

REPORT ON EXAMINATION

OF THE

CM INSURANCE COMPANY, INC

AS OF

DECEMBER 31, 2010

DATE OF REPORT

MAY 25, 2012

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 25, 2012

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 30826 dated February 10, 2012, attached hereto, I have made an examination into the condition and affairs of CM Insurance Company, Inc. as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate CM Insurance Company, Inc. Wherever the designation the “CM” appears herein without qualification, they should be understood to refer to Columbus McKinnon Corporation.

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

1. SCOPE OF EXAMINATION

The examination covered the period from January 1, 2003 through December 31, 2010. The examination comprised a verification of assets and liabilities as of December 31, 2010. This included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountant ("CPA") and its opining actuary. Additionally, a review was performed to determine whether the Company was operating within its by-laws as submitted to the New York State Department of Financial Services and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

2. DESCRIPTION OF COMPANY

The Company is a wholly-owned subsidiary of Columbus McKinnon Corporation ("CM"), operating as a pure captive insurance company formed under the regulations of the New York State Department of Financial Services. The Company provides general and product liability coverage exclusively for CM, in exchange for premiums paid by CM. CM is a manufacturer of a variety of industrial products. The Company was incorporated on March 26, 1990 and commenced business on April 1, 1990.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 7003 of the New York Insurance Law, subject at all times to the limitation on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-laws

The review of the by-laws of the Company indicated that the Company was operating in full conformity with its by-laws in all material respects except as noted in the Corporate Records section below.

C. Capital Structure

Pursuant to Section 7004(a)(1) of the New York Insurance Law, in order to be issued a license to do captive insurance business in New York State, a pure captive insurance company incorporated as a stock insurer is required to possess and thereafter maintain, unimpaired paid-in capital and surplus as regards policyholders of not less than \$250,000 of which \$100,000 shall represent paid-in capital. CM Insurance Company, Inc is a pure captive company which was incorporated as a stock insurer. As of December 31, 2010, the Company has paid in capital of \$100,000, which is comprised of 1000 shares of authorized issued and outstanding capital stock with a par value of \$100 per share. The Company also maintained unimpaired additional paid in capital of \$150,000.

D. Corporate Records

Section 7003(b)(2) of the New York Insurance Law states that no captive insurance company shall do any captive insurance business in this state unless its board of directors holds at least one meeting each year in this state. In the review of the board meeting minutes during the examination period, it was noted that the Company held one board of director meeting each year except 2007.

It is recommended that the Company hold at least one board meeting in each calendar year in order to comply with Article 70 of the New York Insurance Law.

E. Reinsurance

The Company does not assume business nor cede any of its captive insurance business.

F. Management and Control

According to Section 7003(b)(4) of the New York Insurance Law:

“No captive insurance company shall do any captive insurance business in this state unless it utilizes a captive manager resident in this state who is licensed as an agent or a broker under the provisions of article twenty-one of this chapter; or any person approved by the superintendent. . . .”

The Company is managed by Aon Risk Solutions, an insurance consultant licensed by the New York Department of Financial Services. Aon Risk Solutions took over the captive management of CM Insurance Company, Inc from Aldrich and Cox, an insurance consultant, effective November 1, 2008. The manager’s duties, pursuant to the management agreement, include maintaining the Company’s books and records, preparing statistical reports, assisting the Company in

complying with the rules and regulations pursuant to Article 70 of the New York Insurance Law, preparing quarterly claims analysis and participating in the coordination of annual board meetings.

(i) Board of Directors

Pursuant to its by-laws, management of the Company is vested in a board of directors consisting of three members. At December 31, 2010, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy T. Tevens East Amherst, NY	President & Chief Executive Officer, Columbus McKinnon Corporation
Karen L. Howard Snyder, NY	Chief Financial Officer, Columbus McKinnon Corporation
Mary C. O'Connor* Williamsville, NY	Associate General Counsel, Columbus McKinnon Corporation

*Please note that effective May 31, 2010, Mary O'Connor replaced Timothy Harvey as Director of the Company.

(ii) Officers

The Company's by-laws provide that the corporation shall have a president and a secretary and such officers as the board of directors shall from time to time deem necessary.

As of December 31, 2010, the principal officers of CM Insurance Company, Inc were as follows:

<u>Name</u>	<u>Title</u>
Timothy T. Tevens	President
Mary C. O'Connor*	Secretary
Rakesh Jobanputra	Treasurer
Karen L. Howard	Vice President

*Please note that effective May 31, 2010, Mary O'Connor replaced Timothy Harvey as Secretary of the Company.

G. Certified Public Accountant and Actuarial Services (“CPA”)

The Company was audited each year during the examination by the CPA firm of Ernst & Young LLP, 1500 Key Tower, 50 Fountain Plaza, Buffalo, NY 14202.

The Company’s opening actuary as of December 31, 2010, was from Towers Watson, 71 South Wacker Drive, Suite 2600, Chicago, IL 60606.

H. Growth of the Company

The following schedule sets forth the Company’s significant summary financial information for the period covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders Equity</u>
2003	\$3,719,971	\$ 791,350	\$30,880,077	\$ 6,827,896
2004	\$4,886,822	\$ 1,109,950	\$31,377,686	\$ 8,137,746
2005	\$6,352,364	\$ 1,432,654	\$33,646,342	\$10,145,098
2006	\$3,205,360	\$ 3,422,943	\$35,124,940	\$12,440,056
2007	\$1,553,500	\$ 1,326,864	\$37,526,991	\$13,433,661
2008	\$4,687,000	\$ (1,490,127)	\$37,950,024	\$11,642,846
2009	\$4,694,000	\$ 1,144,655	\$39,643,117	\$14,946,978
2010	\$6,102,250	\$ (5,775,979)	\$28,669,228	\$ 9,089,705

3. FINANCIAL STATEMENT

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

Assets

Stocks	\$23,871,845
Cash	75,636
Other invested assets	250,000
Investments in and advances to affiliates	<u>4,471,747</u>
Total assets	<u>\$28,669,228</u>

Liabilities, Capital and Surplus

Liabilities

Losses and Loss Adjustment Expenses	\$19,579,523
Total liabilities	<u>\$19,579,523</u>

Capital and Surplus

Additional paid in capital	\$ 150,000	
Paid in capital (par value)	100,000	
Unrealized gain(loss)on investment	1,650,516	
Surplus (accumulated earnings)	<u>7,189,189</u>	
Total capital and surplus		<u>9,089,705</u>
Total liabilities, capital and surplus		<u>\$28,669,228</u>

B. Statement of Income

Capital and Surplus increased \$4,786,341 during the examination period of January 1, 2003 through December 31, 2010, detailed as follows:

STATEMENT ON INCOME

Underwriting Income

Net premiums earned		\$35,201,267
Deductions:		
Net losses and net loss adjustment expense incurred	\$35,629,744	
Underwriting expenses	<u>700,781</u>	
Total underwriting deductions		<u>36,330,525</u>
Net underwriting gain or (loss)		\$(1,129,258)

Investment Income

Net investment income earned	\$6,733,573	
Net realized gains on investments	9,960,751	
Write-down for other-than-temporary decline in fair market value of investments	<u>(5,433,187)</u>	
Net investment income		<u>11,261,137</u>
Net income before taxes		\$10,131,879
Taxes		<u>8,169,569</u>
Net income		<u>\$ 1,962,310</u>

C. Capital and Surplus Account

Capital and surplus as of December 31, 2002			\$4,303,364
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$1,962,310	\$ 0	
Net unrealized appreciation (depreciation) of investments, net of tax	2,498,543		
Retrospective adjustments due to discount on reserves, net of tax	931,450		
Reclassification adjustment for sale of impaired investments, net of tax benefit of \$0	<u>0</u>	<u>605,962</u>	
Total gains and losses	<u>\$5,392,303</u>	<u>\$605,962</u>	
Net increase in surplus			<u>4,786,341</u>
Capital and surplus per report on examination as of December 31, 2010			<u>\$9,089,705</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2010, the Company reported a liability for unpaid loss and loss adjustment expenses of \$19,579,523. The Company's opining actuary states the following in its Statement of Actuarial Opinion:

"In my opinion, the amount recorded in the audited financial statement for Loss and Loss Adjustment Expenses of \$19,579,523:

- Meets the requirements of the captive insurance laws of New York,
- Is consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board and
- Makes a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms o its contracts and agreements."

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State.

Columbus McKinnon Corporation is an industrial insured entity that formed the CM Insurance Company, Inc and is also a manufacturer of a variety of industrial products. As of December 31, 2010, the net worth of Columbus McKinnon Corporation was \$151,982,000, which is in compliance with Section 7002(e) of the New York Insurance Law.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

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It is recommended that the Company take the necessary steps to ensure compliance with the provisions of Section 7002(e) of the New York Insurance Law.

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The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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It is recommended that the Company hold at least one board meeting in each calendar year in order to comply with Article 70 of the New York Insurance Law.

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Respectfully submitted,

_____/s/_____
Wei Cao
Senior Insurance Examiner

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

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

_____/s/_____
Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2012.

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:

Wei Cao

as a proper person to examine the affairs of the

CM INSURANCE COMPANY, INC.

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

COMPANY

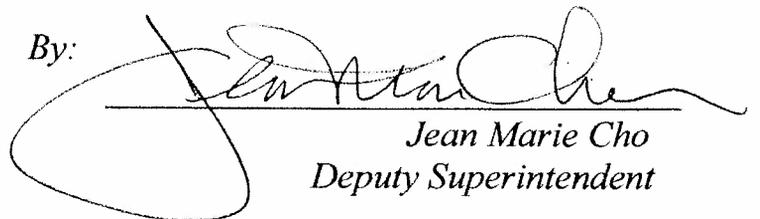
with such other information as he shall deem requisite.

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

this 10th day of February, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


Jean Marie Cho
Deputy Superintendent

