

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

DATE OF REPORT:

AUGUST 10, 2006

EXAMINER:

WAYNE LONGMORE



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

August 10, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York, 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22498 dated May 5, 2006, attached hereto, I have made an examination into the condition and affairs of the Pittstown Co-operative Fire Insurance Company as of December 31, 2005 and submit the following report thereon.

Wherever the designations "the Company", or "PCFIC" appear herein without qualification, they should be understood to indicate the Pittstown Co-operative Fire 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 227 Croll Road, Valley Falls, New York 12185.

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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.

2. DESCRIPTION OF COMPANY

The Company was organized in 1857. In 1910, this Department issued a certificate authorizing the Company to continue transacting business as an assessment cooperative fire insurance company in the town of Pittstown.

Subsequently, the Company's license was amended, extending its territory to all of Rensselaer County in March of 1954, and to Washington County in May of 1983.

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. As of December 31, 2005, the board of directors was comprised of nine members.

The Secretary/ Treasurer of the Company was informed of the discrepancy. She explained that the Company was having difficulty finding and keeping directors and that in board resolution #1-2005 the number of directors was reduced to ten from eleven. Nonetheless, she was

informed of the need to comply with established by-laws and certificate of incorporation and appoint the requisite number of directors or file amendments to its by-laws to allow for a range in directors with a minimum of at least 9.

Article II, Section 1 of the Company's by-laws as amended May 12, 1983 states that "the corporate powers shall be exercised by a Board of eleven directors, each of whom shall be a member and resident of the territory in which it is authorized to transact business... Vacancies in the board shall be filled for the unexpired term by a majority vote of the remaining directors at any special or regular meeting."

It is recommended that the Company comply with its by-laws as regard the number of its directors and fill any board vacancies in a timely manner.

The board meets at least four times during each calendar year. The directors as of December 31, 2005 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Hayner Bornt Troy, NY	Retired town supervisor
Allen Cornell Hoosick Falls, NY	Farmer
Samuel Danish (E) Troy, NY	Retired farmer
Linda Mason (E) Valley Falls, NY	Retired Senior Account clerk; Secretary/Treasurer of the Company
Beverly Moore Valley Falls, NY	Retired teacher

<u>Director</u>	<u>Principal Business Affiliation</u>
David Schmidt (E) Melrose, NY	Farmer; Vice President of the Company
George Skott (E) Buskirk, NY	Retired farmer; President of the Company
David Tarbox Troy, NY	Farmer
Timothy Wiley Johnsonville, NY	Lumber Salesman

(E) denotes member of executive committee.

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 71% with each individual director's attendance being adequate at these meetings, with the exception of Hayner Bornt for 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 director Hayner Bornt should either improve his attendance or be replaced by the policyholders.

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

President	George Skott
Vice President	David Schmidt
Secretary/Treasurer	Linda Mason

B. Territory and Plan of Operation

The Company is licensed to transact business within the counties of Washington and Rensselaer of this state.

<u>Calendar Year</u>	<u>Direct Premium Written</u>
2001	9,301
2002	9,097
2003	8,804
2004	8,620
2005	8,146

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

The Company issues policies for a term of three (3) years, with applications being received and inspections made by the Company's agents. The directors adjust losses. Assessments are collected at the home office of the Company.

Based upon 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.

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.
	The liability of the reinsurers shall not exceed \$210,000 by reason of any one loss occurrence.
Windstorm Catastrophe Excess of Loss	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.

The prior report on examination included the following recommendation regarding Section 1308(e) of the New York Insurance Law which makes it necessary for reinsurance agreements and any changes thereto, to be submitted to the Department. During the course of the prior examination, it was found that the Company had not submitted addenda to this Department, contrary to the aforementioned Section 1308(e).

Nevertheless, it was recommended in the prior examination report that the Company comply with Section 1308(e) of the New York Insurance Law, by submitting reinsurance agreement addenda to this Department in a timely manner.

During the course of the current examination it was noted that the Company was not in compliance with the recommendation from the prior report on examination for years 2004 and 2005. Accordingly, it is again recommended that the Company comply with Section 1308(e) of the New York Insurance Law, by submitting reinsurance agreements and addenda to this Department in a timely manner.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2005. All of the aforementioned ceded reinsurance agreements were found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the NYIL.

All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25 and 26 of the NAIC Accounting Practices and Procedures Manual (“SSAP”) No. 62.

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	0.002 to 1
Liabilities to cash and invested assets	0.30%
Investment Yield	2.262%

With the exception of the investment yield, 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	\$375	5.80%
Other underwriting expenses	58, 823	909.44%
Net underwriting gain (loss)	<u>(52,730)</u>	<u>(815.24)%</u>
Premiums earned	<u>\$6,468</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.

3. FINANCIAL STATEMENTS

A. 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>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 5,314	\$0	\$ 5,314
Common Stocks	43,973	287	43,686
Cash and short-term investments	<u>265,086</u>	<u>0</u>	<u>265,086</u>
Total assets	<u>\$314,373</u>	<u>\$287</u>	<u>\$314,086</u>
 <u>Liabilities and Surplus</u>			
Taxes, licenses and fees			<u>\$945</u>
Total liabilities			\$945
Required Surplus		\$100,000	
Unassigned funds (surplus)		<u>213,141</u>	
Surplus as regards policyholders			<u>313,141</u>
Total liabilities and surplus			<u>\$314,086</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 decreased \$7,105 during the five-year examination period, (January 1, 2001 through December 31, 2005) detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Premiums earned		\$6,468
Losses and loss adjustment expenses incurred	\$375	
Other underwriting expenses incurred	<u>58,823</u>	
Total underwriting deductions		<u>(59,198)</u>
Net underwriting gain or (loss)		<u>\$(52,730)</u>

Investment Income

Net investment income earned	\$44,429	
Net realized capital gain or (loss)	<u>(0)</u>	
Net investment gain		<u>44,429</u>
Net Income (loss)		<u>(\$8,301)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, per prior report on examination as of December 31, 2000			\$320,246
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income/loss	\$0	\$8,301	
Net Unrealized Gain	<u>1,196</u>	<u>0</u>	
Net decrease in Surplus as regards policyholders			<u>7,105</u>
Surplus as regards policyholders, per report on examination as of December 31, 2005			<u>\$313,141</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$0 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 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

No problem areas were encountered.

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. <u>Reinsurance</u>	
It is recommended that the Company comply with Section 1308(e) of the New York Insurance Law, by submitting reinsurance agreement addenda to this Department in a timely manner.	5
The Company has not complied with this recommendation for the years 2004 and 2005. A similar recommendation is included in this report.	
B. <u>Minimum Capital Investments</u>	
It is recommended that the Company comply with Sections 6623(b)(1) and 1402 of the New York Insurance Law by investing in investments of the types	6

and amounts specified in the aforementioned sections of law before investing in any other permissible investments, henceforth.

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<u>A. Management</u>	
i. It is recommended that the Company comply with its by-laws as regard the number of its directors and fill any board vacancies in a timely manner.	3
ii. It is recommended that director Hayner Bornt should either improve his attendance or be replaced by the policyholders.	4
<u>B. Reinsurance</u>	
It is again recommended that the Company comply with Section 1308(e) of the New York Insurance Law, by submitting reinsurance agreements and addenda to this Department in a timely manner.	6

Appointment No 22498

*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

Pittstown 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 5th day of May 2006



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

Howard Mills
Superintendent of Insurance