



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
SUPREME COUNCIL OF THE ROYAL ARCANUM

Boston, Massachusetts

As of December 31, 2017

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NAIC COMPANY CODE 58181

EMPLOYER ID NUMBER 04-1885430

THE SUPREME COUNCIL OF THE ROYAL ARCANUM

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COMMONWEALTH OF MASSACHUSETTS

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May 24, 2019

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
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Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176, Section 44, an examination has been made of the financial condition and affairs of

THE SUPREME COUNCIL OF THE ROYAL ARCANUM

at its home office located at 61 Batterymarch Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

The Supreme Council of the Royal Arcanum

SCOPE OF EXAMINATION

The Supreme Council of the Royal Arcanum ("Order") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Order by obtaining information about the Order, including corporate governance, identifying and assessing inherent risks within the Order, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Order 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 Order's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176, Section 44, 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 Order.

The Order is audited annually by Vision Financial Group CPA's LLP ("CPA"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Order's financial statements for calendar years 2015 through 2017. In 2018, the Order changed auditors and will now be audited by Moody, Famiglietti & Andronico, LLP. A review and use of the CPA work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings of fact related to the current exam. The Order has complied with the previous examination recommendation to meet the requirements of Massachusetts General Law, Chapter 176, Section 40, which limits the amount of stock value to 25% of the excess of admitted assets over liabilities.

The Supreme Council of the Royal Arcanum

HISTORY

The Order was founded June 23, 1877, and incorporated under the laws of the Commonwealth of Massachusetts on November 5, 1877, as a fraternal benefit society with the power to make and to amend its own Constitutional Rules and General Laws for the government of the whole Order.

The Order exists as a non-sectarian, non-political, fraternal benefit society in the United States of America and Canada. Current qualifications for admission to membership in the Royal Arcanum are: an applicant must be a person of good moral character, a believer in a Supreme Being and attainment of the age of eighteen years.

On January 21, 2000, the Royal Arcanum Insurance Agency, Inc. ("Agency") was incorporated under the laws of the Commonwealth of Massachusetts as a for-profit entity. This wholly-owned subsidiary of the Order was established to provide members access to additional insurance products not otherwise available within the Order and to generate commissions on the business placed with certain insurance companies. As of the date of this examination, there has been no activity in the Agency.

On April 14, 2004, the Royal Arcanum Scholarship Fund, Inc. ("Fund") was incorporated under the laws of the Commonwealth of Massachusetts to award scholarships and grants to provide educational assistance to students pursuing college or university degrees. This not-for-profit corporation was organized as a private foundation exclusively for charitable, literary, scientific, religious, or educational purposes provided for under Section 501(c) (3) of the Internal Revenue Code, and it does not contemplate pecuniary gain or profit, incidental or otherwise. Monies in the Fund are provided by the Order, charitable donations, and unclaimed property from the Order.

On December 28, 2005, the Association of Lithuanian Workers, a fraternal benefit society based in New York, merged with and into the Order which became the surviving entity. The merger was approved by both the Division and the New York Insurance Department.

On October 29, 2008, the Office of the Superintendent of Financial Institutions in Canada officially approved the transaction between the Order and the Ukrainian Fraternal Association ("UFA"); a fraternal benefit society domiciled in Pennsylvania, whereby the Order would take over UFA's Canadian operations on 830 policies with insurance coverage totaling approximately \$2.15 million. On December 1, 2008, the Order received \$856,000 from UFA for this business.

On May 14, 2009, the Order acquired all of the US business from ACA Assurance, except for pre-need policies. ACA Assurance was domiciled in New Hampshire and the Order received \$22,420,793 for 7,448 life insurance certificates, 3,114 Accident and Health certificates and 872 annuities. On July 27, 2011 the Order acquired the pre-need business of ACA Assurance. They acquired 5,658 pre-need policies with a face value of \$15,096,000. The Order received \$11,864,368 in cash, a \$50,000 mortgage and a \$5,000 CD on deposit with the State of South Carolina.

The Supreme Council of the Royal Arcanum

In December of 2015, the Order merged with the Association of the Sons of Poland ("SOP"), of Carlstadt, New Jersey with an effective date of January 1, 2016. The SOP transferred assets of \$4,359,000 and liabilities of \$3,436,000; this added approximately \$920,000 to the Order's surplus. It also added 3,297 certificates and 2,341 members to the Order. The merger was approved by both the Division and the New Jersey Insurance Department.

MANAGEMENT AND CONTROL

Supreme Council Minutes

The minutes of meetings of the Order and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the Order's Constitution and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at the Biennial meeting of the Order.

Constitution and General Laws

The Constitution and Laws of the Order were reviewed. During the exam period changes and deletions were made to the Constitution. Listed below is a brief summary of these changes and deletions.

Changes

- Section 2 1.6 changed the age for the object of the order and the maximum age for juvenile protection from 16 to 18
- Section 8 deleted Life Members from membership on the Supreme Council and added that the Director of Operations shall be admitted to the Session of the Supreme Council
- Section 45(A) added such other duties as may be assigned by the Executive Committee to the Other Duties section under Supreme Secretary
- Section 91(A) deleted Life Members of the Executive Committee from membership of the Executive Committee
- Section 92 (7)(B) changed General Manger of the Home Office to Director of Home Office Operations
- Section 265 changed the age from adult membership from 16 to 18
- Section 485 changed the minimum number of charter members from 25 to 16.

Deletions

- Section 150 Application for the institution of a Grand Council must be signed by not less than 10 Past Regents or Regents in good standing.
- Section 180 (5) A council shall be composed exclusively of men or exclusively of women.
- Section 180 (6) A council may accept as members persons of both sexes provided that the council by a two-thirds vote, vote to do so.
- Section 269 (2) An applicant must be recommended by two members in good standing

The Supreme Council of the Royal Arcanum

- Section 269 (3) An applicant who cannot write may make his mark with two witnesses
- Section 269 (4) Any former member who has severed his connection by taking advantage of Optional Extended Protection shall have the right to apply for membership as a new member
- Section 269 (5) Any member taking a Certificate of Final Withdrawal may be readmitted only as a new member.

Supreme Council

The Constitution provides that the Order shall be composed of its elective Officers, representatives from the Grand Council, Past Supreme Regents, Life Members of the Executive Committee, and members who have served thirty or more years in the Order, provided that they remain in good standing in their Subordinate Council and provided further that no member who is a full-time paid representative of the Field, Promotion, or Council Service Department shall be eligible for membership in such Supreme Council.

At December 31, 2017, the surviving Past Supreme Regents were:

Joyce A. Crawford
Robert H. Law III
James E. O'Neill
Cynthia A. Macon

August Magnotta
Hebert J. Snyder
William J. Wire
Carol A. Zavitz

Peter D. Ferrara
Carl J. Krzystofczyk

At December 31, 2017, those members of the Order who served as Life Members of the Supreme Council were Joseph R. Macon, Robert H. Law III, Genevieve A. Macon, August Magnotta, Paul D'Emilio, Herbert Snyder and Kenneth Kolek.

Executive Committee

The Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Secretary, the elective members to be selected from any of the members who compose the Order and Life Members of the Executive Committee, shall constitute a standing committee to be known as the Executive Committee. Such Executive Committee shall elect from its membership a Chairman who shall appoint all sub-committees and is an ex-officio member thereof and shall appoint a member of the Order to act as Recording Secretary thereof.

The Supreme Council of the Royal Arcanum

Members of the Executive Committee of the Order as of December 31, 2017 were as follows:

<u>Name of Member</u>	<u>Title</u>
Errica Conforto	Supreme Regent
Deborah L. Young	Supreme Vice Regent
Maria Bettina DiBartolo	Supreme Orator
Carl J. Krzystofczyk	Sitting Past Supreme Regent
Peter D. Ferrara	Supreme Secretary
James E. O'Neill	Chairman, Elective Member
Cynthia A. Macon	Elective Member
Janice S. Brazas	Elective Member
Tom Bayliss*	Elective Member

*Tom Bayliss died in 2017 and was not replaced on the Executive Committee until 2018.

Officers

The elective Officers of the Order are Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Secretary, Supreme Treasurer, Supreme Auditor, who is also Chairman of the Committee on Finance, Supreme Chaplain, Supreme Guide, Supreme Warden, Supreme Sentry, four elective members of the Executive Committee, three members of the Committee on Laws, two additional members of the Committee on Finance, four Supreme Trustees, four members of the Committee on Juniors, and four members of the Committee on Appeals. Officers are elected to serve for a term of two years or until their respective successors are elected or installed.

At December 31, 2017, in addition to the four Elective Members of the Executive Committee named above, the Officers of the Order are:

<u>Name of Officer</u>	<u>Title</u>
Errica Conforto	Supreme Regent
Deborah L. Young	Supreme Vice Regent
Maria Bettina DiBartolo	Supreme Orator
Carl J. Krzystofczyk	Sitting Past Supreme Regent
Peter D. Ferrara	Supreme Secretary
John D. Crisanti	Supreme Treasurer
Joseph R. Macon	Supreme Auditor
Richard J. Macon	Supreme Chaplain
David W. Covelli	Supreme Guide
Robert A. Galdon, Jr.	Supreme Warden
Louise G. Reynolds	Supreme Sentry

The Supreme Council of the Royal Arcanum

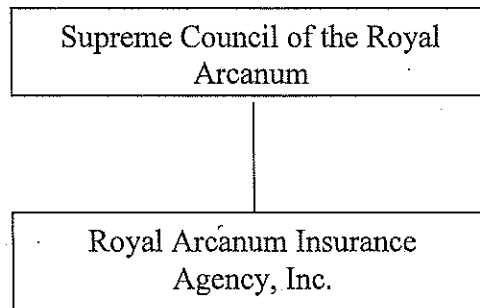
Affiliated Companies

The Order is the sole owner of an insurance agency, Royal Arcanum Insurance Agency, Inc., which was incorporated in January 2000 as a for profit entity.

In addition, the Order subsidizes Royal Arcanum Scholarship Fund, Inc., a not-for-profit foundation incorporated on November 15, 2004. The Board is composed of the Supreme Regent Errica Conforto, Supreme Secretary Peter Ferrara and Supreme Treasurer John Crisanti.

Organization Chart

The corporate organization of which the Order was the uppermost controlling entity at December 31, 2017 is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

There are no agreements between the Order and its subsidiary, Royal Arcanum Insurance Agency, Inc. Nor are there any agreements between the Order and Royal Arcanum Scholarship Fund, Inc.

TERRITORY AND PLAN OF OPERATION

The Order operates as a fraternal benefit society on the lodge system with a representative form of government. Presently, there are 145 lodges, 16 of which are from the Association of Lithuanian Workers, 3 from the Ukrainian Fraternal Association, 15 from ACA Assurance and 2 from the Association of the Sons of Poland.

The Order is licensed in 27 states, the District of Columbia, and has limited licenses in 3 states. They are also licensed in the Canadian provinces of Ontario, Quebec and Manitoba. The largest numbers of insurance risks are written in Massachusetts, New York and Connecticut. The Order uses independent agents and members to sell life, pre-need and annuities in these states. The Order reported \$3.015 million in 2017 for direct premium written in Massachusetts.

The Supreme Council of the Royal Arcanum

Treatment of Members – Market Conduct

During the course of the examination, a general review was made of the manner in which the Order conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

Assumed Reinsurance

The pre-need business that was acquired from ACA Assurance in 2011 was treated as reinsurance assumed, but as of 2014 it was absorbed by the Order's reserve.

Ceded Reinsurance

The Order participates in several reinsurance agreements with Swiss Re; there is a net retention of \$100,000. As a result of the acquisition of ACA, the Order took over their reinsurance agreements. The following is a brief summary of the ACA reinsurance agreements

- Automatic Reinsurance Agreement with North American (now Swiss Re). Covers Individual Life and Waiver of Premium Disability Insurance. Retention is \$35,000.
- Automatic Reinsurance Agreement with North American (now Swiss Re). Covers Individual Life and Waiver of Premium Disability Insurance on Term Life Insurance certificates. Retention \$35,000.
- Term 100 simplified issue with RGA. Retention is 25% up to a maximum of \$25,000 & Accidental Death coverage with \$0 Retention.
- In force policies issued between January 1, 1996 to December 31, 2006 with a retention of 50% with Optimum.
- Optimum Reinsurance provides coverage for Ordinary Life with retention of \$50,000.
- Optimum Reinsurance provides coverage for 10 yr. R&C Increasing Benefit Term with retention of 50%.
- RGA Reinsurance provides Accidental Death with retention of 0%.

The Supreme Council of the Royal Arcanum

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Order with the Division and present the financial condition of the Order for the period ending December 31, 2017. The financial statements are the responsibility of the Order's management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2017

Statement of Income for the Year Ended December 31, 2017

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2017

The Supreme Council of the Royal Arcanum

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2017

	Per Annual Statement
Assets	
Bonds	\$ 97,283,396
Preferred stocks	1,223,552
Common stocks	5,302,875
Real estate:	
Properties occupied by the company	68,432
Properties held for the production of income	117,854
Cash, cash equivalents and short-term investments	1,209,437
Contract loans	4,276,491
Subtotals, cash and invested assets	<u>109,482,037</u>
Investment income due and accrued	1,475,045
Premiums and considerations :	
Uncollected premiums and agents' balances	10,120
Electronic data processing equipment and software	26,897
Total assets	<u><u>\$110,994,099</u></u>

The Supreme Council of the Royal Arcanum

Statement of Assets, Liabilities, Capital and Surplus (Continued) As of December 31, 2017

	Per Annual Statement
Liabilities	
Aggregate reserve for life contracts	\$ 94,384,948
Aggregate reserve for accident and health contracts	117,468
Liability for deposit type contracts	1,627,031
Contract claims: Life	396,277
Provisions for refunds payable in following calendar year-estimated amounts:	
Not yet apportioned	185,000
Premiums received in advance	120,920
Contract liabilities not included elsewhere:	
Interest maintenance reserve	7,583
General expenses due or accrued	8,274
Miscellaneous liabilities :	
Asset valuation reserve	1,406,611
Aggregate write-ins for other liabilities	
Degree fees and dues	245,340
Age 96 maturities	57,302
Real estate-security deposit	35,983
Commissions held on deposit	(17,486)
Total liabilities	<u>98,575,251</u>
Unassigned funds (surplus)	<u>12,418,848</u>
Total capital and surplus	<u>12,418,848</u>
Total liabilities capital, and surplus	<u>\$110,994,099</u>

The Supreme Council of the Royal Arcanum

Statement of Income
For the Year Ended December 31, 2017

	Per Annual Statement
Premium and annuity considerations for life and accident and health contracts	\$ 7,070,669
Net investment income	5,221,783
Amortization of Interest Maintenance Reserve	123,834
Totals	<u>12,416,286</u>
Death benefits	4,725,975
Matured endowments	161,226
Annuity benefits	1,962,580
Disability benefits and benefits under accident and health contracts	263
Surrender benefits	1,197,701
Interest and adjustments on contract or deposit-type contract funds	60,648
Payments on supplementary contracts with life contingencies	7,087
Increase in aggregate reserve for life and accident and health contracts	868,479
Totals	<u>8,983,959</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	714,173
General insurance expenses and fraternal expenses	2,701,714
Insurance taxes, licenses and fees	143,495
Increase in loading on deferred and uncollected premiums	(408)
Totals	<u>12,542,933</u>
Net gain from operations before refunds to members	(126,647)
Refunds to members	<u>183,283</u>
Net gain from operations after refunds to members and before realized capital gains (losses)	(309,930)
Net realized capital gains (losses)	<u>248,088</u>
Net income	<u>\$ (61,842)</u>

The Supreme Council of the Royal Arcanum

Reconciliation of Capital and Surplus For Each Year in the Three Year Period Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus as regards policyholders, December 31 prior year	\$ 12,095,086	\$ 12,539,362	\$ 13,717,863
Net income (loss)	(61,842)	(361,029)	160,254
Change in net unrealized capital gains	103,943	297,060	(807,971)
Change in net unrealized foreign exchange capital gain (loss)	634,861	200,428	(1,587,248)
Change in nonadmitted assets	132,491	(34,028)	5,847
Change in reserve on account of change in valuation basis (increase) or decrease	(301,032)	(3,415,128)	661,578
Change in asset valuation reserve	(184,668)	(425,039)	383,164
Aggregate write-ins for gains and losses in surplus:			
Change in net unrealized foreign exchange liabilities	9	4,300	5,875
Transfer of SOP Assets		4,354,814	
Terminated Pension Shortfall		(1,065,654)	
Net change in surplus for the year	<u>323,762</u>	<u>(444,276)</u>	<u>(1,178,501)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 12,418,848</u>	<u>\$ 12,095,086</u>	<u>\$ 12,539,362</u>

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

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expenses Reserves ("Loss and LAE Reserves")

The Order's Actuarial Opinion is prepared by CPS Actuaries ("CPS"). CPS's report concluded that the Order's carried reserves make a reasonable provision for all unpaid loss obligations as of December 31, 2017. In the Statement of Actuarial Opinion, the appointed actuary concluded that, in his opinion, the amounts carried in the balance sheet on account of actuarial items for the Order:

- (i) are computed in accordance with presently accepted actuarial standards of practice and actuarial compliance guidelines that specifically relate to an asset adequacy opinion (to the extent that the guidelines are not inconsistent with that section), consistently applied, and are fairly stated in accordance with sound actuarial principles.
- (ii) are based on actuarial assumptions that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions,
- (iii) meet the requirements of the insurance laws and regulations of the State of Massachusetts, and are at least as great as the minimum aggregate amounts required by the state in which this Society is licensed, with the exception of New York. A separate statement of actuarial opinion was submitted to the State of New York that complies with their requirements.
- (iv) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end.
- (v) include provision for all actuarial reserves and related statement items that ought to be established.

SUBSEQUENT EVENTS

There were no subsequent events or transactions that occurred after the December 31, 2017 examination date that would have a material effect on the Order's financial statements.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of the examination.

The Supreme Council of the Royal Arcanum

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Order during the examination.

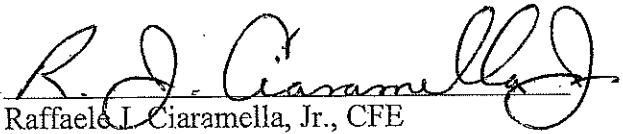
The assistance rendered by the following Division examiners participating in this examination is acknowledged.

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