders for the year	<u>\$ 1,241,135</u>		<u>\$ 1,241,135</u>

Surplus for the period ended Dec. 31, 2011 \$ 19,885,392 \$ 19,885,392

FINANCIAL STATEMENTS
STATEMENT OF CAPITAL AND SURPLUS ACCOUNT
As of December 31, 2011

	Allocated to Policy Holders	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2008	\$(2,880,606)	\$ 17,054,619	\$ (629,463)	\$13,544,548
Adjustment to unassigned surplus for correction of an error			(487,026)	(487,026)
Net income – 2009			1,162,592	1,162,592
Net unrealized capital gains or (losses)			784,200	784,200
Change in net deferred income taxes			(293,253)	(293,253)
Change in non-admitted assets			915,049	915,049
Surplus allocated to policy holders	1,162,592		(1,162,592)	0
Allocation of prior year surplus	2,880,606	(2,880,606)		0
Balance at December 31, 2009	<u>\$1,162,592</u>	<u>\$14,174,012</u>	<u>\$289,507</u>	<u>\$15,626,110</u>
Net income – 2010			2,541,443	2,541,443
Net unrealized capital gains or (losses)			531,696	531,696
Change in net deferred tax asset			(111,717)	(111,717)
Change in non-admitted assets			111,204	111,204
Surplus allocated to policy holders	2,541,443		(2,541,443)	0
Allocation of prior year surplus	(1,162,592)	1,162,592		0
Payment of capital to policy holders		(54,479)		(54,479)
Balance at December 31, 2010	<u>\$2,541,443</u>	<u>\$15,282,126</u>	<u>\$820,690</u>	<u>\$18,644,258</u>
Net income – 2011			2,591,192	2,591,192
Net unrealized capital gains or (losses)			(1,194,223)	(1,194,223)
Change in non-admitted assets			26,296	26,296
Surplus allocated to policy holders	2,591,192		(2,591,192)	0
Allocation of prior year surplus	(2,541,443)	2,541,443		0
Net Payment of capital to policy holders		(182,130)		(182,130)
Balance at December 31, 2011	<u>\$ 2,591,192</u>	<u>\$17,641,437</u>	<u>\$(347,257)</u>	<u>\$19,885,372</u>

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

This examination did not result in findings that produced adjustments to the financial statements as amended June 27, 2012 for year ended December 31, 2011.

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

During the examination the following recommendations in the prior report of examination were found to have been implemented or the issue was no longer present:

- Prior Finding 2 – Reinsurance Intermediary Broker Contract
- Prior Finding 3 – Filing of Reinsurance Agreements
- Prior Finding 4 – Retention Period
- Prior Finding 5 – Remote System Access
- Prior Finding 6 – Incorrect Gross Paid-in and Unassigned Surplus
- Prior Finding 7 – System Development and Implementation
- Prior Finding 9 – Earned but Unbilled Premiums
- Prior Finding 10 – Premium Deficiency Reserves
- Prior Finding 11 – Anti-fraud Plan?
- Prior Finding 12 – Intercompany Services Agreement and Related Party Transaction Disclosures
- Prior Finding 13 – Business Contingency Plan and Disaster Recovery
- Prior Finding 14 – Audit Committee Meetings

The following prior findings were not found to be resolved during the current examination:

Prior Finding 1 – Reinsurance Agreement Modification

The reinsurance agreement with General Reinsurance Corporation (Gen Re) and EWI gives those reinsurers the unilateral right to change the reinsurance agreement. Alaska regulation 3 AAC 21.635(5) requires that a change or modification to the agreement is void unless it is made by a written amendment to the agreement signed by both parties. (See current finding 5.)

Recommendation: It was recommended that the existing reinsurance contracts be modified to comply with 3 AAC 21.635(5) and ensure compliance of future contracts.

Prior Finding 8 – Conflict of Interest Statements

During the examination period, the Exchange required board members and officers to complete conflict of interest statements annually to ensure that all potential conflicts of interest were disclosed. In 2011 three board members did not complete conflict of interest statements. This is a repeat exception from the prior examination. (See current finding 6.)

Recommendation: It was recommended that Conflict of Interest statements from all board members and officers be obtained on an annual basis.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Due to parent, subsidiaries, and affiliates

The liability due to Alaska Power Association reported on the amended annual statement as of December 31, 2011 is included on the incorrect line of the annual statement. Per the NAIC annual statement instructions, this amount should be reported on line 19, Payable to parent, subsidiaries or affiliates on the Liabilities, Surplus, and Other Funds page.

Recommendation: It is recommended that NAIC annual statement filing instructions be followed to ensure correct reporting.

Finding 2 – Service agreement between the Exchange and Alaska Power Association

In reviewing the services contract between the Exchange and APA, no specified due date was noted in the contract. Per SSAP No. 25, Paragraph 6, "The written agreement must provide for timely settlement of amounts owed, with a specified due date. If the due date is not addressed by the written agreement, any uncollected receivable is non-admitted.

Recommendation: It is recommended that the service agreement between the Exchange and APA should be updated to include specific due dates for settlements to ensure compliance with SSAP No. 25.

Finding 3 – Investment in non-asset backed security exceeds 10% of Net Admitted Assets

As of December 31, 2011, the Exchange had an investment in a Wells Fargo government money market fund that exceeds 10% of admitted assets. Pursuant to 3 AAC 21.330(b)(2), investments in any one fund that is not asset backed is limited to 10% of assets. Total fund investment is \$3,734,885, compared to 10% of assets or \$2,726,892.

Recommendation: It is recommended that the Exchange liquidate a portion of the Wells Fargo government money market fund to ensure compliance with 3 AAC 21.330(b)(2). The Investment Review Committee should continuously review all investments to ensure compliance with all statutes and regulation.

Finding 4 – Reinsurance credits calculated incorrectly

The Exchange incorrectly calculated reinsurance credits for 2007. During the exam period the Workers' Compensation policy had a company retention amount of \$750,000. The Exchange used the incorrect retention limit of \$1,000,000 to calculate reinsurance credits.

Recommendation: It is recommended that the Exchange verify all reinsurance retention amounts while calculating reinsurance credits.

Finding 5 – Reinsurance Agreement Modification

The reinsurance agreement with General Reinsurance Corporation (Gen Re) and EWI gives those reinsurers the unilateral right to change the reinsurance agreement. Alaska regulation 3 AAC 21.635(5) requires that a change or modification to the agreement is void unless it is made by a written amendment to the agreement signed by both parties. This is a repeat finding from the prior examination. (See prior examination finding 1.)

Recommendation: It is recommended that the existing reinsurance contracts be modified to comply with 3 AAC 21.635(5) and ensure compliance of future contracts.

Finding 6 – Conflict of Interest Statements

It is the policy of the Exchange to required board members and officers to complete conflict of interest statements annually to ensure that all potential conflicts of interest were disclosed. In 2011 three board members did not complete conflict of interest statements. This is a repeated exception from the prior two examinations. (See prior examination finding 8.)

Recommendation: It is recommended that the Exchange more closely monitors the submission of conflict of interest statements annually.

CLOSING

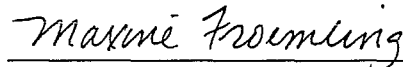
This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

An affidavit of the Examiner-in-Charge, Cathie A. Stewart, CFE, Senior Director with Risk and 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 ARECA Insurance Exchange as of December 31, 2011.

Also participating in the examination from the Alaska Division of Insurance were David Phifer and AJ Heggen, Financial Examiners II. Additionally, the following contract examiners from Risk and Regulatory Consulting, LLC assisted in the examination: Margaret C. Spencer, Partner, CPA, CFE, CIE, MCM, RHU, CPCU, CLU, CIA; and Susan L. Carroll, Senior Manager, CPA, CFE.

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

This report is respectfully submitted,



Maxine Froemling, CFE
Chief Financial Examiner

AFFIDAVIT

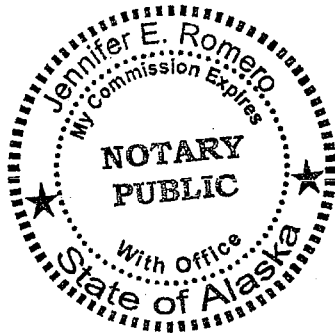
Anchorage, Alaska)
June 06, 2013)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2011, of ARECA Insurance Exchange, an Alaska-domiciled company holding Certificate of Authority #D-1530, is true to the best of my knowledge and belief.

Maxine Froemling

Maxine Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 6th day of June, 2013.



Jennifer E. Romeo
Notary Public for the State of Alaska

My commission expires: with office