

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF KANSAS**

In the Matter of the Financial Condition Examination	)	
Report as of December 31, 2021	)	Docket No. 98223
<b>ARMED FORCES INSURANCE EXCHANGE</b>	)	
<b>NAIC CoCode: 41459</b>	)	

**ORDER**

This matter is before the Commissioner of Insurance for consideration of the financial condition examination report as of December 31, 2021, for Armed Forces Insurance Exchange ("AFIE"). Before the Commissioner of Insurance is whether to adopt, reject, or modify the examination report pursuant to the provisions of K.S.A. 40-222.

The Commissioner of Insurance, having fully considered and reviewed the financial condition examination report, together with all written submissions, applicable rebuttals, and all relevant portions of the examiners' workpapers, finds as follows:

**Policy Reasons**

It is stated policy of the State of Kansas that whenever the Commissioner of Insurance deems it necessary, but at least once every five years, an examination of the affairs and financial condition of any insurance company in the process of organization, applying for admission, or doing business in this State can be undertaken. Through the examination process, the insurance consuming public will be well served and protected.

**Findings of Fact**

1. The Commissioner has jurisdiction over this matter pursuant to K.S.A. 40-222.

2. An examination of AFIE was undertaken by the Kansas Insurance Department and was completed by the Kansas Insurance Department.

3. On December 29, 2022, the examiner-in-charge tendered and filed with the Kansas Insurance Department a verified written report of the examination within thirty (30) days following completion of the examination.

4. Following receipt of the verified report, the Kansas Insurance Department transmitted the report to AFIE on January 6, 2023, with a duly executed notice advising the company of its opportunity to prepare and submit to the Kansas Insurance Department a written submission or rebuttal with respect to any and all matters contained in the report. AFIE was further advised that any written submission or rebuttal needed to be filed with the Kansas Insurance Department no later than fifteen (15) days after receipt of the verified report.

5. On January 13, 2023, AFIE provided a written submission with certain factual corrections to the report.

6. On January 18, 2023, the Department accepted the proposed factual corrections and created the finalized verified report.

7. Within thirty (30) days of the end of the time period allowed for written submission or rebuttal, the Commissioner of Insurance fully reviewed the report, together with all written submissions and rebuttals provided by AFIE. The Commissioner of Insurance further reviewed all relevant workpapers.

8. No other written submissions or rebuttals were submitted by AFIE.

#### **Conclusion of Law**

9. K.S.A. 40-222(k)(2) provides:

“Within 30 days of the end of the period allowed for the receipt of written submissions or rebuttals, the commissioner shall fully consider and review the report, together with any written submissions or rebuttals and any relevant portions of the examiners workpapers and enter an order:

- (A) Adopting the examination report as filed or with modification or corrections. If the examination report reveals that the company is operating in violation of any law, regulation or prior order of the commissioner, the commissioner may order the company to take any action the commissioner considers necessary and appropriate to cure such violations; or
- (B) rejecting the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information, and refile pursuant to subsection (k); or
- (C) call and conduct a fact-finding hearing in accordance with K.S.A. 40-281 and amendments thereto for purposes of obtaining additional documentation, data, information and testimony.”

10. Based upon the Findings of Fact enumerated in paragraphs #1 through #8 above, the financial condition examination report as of December 31, 2021, of AFIE should be adopted.

11. AFIE hereby waives any and all rights to further administrative adjudication or review of this matter, including any and all rights conferred upon it under K.S.A. 40-222; K.S.A. 77-501, *et seq.*; and K.S.A. 77-601, *et seq.*

12. This Order constitutes the Final Order in this matter.

**IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:**

1. The financial condition examination report as of December 31, 2021, of Armed Forces Insurance Exchange is adopted.

2. The Commissioner of Insurance retains jurisdiction over this matter to issue any and all further Orders deemed appropriate or to take such further action necessary to dispose of this matter.

3. Within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

4. The Commissioner of Insurance shall hold the content of the examination report as private and confidential information for a period of 30 days. Thereafter, the Commissioner may open the report for public inspection so long as no court of competent jurisdiction has stayed its publication.

IT IS SO ORDERED THIS 1<sup>st</sup> DAY OF FEBRUARY 2022, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.



Vicki Schmidt  
Commissioner of Insurance

Approved by the Kansas Insurance  
Department Legal Division

Justin L. McFarland  
General Counsel

APPROVED & FILED

FEB 01 2023

VICKI SCHMIDT  
Commissioner of Insurance

**Certificate of Service**

The undersigned hereby certifies that she served the above and foregoing Order on this 1st day of February 2023, by causing the same to be deposited in the United States Mail, first class postage prepaid, addressed to the following:

Subscribers' Advisory Committee  
Armed Forces Insurance Exchange  
550 Eisenhower Road  
Leavenworth, Kansas 66048



---

Toni Garrard  
Senior Administrative Specialist

**REPORT ON EXAMINATION**  
**OF**  
**ARMED FORCES INSURANCE EXCHANGE**  
**550 EISENHOWER ROAD**  
**LEAVENWORTH, KANSAS**  
**AS OF**  
**DECEMBER 31, 2021**

**APPROVED & FILED**

**FEB 01 2023**

**VICKI SCHMIDT**  
Commissioner of Insurance

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION .....	1
SCOPE OF EXAMINATION .....	1
Independent Audit Reports .....	3
Actuarial Review .....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
General .....	3
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	5
Subscribers .....	5
Subscribers' Advisory Committee .....	5
Committees .....	7
Officers .....	8
INSURANCE HOLDING COMPANY SYSTEM .....	9
Intercompany/Cost Sharing Agreements .....	9
TERRITORY AND PLAN OF OPERATION .....	11
SELECT FINANCIAL INFORMATION .....	12
REINSURANCE .....	12
General .....	12
Assumed Reinsurance .....	13
Ceded Reinsurance .....	13
FINANCIAL STATEMENTS .....	14
Statement of Assets .....	15
Statement of Liabilities and Surplus .....	16
Statement of Income .....	17
Capital and Surplus Account .....	18
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS .....	19
COMMENTS ON FINANCIAL STATEMENTS .....	19
SUBSEQUENT EVENTS .....	19
SUMMARY OF RECOMMENDATIONS .....	19
CONCLUSION .....	19
SUPERVISION .....	20

Topeka, Kansas  
December 21, 2022

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead Rd  
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

**ARMED FORCES INSURANCE EXCHANGE**

with its statutory home office and main administrative office at:

**550 EISENHOWER ROAD  
LEAVENWORTH, KANSAS**

hereinafter referred to as the “Exchange” or “AFIE”. The following report on such examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The examiners have performed a multi-state financial examination of the Exchange, a Kansas domiciled reciprocal insurance exchange. The last examination covered the four-year period from January 1, 2014, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The



Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Exchange, 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 Exchange 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.

Those activities considered in the examination as key or critical to the Exchange included Capital Management, Investments, Reinsurance, Related Party, Claims and Reserving, and Underwriting and Pricing. The examination also included a review and evaluation of information technology general controls.

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 is documented separately following the Exchange's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, 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 Exchange.

## **Independent Audit Reports**

Financial statements of the Exchange were audited by BKD, LLP of Kansas City, Missouri for the year ending December 31, 2021. Financial statements of the Exchange were audited by Deloitte & Touche, LLP of Kansas City, Missouri for the years ending December 31, 2018, through December 31, 2020. In each of the years under examination, the auditors concluded that the financial statements of the Exchange present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Exchange as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

## **Actuarial Review**

The Exchange retained Jeffrey Kimble, ACAS, MAAA, of Willis Towers Watson of Leawood, Kansas to perform a review of the Exchange's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Exchange in its reserve setting process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the examination.

## **COMPANY HISTORY**

### **General**

The Army Co-operative Fire Association (Association) was organized on February 7, 1887, for the sole purpose of insuring the personal property of all commissioned officers

of the United States Army and acting assistant surgeons actually on duty with the troops, for loss by fire. After World War II, catastrophic coverage was added, as many members were living in places prone to typhoon, flood and earthquake risk. Membership was expanded to include officers of the Air Force, Navy, Marine Corps, Coast Guard and career reservists of the armed forces. Insurance against loss by theft and other perils was offered in 1954, with homeowners' coverage being offered in 1960. On February 7, 1962, the Association's name was changed to the "Armed Forces Cooperative Insurance Association" to effectively recognize the changed status of the Association through the years as an insuring group of officers of the armed forces.

The expansion into homeowners insurance and the increased emphasis on state regulation of insuring organizations required the Association to be regulated by state insurance departments. To address this need, Armed Forces Insurance Exchange was established under K.S.A. 40-1601 *et seq.* and commenced business on August 1, 1982. The Exchange was formed to assume the Association's business and by July 1, 1992, all assets and liabilities of the Association had been merged with and into the Exchange, with the Exchange being the surviving entity. In conjunction with the merger, Armed Forces Insurance Corporation (AFIC) was established to act as attorney-in-fact in accordance with statutory provisions.

### **CORPORATE RECORDS**

The Exchange's articles of incorporation and bylaws were reviewed. The bylaws were amended on August 21, 2019, to update the external director's terms to a staggered three-year term by majority vote.

On August 19, 2020, the Bylaws were amended to include the following changes:

- The United States Space Force is a separate military branch that will be added with the other eligible military branches of the U.S. Army, Air Force, Navy, Marine Corps, and Coast Guard.
- Expand the eligibility to include employees of the U.S. Department of Veteran Affairs (VA).
- Allow children of a current or former eligible individual who has or had a policy with AFIA to be eligible for AFIE membership.
- Expand the eligibility for Parents of a current or former eligible individual who has or had a policy with AFIE or AFIA.
- Adding eligibility to the following U.S. military auxiliaries: Civil Air Patrol, Coast Guard Auxiliary, Merchant Marine, Military Auxiliary Radio System, and Marine Corps Auxiliary.
- A few minor grammatical changes.

On August 18, 2021, the Bylaws were amended by adding the eligibility of surviving spouses, as well as a few grammatical and formatting changes.

## **MANAGEMENT AND CONTROL**

### **Subscribers**

The Exchange is controlled by its member subscribers and managed by a Subscribers' Advisory Committee (SAC).

### **Subscribers' Advisory Committee**

The bylaws stipulate that the SAC be composed of not less than seven nor more than eight individuals, all of whom are current subscribers elected by member subscribers of the Exchange, plus an ex officio, the president of the attorney-in-fact. The elected term of office for members of the SAC is three years, with elected members being limited to two successive terms. Upon death, impairment or resignation of a SAC member, the remaining members select a replacement to serve until the next annual meeting of the

Exchange's member subscribers. The SAC is to elect a Chairman and Vice Chairman from the elected members of the SAC. The SAC, in addition to elected independent directors, comprise the Board of Directors for the attorney-in-fact. In addition to the Ex-Officio, Arlen Briggs, who is the president of the attorney-in-fact and the Exchange, the following is a listing of SAC members elected and serving as of December 31, 2021.

<b><u>Military Rank</u></b>	<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Lt Colonel (Retired)	Michael J. Yaguchi	Managing Director, Yaguchi & Associates, LLC
CMSgt (Retired)	Danny R. Walker	Manager of IT Asset Management, Waddell & Reed
Lt. Colonel (Retired)	Michelle M.E. Garcia	Leadership Instructor, Command and General Staff College
Colonel (Retired)	Norman D. Greczyn	Retired, Valiant Integrated Services
Colonel (Retired)	Myron J. Griswold	Retired, Defense Contractor
Lt Colonel (Retired)	Randy T. Johnson	Owner, Anytime Labor East Missouri, LLC dba/Labor Max Staffing
	Lucille K. Pittard	Retired, Teacher

The Exchange's bylaws stipulate that the SAC shall have oversight responsibility to supervise the attorney-in-fact's operations to such extent as necessary to assure conformity with the subscriber's agreement and to supervise the finances of the Exchange. The SAC is trustee of the stock of AFIC for the subscribers with authority to vote, sell or purchase additional shares of said stock.

The elected independent board members of the attorney-in-fact as of December 31, 2021 were as follows:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Becky S. Blades	President

Kansas City, MO	Trozzolo Communications Group
Lt Gen (Ret) Stanley E. Clarke III Danville, KY	Chairman of the Board, AFIC Retired, Air National Guard
Thomas M. Fogt Overland Park, KS	Retired AmerUs Annuity Group
Scott T. Forland Lenexa, KS	Senior Legal Counsel SS&C Technologies, Inc.
Paul E. Heacock Olathe, KS	President H. Dynamics, Inc. d/b/a Human Dynamics
Kenneth A. Selzer Leawood, KS	Advisory Kansas State University College of Business
George J. Zock Riverton, IL	Chairman Board of Wilshire Mutual Funds and Wilshire Insurance Trust

### **Committees**

The Exchange's bylaws indicate that the Board may designate one or more committees of the Board. Each committee is made up of board members of the attorney-in-fact, who are reviewed yearly. The established committees and the members elected and serving as of December 31, 2021, were as follows:

<b><u>Audit Committee</u></b>	<b><u>Governance Committee</u></b>	<b><u>Corporate Strategy &amp; Objective Committee</u></b>
Tom Fogt	Lt Col (Ret) Michael Yaguchi	Paul Heacock
Lt Gen (Ret) Stanley Clarke	Lt Gen (Ret) Stanley Clarke	Lt Gen (Ret) Stanley Clarke
Scott Forland	Tom Fogt	COL (Ret) Norm Greczyn
COL (Ret) Norm Greczyn	CMSgt (Ret) Danny Walker	COL (Ret) Mike Griswold

Paul Heacock

George Zock

Lucille Pittard

Ken Selzer

**Innovation Committee**

**Investment Committee**

CMSgt (Ret) Danny Walker

George Zock

Lt Gen (Ret) Stanley Clarke

Becky Blades

LTC (Ret) Michelle Garcia

Lt Gen (Ret) Stanley Clarke

LTC (Ret) Randy Johnson

LTC (Ret) Randy Johnson

Lt Col (Ret) Michael Yaguchi

Ken Selzer

**Officers**

The affairs of the Exchange are under the direction of the attorney-in-fact as authorized by the power of attorney submitted by each subscriber. The following is a listing of officers of AFIE as of December 31, 2021:

**Name**

**Position(s) Held**

Arlen L. Briggs

President & CEO

Martin B. Hogan\*

Treasurer

Lynn C. Crawford

Vice President, Claims

Kevin J. Lund

Vice President, Information Technology

Michael T. Nixon\*\*

Senior Vice President, Insurance Operations

Lori L. Simmons

Vice President, Marketing & Corporate Communications

Tracey R. Sommerla

Vice President, Risk Management

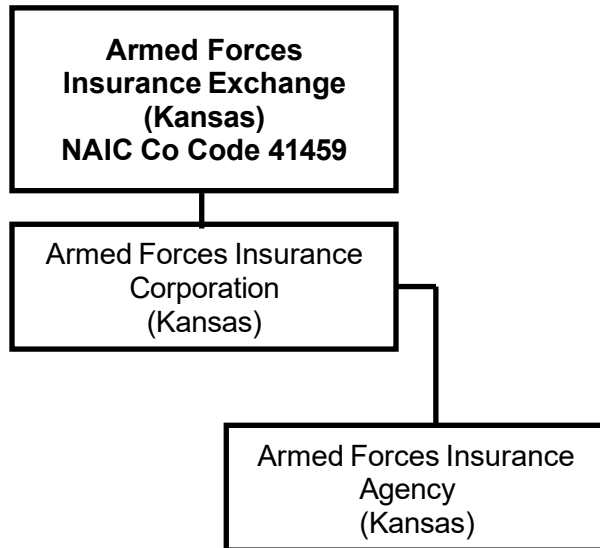
\*Martin B. Hogan resigned in March 2022 and was replaced with Deryck M. Malone in May 2022.

\*\* Michael T. Nixon retired in January 2022 with responsibilities absorbed amongst existing officers.

## **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Exchange has submitted Form “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Exchange were properly reported as required by statute.

The simplified organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2021.



### **Intercompany/Cost Sharing Agreements**

The following is a brief description of significant agreements executed with affiliate entities that were in effect as of December 31, 2021.

#### ***Management Agreement***

Effective January 1, 1999, the Exchange entered into a Management Agreement with AFIC. AFIC provides management services to the Exchange for a monthly fee. The



agreement is renewed annually and approved by the Kansas Insurance Department. Pursuant to the agreement, the Exchange paid \$390,000, \$390,000, \$315,000, and \$240,000 to AFIC in 2018, 2019, 2020, and 2021, respectively.

### ***Management Agreement***

Effective December 1, 1999, the Exchange entered into a Management Agreement with Armed Forces Insurance Agency (AFIA). The agreement is renewed annually and approved by the Kansas Insurance Department. Pursuant to the agreement, the Exchange received service fee income from AFIA of \$5,092,777, \$4,989,969, \$5,389,487, and \$5,848,683 in 2018, 2019, 2020, and 2021, respectively. The Exchange paid processing fee expense to AFIA of \$415,731, \$417,232, \$421,793, and \$441,697 in 2018, 2019, 2020, and 2021, respectively.

### ***Lease Agreement***

The Exchange has renewed its lease agreements with AFIC, whereby, the Exchange leases office space at 655 Biddle Boulevard, Fort Leavenworth, Kansas and 550 Eisenhower Road, Leavenworth, Kansas. The Exchange, with prior approval from AFIC, subleases to AFIA office space at 550 Eisenhower Road to AFIA. The sublease includes rentable space located at 655 Biddle Boulevard, for the benefit of AFIA when needed. Pursuant to the agreement, the Exchange paid \$1,132,680, \$916,680, \$916,680, and \$533,580 to AFIC in 2018, 2019, 2020, and 2021, respectively.

### ***Tax Sharing Agreement***

Effective May 17, 2013, the Exchange entered into a Tax Sharing Agreement with AFIC. The subsidiary calculates its federal income tax on a stand-alone basis making estimated tax payments to the Exchange.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2021, the Exchange is authorized to transact business in all fifty (50) states and the District of Columbia. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Exchange is licensed. No exceptions were noted.

Pursuant to Article II of AFIE's bylaws, the following are eligible to be subscribers of the Exchange and are entitled to its benefits:

- active, retired, or honorably discharged former commissioned, warrant, or noncommissioned officers of the regular service, the reserve components, the retired reserve list, or the retired reserve components of the U.S. Army, Air Force, Navy, Marine Corps, Coast Guard, or Space Force;
- active, retired, or former commissioned officers of the Public Health Service;
- active, retired, or former commissioned officers of the National Oceanic and Atmospheric Administration;
- cadets or midshipmen of the Service Academies and any midshipmen of the U.S. Merchant Marine Academy;
- ROTC cadets or midshipmen enrolled in an advanced ROTC program who have accepted a contractual service obligation;
- active or retired persons in those enlisted grades of the regular service, the reserve components, the retired reserve list or the retired reserve components, as authorized by the Attorney-in-Fact;
- honorably discharged veterans of the active and reserve components as authorized by the Subscribers' Advisory Committee;
- members of the Civil Air Patrol, Coast Guard Auxiliary, Merchant Marine, Military Auxiliary Radio System, or Marine Corps Auxiliary;
- all active or retired civilian employees of the U.S. Department of Defense or Veteran Affairs;
- surviving spouses of any of the above;
- former spouses, parents, and children of current or former member subscribers or of an eligible individual who has or had a policy with Armed Forces Insurance Agency (AFIA);

- employees of AFIE, the AFIC, or any other affiliated of the aforementioned organizations and any person who has retired directly from the employment of any of these organizations or affiliations;
- any person who was previously a member subscriber based on criteria as described in the eligibility requirements above.

As of December 31, 2021, the Exchange's largest lines of business were homeowners multiple peril at 83.4% of direct premiums written, inland marine at 7.2% and allied lines at 4%. The remaining 5.4% represented fire and other liability business.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Exchange's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Exchange.

	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>
<i>(\$000 omitted)</i>				
Admitted Assets	\$131,054	\$125,969	\$114,422	\$105,749
Liabilities	72,385	67,313	66,910	61,483
Capital and Surplus	58,668	58,657	47,512	44,266
Net Income (Loss)	(6,994)	(3,812)	(9,910)	(4,896)
Net Premium Written	67,456	64,280	61,165	53,694

### **REINSURANCE**

#### **General**

The Exchange's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

*(\$000s omitted)*

<b>Premium Type</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Direct Premiums Written	\$ 78,914	\$ 76,025	\$ 73,024	\$ 70,563
Reinsurance Assumed	436	413	402	457
Reinsurance Ceded:	(11,894)	(12,158)	(12,260)	(17,326)
<b>Net Premiums Written</b>	<b>\$ 67,456</b>	<b>\$ 64,280</b>	<b>\$ 61,165</b>	<b>\$ 53,694</b>

### **Assumed Reinsurance**

The Exchange has one contract in which it assumes premiums from Mutual Reinsurance Bureau.

### **Ceded Reinsurance**

The reinsurance program was designed to protect the Exchange against large catastrophic events, such as hurricanes, via multiple layers within a Property Catastrophe Excess of Loss (XOL) program, including the Florida Hurricane Catastrophe Fund. The program also includes an Aggregate XOL treaty to protect against a frequency of smaller non-hurricane catastrophic events, such as tornado and hail, and a multiline XOL.

The large single catastrophe (CAT) coverage provides \$85M excess of \$8.5M. The CAT coverage includes a Regional Reciprocal Catastrophe Pool (RRCP), whereby AFIE receives coverage of \$35 million excess \$50 million for catastrophic events. In exchange, AFIE is assigned 2.2% of any loss sustained by the RRCP (including any AFIE loss ceded to the pool, without a cap).

The Exchange also maintains a 2nd and 3rd event and aggregate covers. On January 1, 2019, the Exchange adjusted its aggregate treaty to provide more coverage from the first hurricane event, increasing the amount that is included in the aggregate from \$4M excess of \$3M to \$5.5M excess of \$3M. The Exchange retains \$400K for each occurrence related to the aggregate treaty to protect against a frequency of smaller non-

hurricane CAT events, but when the sum of the excess losses reaches \$6.6M, the aggregate triggers for up to \$12.5M of recoveries.

Effective August 31, 2021, AFIE entered into a quota share arrangement with Arch Re to cede 10% its net retained business excluding umbrella with a 30% ceding commission allowance.

All reinsurance agreements reviewed provided for the transfer of risk. However, the Exchange is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Exchange with the Department and present the financial condition of the Exchange for the period ending December 31, 2021. There were no adjustments to the Exchange's filed statutory financial statements as a result of this examination.

**ARMED FORCES INSURANCE EXCHANGE  
STATEMENT OF ASSETS  
AS OF DECEMBER 31, 2021**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 77,599,588	\$ -	\$ 77,599,588
Preferred stocks	1,879,251	-	1,879,251
Common stocks	11,954,185	-	11,954,185
Cash and cash equivalent	(264,449)	-	(264,449)
Investment income due and accrued	960,512	-	960,512
Uncollected premiums and agents' balances in the course of collection	7,890,911	28,162	7,862,749
Amounts recoverable from reinsurers	1,059,073	-	1,059,073
Current federal and foreign income tax recoverable and interest thereon	592,487	-	592,487
Net deferred tax asset	10,242,298	7,198,687	3,043,611
Guaranty funds receivable or on Deposit	27,326	-	27,326
Electronic data processing equipment and software	3,902,811	3,889,828	12,983
Furniture and equipment	91,701	91,701	-
Receivables from parent, subsidiaries and affiliates	115,769	-	115,769
Aggregate write-ins for other-than invested assets	3,864,774	2,958,787	905,987
	<u>\$ 119,916,237</u>	<u>\$ 14,167,165</u>	<u>\$ 105,749,072</u>

**ARMED FORCES INSURANCE EXCHANGE  
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2021**

Losses	\$ 14,774,774
Loss adjustment expenses	2,875,633
Other expenses	4,942,807
Taxes, licenses and fees	570,575
Borrowed money	2,627,400
Unearned premiums	31,820,583
Advance premiums	1,143,139
Ceded reinsurance premiums payable	(445,398)
Funds held by company under reinsurance treaties	3,080,623
Amounts withheld or retained by the company for accounts of others	36,318
Payable to parent, subsidiaries and affiliates	<u>56,500</u>
Total liabilities	<u>61,482,954</u>
Unassigned funds (surplus)	<u>44,266,118</u>
Surplus as regards policyholders	<u>44,266,118</u>
Totals	<u><u>\$ 105,749,072</u></u>

**ARMED FORCES INSURANCE EXCHANGE  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Premiums earned	\$ 57,824,741
<b>DEDUCTIONS</b>	
Losses incurred	40,812,995
Loss adjustment expense incurred	6,320,954
Other underwriting expenses incurred	<u>19,697,306</u>
Total underwriting deductions	<u>66,831,255</u>
Net underwriting gain (loss)	(9,006,513)
<b>INVESTMENT INCOME</b>	
Net investment income earned	2,295,685
Net realized capital gains less capital gains tax	<u>960,200</u>
Net investment gain	<u>3,255,885</u>
<b>OTHER INCOME</b>	
Net loss from agents' or premium balances charged off	(32,981)
Finance and service charges not included in premiums	60,067
Aggregate write-ins for miscellaneous income	<u>(5,995)</u>
Total other income	<u>21,099</u>
Net income, after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	(5,729,537)
Federal and foreign income taxes incurred	<u>(833,787)</u>
Net income	<u>\$ (4,895,750)</u>



**ARMED FORCES INSURANCE EXCHANGE  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31				
prior year	\$ 67,540,838	\$ 58,668,421	\$ 58,656,842	\$ 47,511,536
Net income (loss)	(6,994,023)	(3,812,128)	(9,909,899)	(4,895,750)
Change in net unrealized capital gains or (losses)	(1,277,349)	1,479,501	78,950	1,473,314
Change in net deferred income tax				
Change in deferred income tax	258,453	(619,525)	1,474,006	351,885
Change in nonadmitted assets	(2,539,481)	610,637	(2,528,615)	(3,452,372)
Change in provision for reinsurance	18,000	-	-	-
Aggregate write-ins for gains and losses in surplus	1,661,983	2,329,936	(259,748)	3,277,505
Surplus as regards policyholders, December 31				
current year	<u>\$ 58,668,421</u>	<u>\$ 58,656,842</u>	<u>\$ 47,511,536</u>	<u>\$ 44,266,118</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Exchange as of December 31, 2021, was \$44,266,118, which was the same amount reported by the Exchange in its 2021 filed Annual Statement.

## **COMMENTS ON FINANCIAL STATEMENTS**

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

## **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Exchange. However, the Department will continue to closely monitor the impact of the pandemic on the Exchange and will take necessary action if concerns arise.

## **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Exchange were identified that warranted inclusion in this Report on Examination.

## **CONCLUSION**

The assistance and cooperation by the officers of the Exchange during this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Pedrick, FCAS, MAAA, and Michael Morro, ACAS, MAAA, both with INS Consultants, Inc. performed an actuarial review of the Exchange; and Shane Mead, CISA,

CISM, CRISC, IT Examiner with the Department, performed the information technology portion of the examination.

Respectfully submitted,



---

Cecilee Diamond-Houdek, CFE  
Examiner-in-Charge  
INS Regulatory Insurance Services, Inc.,  
representing the Kansas Insurance  
Department

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.



---

Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Insurance Department