

REPORT ON EXAMINATION

OF THE

ALLEGANY CO-OP INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

DECEMBER 12, 2007

EXAMINER

NYANTAKYI AKUOKO

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

Honorable James J. Wrynn  
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 22642 dated May 8, 2007, attached hereto, I have made an examination into the condition and affairs of Allegany Co-op Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designation the "Company" appears herein without qualification, it should be understood to indicate Allegany Co-op Insurance Company.

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

The examination was conducted at the Company's home office located at 9 North Branch Road, Cuba, New York 14727.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination 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 accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Allegany Co-op Insurance Company was organized under the laws of the State of New York on April 3, 1887 as the Allegany County Farmers' Co-operative Fire Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company in Allegany County, New York. A certificate, issued by this Department on July 19, 1971, permitted the Company to change its name to the Allegany Co-op Insurance Company.

On April 11, 1980, a merger was effected with the Farmers' Co-operative Fire Insurance Company of Steuben County, New York, domiciled at Hornell, New York, with the Company as the surviving corporation.

On January 1, 1990, a merger was effected between the Company and the German Mutual Insurance Company, of Wayland, New York, with the Company as the surviving corporation.

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 nine, nor more than fifteen members. The board met at least four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marcia J. Davies Freedom, NY	Secretary, Allegany Co-op Insurance Company & Board Member, Monroe Co-op Insurance Company
Bruce R. Donnan Piffard, NY	Farmer
Clifford H. Feldman West Valley, NY	Excavation Contractor
Edward L. Gilbert Rushford, NY	Dairy Farmer and Insurance Agent
Kevin O. Harris Wellsville, NY	Chief Executive Officer, Harris Supply Company & Board Member, Monroe Co-op Insurance Company
Erland E. Kailbourne Honeoye Falls, NY	Chairman, Five Star Bank
J. Michael Shane Allegany, NY	Vice President, Allegany Co-op Insurance Company & Attorney
Rodney R. Stettner Spencerport, NY	Farmer & Board Member, Monroe Co-op Insurance Company
Duane A. Vaclavik Fillmore, NY	Chairman of the Board, Allegany Co-op Insurance Company & Monroe Co-op Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Duane A. Vaclavik	Chairman of the board
Randall S. Peters	President
Marcia J. Davies	Secretary
Marley P. Burek	Treasurer
J. Michael Shane	Vice President

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed as an assessment cooperative property/casualty insurance company to transact business within all the Counties of the State of New York, excluding the Counties of Bronx, Kings, New York, Queens and Richmond. 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
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland marine only)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on the 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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

The Company's predominant lines of business are commercial multiple peril and homeowners multiple peril, which accounted for 46% and 36%, respectively, of the Company's 2006 direct written business. The Company writes mainly through independent agents and a director-agent.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premium Written</u>
2002	\$7,763,163
2003	\$8,857,365
2004	\$10,420,139
2005	\$11,326,723
2006	\$11,565,583

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for approximately 12% of the Company's gross premium written during 2006. The assumed premiums were derived solely from a 100% quota share reinsurance agreement with the Company's affiliate, Monroe Co-op Insurance Company ("Monroe"), which became effective January 1, 2003. Pursuant to the agreement, Monroe cedes 100% of its net premiums to the Company, after cessions to non-affiliated reinsurers. The Company then combines the premiums assumed from Monroe with its net premiums (after cession to non-affiliated reinsurers) and cedes back to Monroe 12% (13% prior to January 1, 2004) of the combined premiums. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for this agreement.

As of December 31, 2006, the Company had the following ceded reinsurance program in place:

<u>Type of treaty</u>	<u>Cession</u>
Excess of Loss	
Property (3 layers)	\$1,375,000 in excess of \$125,000, ultimate net loss each risk, not exceeding \$250,000, \$1,000,000 and \$1,500,000 ultimate net loss any one loss occurrence for each respective layer.
Casualty (2 layers)	\$875,000 in excess of \$125,000 ultimate net loss per occurrence.
Casualty clash	\$2,000,000 in excess of \$1,000,000 per occurrence.
Property Catastrophe Excess of Loss (3 Layers)	95% of \$1,200,000 in excess of \$300,000 ultimate net loss, any one loss occurrence involving three or more risks.  100% ultimate net loss in excess of \$1,500,000 each loss occurrence.
Aggregate Excess of Loss	95% of \$1,500,000 of aggregate net loss, any one contract year in excess of 73% of Combined Net Premium earned in any one calendar year.
Special Casualty Excess of Loss	\$500,000 in excess of \$500,000 any one loss occurrence.
Boiler and machinery	100% quota share with 35% ceding commission.

In addition to its treaty reinsurance program, the Company obtained property facultative reinsurance program coverage. The maximum cession for the program is three times the net retained liability of the Company, after a minimum retention of \$500,000. The Company also obtained a casualty facultative excess of loss treaty covering casualty risks in excess of \$1,000,000.

Also, as of December 31, 2006, the Company maintained a property and casualty quota share reinsurance program with its affiliate, Monroe Co-op Insurance Company. The program provided for a cession of \$15,000 (12% of its minimum retention after cession to non-affiliated reinsurers, \$125,000) per property risk, subject to a maximum of \$45,000 for each and every casualty loss occurrence.

Since the previous examination, the Company's retention has increased from \$85,000 to \$110,000 on property and casualty business. All business was ceded to authorized reinsurers.

Reinsurance agreements with affiliates were reviewed for compliance with Section 308 of the New York Insurance Law and Department Circular Letter No.17 (2001). It was noted that the Company did not file modifications of the agreements with the Department within the time limit prescribed in Department Circular Letter No.17 (2001). Department Circular letter No.17 (2001) requires that changes in affiliate reinsurance be filed with the Superintendent at least 30 days prior to their implementation.

Section 308 of the New York Insurance Law authorizes the superintendent to require an authorized insurer to submit special reports in relation to its transactions or condition or any matter connected therewith. Department Circular Letter No.17 (2001) indicates certain information that has to be filed pursuant to the authority granted by Section 308 of the New York Insurance Law. Therefore, it is recommended that the Company comply with Section 308 of the New York Insurance Law and file with the Superintendent changes in its inter-company reinsurance treaties as specified in Department Circular Letter No. 17 (2001) at least thirty days in advance of the effective date.

In 2004 and 2005, the amount of reinsurance premiums ceded to both the affiliate and non-affiliates by the Company exceeded 50% of its reported unearned premiums reserve at the beginning of each year. However, the Company failed to file its reinsurance treaties with the Department, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law. It is recommended that the Company comply with Section 1308(e) of the New York Insurance Law and file its reinsurance treaties with the Department for review, when the amount of reinsurance ceded premiums is greater than 50% of the unearned premiums reserve reported at the beginning of each year.

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

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraph 25 of SSAP No. 62.

D. Holding Company System

The Company is not a member of any holding company system. However, it is considered affiliated with Monroe Co-op Insurance Company ("Monroe") by virtue of an expense sharing agreement that became effective on July 1, 1999, and some common management (officers and directors). On June 30, 1999, Monroe issued a Section 1307 Surplus Note in the amount of \$1,000,000 to the Company. Also, on January 1, 2003, the Company entered into reinsurance contracts tantamount to an inter-company pooling arrangement with Monroe, as more fully described in item 2C of this report.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Department Circular Letter No. 17 (2001).

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	68%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	47%
Premiums in course of collection to surplus as regards policyholders	3%

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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$22,254,274	55.72%
Other underwriting expenses incurred	15,645,483	39.17
Net underwriting gain	<u>2,040,914</u>	<u>5.11</u>
Premiums earned	<u>\$39,940,671</u>	<u>100.00%</u>

F. Accounts and Records

i. Custodial Agreement

An examination review of the custodial agreement between the Company and the custodian of its securities indicated that the agreement did not contain some of the provisions and safeguards put forth in the NAIC Financial Condition Examiners Handbook Part 1 Section IV J.

During the course of the examination, the Company amended its custodial agreement to include the missing provisions and safeguards. Nevertheless, it is recommended that when entering into custodial agreements in the future, the Company comply with the NAIC Financial Condition Examiners Handbook Part 1 Section IV J.

ii. Signature Requirements

It was discovered during the review of cancelled checks that an employee, who was not a board-appointed officer, was signing checks contrary to the provisions of Section 6611 of the New York Insurance Law regarding check issuing procedures. Section 6611(a)(4)(C) of the New York Insurance Law states, in part, that:

“All checks issued shall be signed either by two officers or by one officer upon the written order of another officer. . .”

It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law regarding signatory requirements on checks.

iii. Misclassification of Shares in Mutual Funds

The Company reported an investment in Prime Obligation Funds, a Class 1 mutual fund, as cash in Schedule E of the 2006 filed annual statement. Pursuant to the SSAP No. 30 paragraph 3, such Funds shall be classified as common stocks. Therefore, it is recommended that, henceforth, the Company classify shares in mutual funds in accordance with SSAP No. 30.

iv. Misclassification of Inter-Company Balance

Under the expense sharing agreement between the Company and its affiliate, the Company provided services to its affiliate by paying ceded reinsurance premiums to non-affiliate reinsurers and recouped the amount through inter-company billing. At December 31, 2006, the amount receivable for ceded reinsurance premiums paid on behalf of the affiliate was included in the uncollected premiums and agent balances reported in the 2006 filed annual statement.

The NAIC Annual Statement Instructions define items to be included in the annual statement line item 'premiums and considerations.' Those items do not include the description of the receivable in question. It is recommended that the Company classify inter-company balances in accordance with the NAIC Annual Statement Instructions.

v. Disclosure of Unsecured Reinsurance Recoverables

Paragraph 65 of SSAP No. 62 and the NAIC Annual Statement Instructions require an insurer to include a disclosure in the Notes to Financial Statements of its annual statement if the Company has with any individual reinsurers, authorized or unauthorized, an unsecured aggregate recoverable for losses, paid and unpaid including incurred but not reported ("IBNR"), loss adjustment expenses and unearned premiums that exceeds three percent of the Company's policyholder surplus. A review of Schedule F Part 3 for each of the years during the examination period indicated that the Schedule included at least one reinsurer each year with unsecured reinsurance recoverables in excess of three percent of the Company's reported policyholder surplus. However, the Company responded "N/A" to Note 23A (Unsecured Reinsurance Recoverables) of the Notes to Financial Statements.

It is recommended that the Company make the required disclosure regarding unsecured reinsurance recoverables in future filed annual statements pursuant to SSAP No. 62 and 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, 2006 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$15,890,738	\$ 0	\$15,890,738
Common stocks	3,738,925	0	3,738,925
Real Estate: Properties occupied by the company	1,086,520	0	1,086,520
Cash, cash equivalents and short-term investments	572,948	0	572,948
Other invested assets	1,000,000	0	1,000,000
Investment income due and accrued	176,788	0	176,788
Uncollected premiums and agents' balances in course of collection	405,824	0	405,824
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,893,118	1,831	1,891,287
Reinsurance: Amounts recoverable from reinsurers	913,206	0	913,206
Net deferred tax asset	621,003	187,409	433,594
Electronic data processing equipment and software	277,234	225,593	51,641
Furniture and equipment, including health care delivery assets	119,481	119,481	0
Receivables from parent, subsidiaries and affiliates	10,997	10,997	0
Aggregate write-ins for other than invested assets	<u>82,062</u>	<u>7,500</u>	<u>74,562</u>
Total assets	<u>\$26,788,844</u>	<u>\$552,811</u>	<u>\$26,236,033</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$ 3,986,098
Commissions payable, contingent commissions and other similar charges		779,684
Other expenses (excluding taxes, licenses and fees)		426,324
Current federal and foreign income taxes		(122,189)
Unearned premiums		5,946,712
Advance premiums		125,817
Ceded reinsurance premiums payable (net of ceding commissions)		<u>234,706</u>
Total liabilities		\$11,377,152

Surplus and Other Funds

Required surplus	\$ 100,000	
Unassigned funds (surplus)	<u>14,758,881</u>	
Surplus as regards policyholders		<u>14,858,881</u>
Total liabilities, surplus and other funds		\$ <u>26,236,033</u>

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2002 through 2006. 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 \$4,071,923 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$39,940,671
Deductions:		
Losses and loss adjustment expenses incurred	\$22,254,274	
Other underwriting expenses incurred	15,645,483	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Total underwriting deductions		<u>37,899,757</u>
Net underwriting gain or (loss)		\$ 2,040,914

Investment Income

Net investment income earned	\$ 2,707,146	
Net realized capital gains (losses)	<u>(15,928)</u>	
Net investment gain or (loss)		2,691,218

Other Income

Finance and service charges not included in premiums	\$ 714,995	
Aggregate write-ins for miscellaneous income	<u>45,938</u>	
Total other income		<u>760,933</u>
Net income, after dividends to policyholders, but before federal and foreign income taxes		\$ 5,493,065
Federal and foreign income taxes incurred		<u>2,004,195</u>
Net income		<u>\$ 3,488,870</u>

Surplus as regards policyholders per report on examination as of December 31, 2001			\$10,786,958
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,488,869		
Net unrealized capital gains or losses	381,762		
Change in net deferred income tax	621,003		
Change in nonadmitted assets	<u>0</u>	<u>\$419,711</u>	
Total gains and losses	<u>\$4,491,634</u>	<u>\$419,711</u>	
Net increase (decrease) in surplus			<u>4,071,923</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$14,858,881</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$3,986,098 is the same as reported by the Company as of December 31, 2006.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### 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 is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

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

Except as noted below, no unfair practices were encountered.

#### Use of Unapproved Policy Form

During the review of forms issued for delivery, it was discovered that the Company has been issuing for delivery an in-house form Amendatory Endorsement, ALLE-10 (6/02), without the approval of the Superintendent. The form details certain processing fees charged on policies issued to call attention to the policyholders that non-payment of such fees may result in cancellation of the policy.

Section 6609(b) of the New York Insurance Law requires that all forms delivered or issued for delivery by assessment corporations shall be filed with and approved by the Superintendent; therefore, it is recommended that the Company comply with Section 6609(b) of the New York Insurance Law and file with this Department for approval all of its policy forms prior to use.

#### Notice to Third Party Claimants

On examination, it was determined that the Company has not been sending notices of settlements to third party claimants when payments of \$5,000 or more were made to the attorneys or representatives of such claimants. Part 216.9 of Department Regulation 64 requires that notice of settlement shall be mailed to claimants at the same time payments of \$5,000 or more is made to the attorney of a third-party claimant.

It is recommended that the Company comply with Part 216.9 of Department Regulation 64 and notify claimants in writing at the time payments are made to claimant's attorneys in third party liability settlements of \$5,000 or more.

#### Agents-Sponsored Advertisements

During the review of the Company's sales and advertising, it was discovered that some advertisements co-sponsored by the Company and agents, which made reference to the Company, did not contain the full name and the location of the Company. Section 2122(b) of the New York Insurance Law requires that agents and brokers shall in all advertisements, public announcements, signs, etc., which refer to an insurer, set forth therein the full name of the insurer and the name of the city, town or village in which it has its principal office.

It is recommended that the Company ensure that advertisements, public announcements, etc., that it reimburses, in whole or in part, agents or brokers for are in compliance with Section 2122(b) of the New York Insurance Law.

#### Personal Lines and Non-Renewal Notices

It was determined from the review of non-renewal notices of personal lines policies that the Company, in some instances, did not provide a specific reason or reasons for the non-renewal of the policies. Sections 3425(d)(1) of the New York Insurance Law requires that a specific reason or reasons shall be stated in or accompany the notice.

It is recommended that the Company state the specific reason or reasons for non-renewal in all non-renewal notices of personal lines policies in order to comply with Section 3425(d)(1) of the New York Insurance Law.

### **6. SUBSEQUENT EVENTS**

Effective as of October 1, 2007, the Department approved the conversion of the Company from an assessment co-operative insurance corporation into an advance premium co-operative insurance corporation. Effective as of the same date, the Department approved a merger between the Company and its affiliate, Monroe Co-op Insurance Company, with the Company as the surviving company.

On November 28, 2007, the Department approved an affiliation between the Company and Conemaugh Valley Mutual Insurance Company (“Conemaugh”), a Pennsylvania-based insurance company to be effective December 11, 2007. Under the terms of the affiliation, the Company advanced Conemaugh a sum of \$1,000,000 in the form of a Surplus Note pursuant to Section 322.2 of the Pennsylvania Insurance Company Law of 1921, as amended by Act 216 of November 30, 2004 (40 P.S. §445.2); the two companies will enter into reinsurance and expense sharing agreements in forms acceptable to both parties and subject to regulatory approval.

## 7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained five 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 Director Erland E. Kailbourne should either improve his attendance at board meetings or be replaced by the policyholders.	5
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Article IV Section 1 of its by-laws by having all members of the board maintain a policy with the Company.	5
The Company has complied with this recommendation.	
B. <u>Holding Company System</u>	
It was recommended that the Company comply with both Regulation 30 (NYCRR Part 109.2) and the terms of the Expense Sharing Agreement and develop a method of allocation that will more accurately reflect the employees' actual work expenses with respect to Monroe Co-operative Fire Insurance Company.	9
The Company has complied with this recommendation.	
C. <u>Market Conduct Activities</u>	
i. It was recommended that the Company comply with Section 2112(d) of the Insurance Law and file a notice of termination with the superintendent for all cancelled agents.	15
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Regulation 96 (NYCRR Part 62-4.2(b)) and include the statutory reason when canceling a policy for failure to return an anti arson application.	16
The Company has complied with this recommendation.	

## 8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i.     It is recommended that the Company comply with Section 308 of the New York Insurance Law and file with the Superintendent changes in its inter-company reinsurance treaties as specified in Department Circular Letter 17 (2001) at least thirty days in advance of the effective date.	7
ii.    It is recommended that the Company comply with Section 1308(e) of the New York Insurance Law and file its reinsurance treaties with the Department for review, when the amount of reinsurance ceded is greater than 50% of the unearned premiums reserves reported at the beginning of each year.	7
B. <u>Accounts and Records</u>	
i.     It is recommended that when entering into custodial agreement in the future, the Company comply with the NAIC Financial Condition Examiners Handbook Part 1 Section IV J.	9
ii.    It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law regarding signatory requirements on checks.	9
iii.   It is recommended that, henceforth, the Company classify shares in mutual funds in accordance with SSAP No. 30.	9
iv.    It is recommended that the Company classify inter-company balances in accordance with the NAIC Annual Statement Instructions.	10
v.     It is recommended that the Company make the required disclosure regarding unsecured reinsurance recoverables in future filed annual statements pursuant to SSAP No. 62 and the NAIC Annual Statement Instructions.	10
C. <u>Market Conduct Activities</u>	
i.     It is recommended that the Company comply with Section 6609(b) of the New York Insurance Law and file with this Department for approval all of its policy forms prior to use.	15
ii.    It is recommended that the Company comply with Part 216.9 of Department Regulation 64 and notify claimants in writing at the time payments are made to claimant's attorneys in third party liability	15

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settlements of \$5,000 or more.

- iii. It is recommended that the Company ensure that advertisements, public announcements, etc., that it reimburses, in whole or in part, agents or brokers for are in compliance with Section 2122(b) of the New York Insurance Law. 16
- iv. It is recommended that the Company state the specific reason or reasons for non-renewal in all non-renewal notices of personal lines policies in order to comply with Section 3425(d)(1) of the New York Insurance Law. 16



Appointment No 22642

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, **Eric R. Dinallo**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

*Nyantakyi Akuoko*

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

**Allegany Co-op 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 New York,*

*this 8th day of May 2007*



A handwritten signature in black ink, appearing to read "Eric R. Dinallo".

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**Eric R. Dinallo**  
*Superintendent of Insurance*