

REPORT ON EXAMINATION  
OF THE  
WALTON CO-OPERATIVE FIRE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2005

DATE OF REPORT:

JULY 21, 2006

EXAMINER:

WAYNE LONGMORE



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
ONE COMMERCE PLAZA  
ALBANY, NEW YORK 12257

George E. Pataki  
Governor

Howard Mills  
Superintendent

July 21, 2006

Honorable Howard Mills  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22505 dated May 26, 2006, attached hereto, I have made an examination into the condition and affairs of the Walton Co-operative Fire Insurance Company as of December 31, 2005 and submit the following report thereon.

The examination was conducted at the Company's home office located at 30750 State Highway 10, Walton, New York 13856.

Wherever the term "Company" appears herein without qualification, it should be understood to indicate the Walton Co-operative Fire Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

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## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covered the five year period from January 1, 2001 through December 31, 2005 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was organized on October 20, 1888 for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Walton, Delaware County, New York.

The current license, issued December 12, 1986 with an effective date of January 1, 1987, authorizes the Company to transact business within the entire County of Delaware, in this state.

### A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than eleven (11) or more than fifteen (15) members. As of December 31, 2005, the board of directors was comprised of thirteen members. The board meets monthly during each calendar year. The directors as of December 31, 2005 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Joseph J. Augustine Walton, NY	Retired
Matthew Batson Walton, NY	Self-Employed
Harry J. Constable(E) Walton, NY	Retired; President of the Company
James C. Curtin Walton, NY	Self-employed
Brenda Gladstone(E) East Meredith, NY	Secretary/Treasurer of the Company
Bruce Henderson Walton, NY	Retired
Marilynn C. Lewis(E) Walton, NY	Retired
Eleanor C. MacGibbon(E) Walton, NY	Retired; Asst. Secretary/Treasurer of the Company
Georgiana McCall Walton, NY	Self-employed
Donald McClenon Walton, NY	Supervisor DEP
Gordon Mead Sidney Center, NY	Self-employed
Selinda M. Taggart Walton, NY	Dental Hygienist
Niles Wilson(E) Walton, NY (E) denotes member of executive committee	Self-employed; Vice President of the Company

The minutes of all the meetings of the Board of Directors for the years under examination were reviewed. The average attendance by the board of directors during the examination period was approximately 84%. Each individual director's attendance was adequate at these meetings, with the exception of Matthew Batson for the last three years under examination: 2003, 2004 and 2005.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that the board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Therefore, it is recommended that the above cited director should either improve his attendance or be replaced by the policyholders.

At December 31, 2005, the officers of the Company were as follows:

President	Harry J. Constable
Vice President	Niles Wilson
Secretary/Treasurer	Brenda Gladstone
Asst. Secretary/Treasurer	Eleanor C. MacGibbon

B. Territory and Plan of Operation

The Company is licensed to transact business in Delaware County, only.

<u>Calendar Year</u>	<u>Direct Premium Written</u>
2001	\$71,881
2002	73,098
2003	73,768
2004	75,315
2005	80,530

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass

Policies are issued by the Company for a term of three (3) years, with applications being received and inspections made by the Company's director-agents. Assessments are collected at the home office of the Company.

Based upon lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law ("NYIL"), the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

C. Reinsurance

The Company did not assume reinsurance premiums written as of December 31, 2005.

The Company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Property per Risk Excess of Loss (1 layer)	100% of \$70,000 in excess of \$14,000, per risk, per loss.
Property Catastrophe	100% of the amount by which net retained losses exceeds 10% of the Company's policyholders' surplus per occurrence (loss occurrence must involve 3 or more risks)

Since the previous examination, the Company's retention has remained at \$14,000 per risk, per loss on property risks and is currently at 10% of surplus per occurrence for windstorm catastrophe.

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the NYIL.

All of the Company's cessions during the period under examination were to authorized reinsurers.

D. Holding Company System

The Company was not a member of any holding company system at December 31, 2005.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005 based upon the results of this examination:

Net premiums written in 2005 to surplus as regards policyholders	0.10 to 1
Liabilities to cash and invested assets	0.98%
Investment Yield	3.75%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five-year period, January 1, 2001 to December 31, 2005:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$ 61,257	18.99%
Other underwriting expenses	236,300	73.26%
Net underwriting gain	<u>24,981</u>	<u>7.75%</u>
Premiums earned	<u>\$322,538</u>	<u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company maintained appropriate records of unclaimed funds as required by Section 1316 of the New York Abandoned Property Law. The Company filed all required abandoned property reports with the State Comptroller in a timely manner during the examination period.

G. Accounts and Records

i. Custodial Agreements

At December 31, 2005 the Company had two custodial agreements, one with Canandaigua National Bank and the other with National Bank of Delaware County. The review of these two agreements revealed that the National Bank of Delaware County agreement did not contain some of the protective covenants prescribed in the Examiner's Handbook.

It is recommended that the Company amend its current custodial agreement with National Bank of Delaware County to include the controls suggested by Part 1 Section IV(J) of the NAIC Examiner's Handbook.

ii. Electronic Data Processing ("EDP") Equipment

The examination admitted asset for Electronic data processing equipment and software of \$0 is \$2,361 less than the \$2,361 amount reported by the Company as of the Examination Date. No exam change was made given the immateriality of the amount.

New York State Insurance Law 1301(a)(18) allows EDP Equipment as an admitted asset to the extent that the system cost is greater than \$50,000.

It is recommended that the Company comply with New York State Insurance Law 1301(a)(18) henceforth.

iii. Furniture and Fixtures

The examination admitted asset for Furniture and Equipment, including healthcare delivery assets of \$0 is \$1,529 less than the \$1,529 amount reported by the Company as of the Examination Date. No exam change was made given the immateriality of the amount.

According to Statements of Statutory Accounting Principles (“SSAP”) No. 19, Furniture and Equipment (unless used in the direct delivery of health care) are properly classified as nonadmitted assets in accordance with SSAP No. 19, paragraph 2.

iv. Unearned Premium (“UEP”)

The Company calculates its UEP reserve by taking 25% of the billed premium for the year less any refunds. The reasoning behind the calculation is that since the billing cycle runs from April 1<sup>st</sup>, at year-end the first three months of the next year are unearned.

The use of the above method does not appear to be in compliance with SSAP No. 53 paragraph 7 which states that one of the following methods shall be used for computation of the unearned premium reserve:

- a. Daily pro rata method—Calculate the unearned premium on each policy—At the end of each period, the calculation is made on each item of premium to ascertain the unexpired portion and to arrive at the aggregate unearned premium reserve;
- b. Monthly pro rata method—this method assumes that, on average, the same amount of business is written each day of any month so that the mean will be the middle of the month. For example, one-year premiums written during the first three months of the year have, at the end of the year, the following unearned fractions: January-1/24; February-3/24; March-5/24.

It is recommended that the Company comply with the requirements of SSAP 53 and select one of the prescribed methods for Unearned Premium calculation.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

	<u>Assets</u>	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds		\$572,923	\$0	\$572,923
Common stocks		104,385	0	104,385
Cash and short term investments		68,612	0	68,612
Electronic data processing equipment		2,361	0	2,361
Furniture and equipment, including health care delivery assets		1,529	0	1,529
Other assets nonadmitted		<u>0</u>	<u>0</u>	<u>0</u>
Totals		<u>\$749,810</u>	<u>\$0</u>	<u>\$749,810</u>

Liabilities and Surplus

Losses and loss adjustment expenses				\$ 4,492
Unearned premiums				20,133
Advance premium				<u>61</u>
Total liabilities				\$ 24,686
Special surplus funds			\$100,000	
Unassigned funds (surplus)			<u>625,124</u>	
Surplus as regards policyholders				<u>725,124</u>
Total liabilities and surplus				<u>\$749,810</u>

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$141,511 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

STATEMENT OF INCOME

Underwriting

Premiums earned		\$322,538
Deductions:		
Losses and loss adjustment expenses incurred	\$ 61,257	
Other underwriting expenses incurred	<u>236,300</u>	
Total underwriting deductions		<u>297,557</u>
Net underwriting gain (loss)		\$ 24,981

Investment Income

Net investment income earned	\$120,453	
Net realized capital gain (loss)	<u>(3,506)</u>	
Net investment gain		116,947

Other Income

Aggregate write-ins for miscellaneous income	<u>1,163</u>	
Total other income		<u>1,163</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$143,091
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$143,091</u>

Surplus as regard policyholders per report on examination as of December 31, 2000			\$583,613
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$ 143,091	0	
Net unrealized capital gains or losses	<u>0</u>	<u>1,580</u>	
Net increase in surplus			<u>\$141,511</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$725,124</u>

#### 4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$4,492 is the same amount reported by the Company in its filed 2005 Annual Statement.

The Department's analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements. It appears that the Company's loss and loss adjustment expense reserves were adequate as of December 31, 2005.

#### 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and it is not to be construed to encompass the generally more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following major areas:

- A. Claims
- B. Sales and advertising
- C. Underwriting
- D. Rating

The Company is noted to have issued denial letters rejecting claims involving personal property insurance that did not contain the notice required by 11 NYCRR 216.6(h) Regulation 64. It is recommended that the Company comply with 11 NYCRR 216.6(h) Regulation 64 henceforth and include

the following information and required notice on denial letters rejecting any element of a claim involving personal property insurance.

Any notice rejecting any element of a claim involving personal property insurance shall contain the identity and the claims processing address of the insurer, the insured's policy number, the claim number, and the following statement prominently set out:

“Should you wish to take this matter up with the New York Insurance Department, you may file with the Department either on its website at [www.ins.state.ny.us/complhow.htm](http://www.ins.state.ny.us/complhow.htm) or you may write to or visit the Consumer Services Bureau, New York State Insurance Department, at: 25 Beaver Street, New York, NY 10004; One Commerce Plaza, Albany, NY 12257; 200 Old Country Road, Suite 340, Mineola, NY 11501; or Walter J. Mahoney Office Building, 65 Court Street, Buffalo, NY 14202.”

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained comments and recommendations as follows (page numbers refer to the prior report):

<u>Item</u>	<u>Page No.</u>
A. It is recommended that officers of the Company discontinue signing blank checks to comply with Section 6611(a)(4)(C ) of the New York Insurance Law. The Company has complied with this recommendation.	7
B. The Company should comply with Circular Letter No. 17 of 1976 and give Mortgagees ten days advance notice of cancellation upon the insured's request. The Company has complied with this recommendation.	10

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

As indicated in the body of this report, the Company is directed to comply with the following:

<u>Item</u>	<u>Page No.</u>
<b>A. <u>Management</u></b>	
It is recommended that Director Mathew Batson either improve his attendance or be replaced by the policyholders.	4
<b>B. <u>Accounts and Records</u></b>	
<b>i. <u>Custodial Agreement</u></b>	
It is recommended that the Company amend its current custodial agreement with National Bank of Delaware County to include the controls suggested by Part I Section IV (J) of the NAIC Examiner’s Handbook.	6
<b>ii. <u>Electronic Data Processing (“EDP”) Equipment</u></b>	
It is recommended that the Company comply with New York State Insurance Law 1301(a) (18) henceforth.	6
<b>iii. <u>Furniture and Fixtures</u></b>	
It is recommended that the Company properly classified as nonadmitted assets Furniture and Equipment in accordance with SSAP No. 19 Paragraph 2.	7
<b>iv. <u>Unearned Premiums</u></b>	
It is recommended that the Company comply with the requirements of SSAP 53 and select one of the prescribed methods for Unearned Premium calculation	7
<b>C. <u>Market Conduct Activities</u></b>	
It is recommended that the Company comply with the notice of requirement of 11 NYCRR 216.6(h) Regulation 64 henceforth.	10-11

Appointment No 22505

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Howard Mills, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Wayne Longmore**

*as proper person to examine into the affairs of the*

**Walton Co-operative Fire Insurance Company**

*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of Albany,*

*this 26th day of May 2006*



A handwritten signature in cursive script, appearing to read "Howard Mills".

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Howard Mills  
Superintendent of Insurance

