

REPORT ON EXAMINATION

OF THE

HARTWICK TOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT  
EXAMINER

MAY 24, 2013  
SUSAN WEIJOLA

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

May 24, 2013

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
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 30881 dated September 17, 2012, attached hereto, I have made an examination into the condition and affairs of Hartwick Town Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Hartwick Town Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 618 County Highway 59, Cooperstown, NY 13326.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the 6 year period from January 1, 2007 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination comprised a verification of assets and liabilities as of December 31, 2012. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The Company received exemptions from audits by independent certified public accountants for all years under examination.

A review was also 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

Hartwick Town Insurance Company was organized under the laws of the State of New York on April 15, 1886 for the purpose of transacting business as assessment cooperative fire insurance in the Town of Hartwick, Otsego County, New York. The Company's current license, issued on March 2, 1998, authorizes the Company to transact business in the entire County of Otsego 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 eleven members. The board meets four times during each calendar year. At December 31, 2012, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald Elliott Milford, NY	Farmer/Ice cream store operator

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Orrin Higgins Milford, NY	Retired police officer/Town justice
Donald Eldred Hartwick, NY	Farmer
Fred Field Milford, NY	Contractor
Patrick McBreathy Milford, NY	Retired telephone repairman
Mary Balcom Cooperstown, NY	Retired insurance underwriter
Eileen Barown Mt. Vision, NY	Retired Farmer
Michael Chase Cooperstown, NY	Logger/saw mill operator
John Craig Roseboom, NY	Insurance inspector/carpenter
Jean Barry Milford, NY	School Aide
Maria Folts Milford, NY	School Tech Teacher

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of John Craig, who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Orrin Higgins	President
Mary Balcom	Secretary/Treasurer
Patrick McBreathy	Vice President

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in New York only.

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>Line of Business</u>
4	Fire
5	Miscellaneous property damage

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

The following schedule shows the direct premiums written by the Company during the period under examination:

<u>Calendar Year</u>	<u>Direct Written Premiums</u>
2007	\$2,250
2008	\$2,244
2009	\$2,022
2010	\$2,817
2011	\$3,047

The Company writes fire insurance for rural residences and farmers. With a decline in farms, the Company has seen an increase in its writings for mobile homes and small seasonal camps. The Company does not use agents or brokers.

C. Reinsurance

The Company did not assume nor cede any reinsurance during the examination period.

D. Holding Company System

The Company is not a member of any holding company system as of December 31, 2012. The Company was independent with no affiliations or pooling agreements in force at December 31, 2012.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	2.33%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1.76%
Premiums in course of collection to surplus as regards policyholders	0%

All of 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 six-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 0	0.00%
Other underwriting expenses incurred	33,579	224.98
Net underwriting loss	<u>(17,556)</u>	<u>(117.63)</u>
Premiums earned	\$ <u>14,925</u>	<u>100.00%</u>

F. Accounts and Records

i. Completion of annual statement

A review of the financial statements filed by the Company during the examination period revealed various instances of careless preparation (schedules that did not foot, supporting schedules that did not tie to the lead schedule, items included on the wrong supporting schedule, etc.). It is noted that the prior report on examination included a recommendation based on similar reporting errors noted during the prior examination period.

It is again recommended that the Company take proper care to accurately prepare its future financial statements in accordance with the NAIC Annual Statement Instructions.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	
		Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$124,251	\$0	\$124,251
Cash, cash equivalents and short-term investments	<u>12,942</u>	<u>0</u>	<u>12,942</u>
Total assets	<u>\$137,193</u>	<u>\$0</u>	<u>\$137,193</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 0
Unearned premiums			2,395
Aggregate write-ins for liabilities			<u>15</u>
Total liabilities			\$ <u>2,410</u>
Required surplus			\$100,000
Unassigned funds (surplus)			<u>34,783</u>
Surplus as regards policyholders			<u>\$134,783</u>
Total liabilities and surplus as regards policyholders			<u>\$137,193</u>

Note: The Company is exempt from filing income tax returns with the Internal Revenue Service.

B. Statement of Income

Surplus as regards policyholders increased \$1,935 during the six-year examination period January 1, 2007 through December 31, 2012, detailed as follows:

<u>Underwriting Income</u>			
Premiums earned			\$14,925
Deductions:			
Losses and loss adjustment expenses incurred	\$	0	
Other underwriting expenses incurred		<u>33,630</u>	
Total underwriting deductions			<u>33,630</u>
Net underwriting gain or (loss)			\$(18,705)
<u>Investment Income</u>			
Net investment income earned		\$20,610	
Net investment gain or (loss)			<u>\$20,610</u>
<u>Other Income</u>			
Aggregate write-ins for miscellaneous income	\$	<u>30</u>	
Total other income			<u>\$ 30</u>
Net income before dividends to policyholders and before federal and foreign income taxes			<u>\$ 1,935</u>
Net income after dividends to policyholders but before federal and foreign income taxes			\$ 1,935
Federal and foreign income taxes incurred			<u>0</u>
Net Income			<u>\$ 1,935</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			\$132,848
	Gains in	Losses in	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	<u>\$1,935</u>	<u>\$ 0</u>	
Net increase (decrease) in surplus	<u>\$1,935</u>	<u>\$ 0</u>	\$ <u>1,935</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$134,783</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$0 is the same as the amount reported by the Company as of December 31, 2012.

#### 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Management</u>	
i.	It was recommended that the Company fully comply with Section 312(b) of the New York Insurance Law and ensure that each and every director of the Company sign a statement, which shall be retained in the Company's files to confirm that the report on examination has been received and read.	12
	The Company has complied with this recommendation.	
ii.	It was recommended that the Company establish a procedure for disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors or responsible employees that is in conflict or is likely to conflict the official duties of such person.	12
	The Company has complied with this recommendation.	
B	<u>Accounts and Records</u>	
i.	It was recommended that the Company fully comply with the NAIC Annual Statement Instructions and accurately complete the Statement of Income, the Underwriting and Investment Exhibit Part 3, and Schedules D, DA, and E in all future statements filed with the Department.	12
	The Company has not complied with this recommendation. A similar comment is made in this report.	
ii.	It was recommended that the Company amend its custodial agreement to include the missing provisions and safeguards in accordance with the NAIC Financial Condition Examiners Handbook, Part 1 Section IV.J.	12
	This recommendation is no longer applicable as the Company has no securities that need to be in a custodian account.	

- iii. It was recommended that the Company value and report its investments in bonds in accordance with SSAP No. 26. 12

The Company has complied with this recommendation.

- C Limitation of risk  
It was recommended that the Company ensure that clear and complete diagrams are included with all future applications so that compliance with the statutory requirements of Section 6610(c) of the New York Insurance Law can be verified. 12

The Company has complied with this recommendation.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B.	<u>Accounts and Records</u>	
	It is again recommended that the Company take proper care to accurately prepare its future financial statements in accordance with the NAIC Annual Statement Instructions.	6

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Susan Weijola  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

Susan Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Susan Weijola

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 20xx.

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Susan Weijola**

as a proper person to examine the affairs of the

**HARTWICK TOWN INSURANCE COMPANY**

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

**COMPANY**

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name  
and affixed the official Seal of the Department  
at the City of New York

this 17th day of September, 2012

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services

By:



Jean Marie Cho  
Deputy Superintendent

