

REPORT ON EXAMINATION

OF THE

BROOME CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

NOVEMBER 7, 2008

EXAMINER

FRANK P. SCHIRALDI

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	9
	E. Significant operating ratios	9
	F. Accounts and records	10
3.	Financial statements	13
	A. Balance sheet	13
	B. Underwriting and investment exhibit	15
4.	Losses and loss adjustment expenses	16
5.	Market conduct activities	16
6.	Compliance with prior report on examination	18
7.	Summary of comments and recommendations	20



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 22732 dated January 14, 2008, attached hereto, I have made an examination into the condition and affairs of Broome Co-operative Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations “the Company” or “BCIC” appear herein without qualification, they should be understood to indicate Broome Co-operative 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 1923 Vestal Parkway East, Vestal, NY 13851.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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, 2007. 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

This examination report also includes a summary of significant findings regarding market conduct activities.

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

The Company was organized under the laws of the State of New York on January 20, 1887 as the Broome County Farmers' Fire Relief Association ("Association"), for the purpose of transacting

business as an assessment cooperative fire insurance association in Broome County of New York State.

In 1951, the Association merged with Broome County Patrons' Fire Relief Association of Whitney Point, New York and the surviving corporation resulting from said merger became the Broome County Co-operative Fire Insurance Company.

On March 27, 2002, approval was given by the Department for the Company to change its name from the "Broome County Co-operative Fire Insurance Company" to the "Broome Co-operative Insurance Company."

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 fourteen members. As of the examination date, the board of directors was comprised of nine members, divided into three groups, with one group being elected at each annual policyholders' meeting for a term of three years.

The full board met at least five times during each calendar year, thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2007, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Clifford W. Crouch Bainbridge, NY	New York State Assemblyman
Brooke L. Dean Whitney Point, NY	Court Clerk, Town of Barker, NY
Debra K. Eaton-Turner Smithville Flats, NY	Manager, NBT Bank
Peter A. Ellis Owego, NY	Retired
Ralph E. Kelsey Spencer, NY	Vice President, Tioga State Bank
Steven P. Krna Whitney Point, NY	President and Chief Executive Officer, Broome Co-operative Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John W. Salt Windsor, NY	Chairman of the Board / Vice President, Broome Co-operative Insurance Company
Ruth A. Smith Windsor, NY	Secretary-Treasurer, Broome Co-operative Insurance Company
Robert J. Warner Vestal, NY	Business Owner, Warner's Gas Service

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 had an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven P. Krna	President and Chief Executive Officer
Ruth A. Smith	Secretary/Treasurer
John W. Salt	Chairman of the Board / Vice President

A review of the minutes of meetings of committees of the board of directors revealed that the Company was not in compliance with Section 6611(a)(3) of the New York Insurance Law. In particular, the Company did not keep minutes of all nominating, plan of succession nor pre-budget committee meetings.

It is recommended that the Company comply with Section 6611(a)(3) of the New York Insurance Law by recording in written form all minutes of the principal committees of the board of directors.

A review of the minutes of the meetings of the board of directors and its committees revealed that the Company was not in compliance with Section 1411(a) of the New York Insurance Law. Specifically, neither the board nor its committees authorized or approved all investment transactions during the examination period.

It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law by having all investment transactions approved by the board of directors or by a committee thereof responsible for supervising such investments.

A review of conflict of interest statements completed during the examination period revealed that the Company did not comply with its code of ethics. Specifically, no conflict of interest statements were completed and signed for 2004. Also, one board member did not complete a conflict of interest statement for 2005. In addition, two board members did not reveal that they were officers at banks of which the Company owned certificates of deposit, and one of these board members voted to approve the Company's investment holdings which included the certificates of deposit held at the bank in which she worked.

It is recommended that the Company comply with its code of ethics by having each officer, director and employee complete and sign a conflict of interest statement each year that reveals all potential conflicts of interest.

**B. Territory and Plan of Operation**

As of December 31, 2007, the Company was licensed to write business in New York only, excluding the counties of Bronx, Kings, New York, Queens and Richmond.

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, 9, 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 New York Insurance Law.

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

<u>Calendar Year</u>	<u>New York State</u>
2003	\$4,639,558
2004	\$4,965,907
2005	\$5,235,418
2006	\$5,526,093
2007	\$5,639,957

The Company underwrites predominantly homeowners multiple peril and commercial multiple peril lines of business, which accounted for 56.7% and 28.1%, respectively, of the 2007 direct premium writings.

The Company obtains business through approximately 125 independent agents.

#### C. Reinsurance

During the current period under examination the Company did not assume any reinsurance.

As of December 31, 2007, the Company had the following multiple line excess of loss reinsurance program in place:

#### Type of treaty

#### Cession

#### Multiple Line Excess of Loss

#### First Excess

Property: \$100,000 excess of \$100,000 each loss, each risk; limit \$300,000 each loss occurrence.  
Casualty: \$125,000 excess of \$75,000 each loss occurrence.

Property and Casualty combined: in the event of a loss occurrence involving at least one casualty policy and at least one property policy, \$100,000 ultimate net loss in excess of \$100,000 each loss occurrence. Recoveries under first property and casualty excess of loss and the second excess casualty and casualty clash excess of loss shall reduce the ultimate net loss hereunder.

Second Excess	Property: \$300,000 excess of \$200,000 each loss, each risk; limit \$900,000 each loss occurrence. Casualty: \$300,000 excess of \$200,000 each loss occurrence.
Casualty Excess of Loss	\$500,000 excess of \$500,000 each loss occurrence.
Casualty Clash Excess of Loss	\$1,000,000 excess of \$1,000,000 each loss occurrence.
Property Catastrophe Excess of Loss (three layers)	100% of the ultimate net loss in excess of \$300,000 each loss occurrence involving three or more risks.

As of December 31, 2007, the Company had the following facultative reinsurance program in place:

<u>Type of treaty</u>	<u>Cession</u>
Property	10 times the Company's net retention plus the amount ceded to the Company's working reinsurance contract, subject to a minimum net retention of \$50,000 and to a maximum cession hereunder of \$500,000 on any one risk covered hereunder.
Casualty	\$1,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence, each policy, subject to a limit of liability to the reinsurer of \$1,000,000.

As of December 31, 2007, the Company ceded 100% of its boiler and machinery net retained liability.

All of the Company's cessions during the period under examination were to authorized reinsurers. It is noted that the Company's has increased its retention from \$50,000 to \$100,000 on its

property lines, and from \$40,000 to \$75,000 on its casualty lines of business during the examination period.

Section 1308(e)(1)(A) of the New York Insurance Law states that during any period of twelve consecutive months, without the Superintendent's permission, no domestic insurer shall cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period.

However, during the period covered by this examination, the Company failed to submit to the Department for review, various reinsurance agreements, and subsequent amendments to the reinsurance agreements that were subject to Section 1308(e)(1)(A) of the New York Insurance Law.

It is recommended that the Company comply with Section 1308(e)(1)(A) of the New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination.

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 New York Insurance Law.

The NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62, paragraph 67(a) requires that if the total amount of reinsurance recoverable for losses, paid and unpaid, including Incurred but not reported ("IBNR"), loss adjustment expenses, and unearned premium, exceeds 3% of surplus, that this must be disclosed. The Company did not disclose that it had a total recoverable of more than 3% of its surplus from Hartford Fire Ins. Co. at December 31, 2007.

It is recommended that the Company comply with SSAP No. 62, paragraph 67(a) in all future filings with this Department, by disclosing any individual reinsurers and the unsecured aggregate recoverable amounts pertaining to that reinsurer when these amounts exceed three percent of its surplus.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to be inaccurate. The Company did not report the items correctly by individual reinsurers. However, it is noted that the total amounts reported were correct.

It is recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F - Part 3 correctly in all future filings with this Department.

The Company's management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. 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 paragraphs 17 through 24 of SSAP No. 62.

During the period covered by this examination, the Company did not commute any reinsurance agreements.

D. Holding Company System

As of December 31, 2007, the Company was not a member of any holding company system. The Company was independent with no affiliation or pooling agreements in force at December 31, 2007.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	45.05%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	32.41%
Premiums in course of collection to surplus as regards policyholders	0.92%

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	\$11,133,051	60.18%
Other underwriting expenses incurred	7,015,551	37.92
Net underwriting gain	<u>350,667</u>	<u>1.90</u>
Premiums earned	<u>\$18,499,269</u>	<u>100.00%</u>

F. Accounts and Records

i. Certified Public Accountant Engagement Letter

Part 89.2(a) of Department Regulation 118 requires that the Company retain an independent Certified Public Accountant (“CPA”) who agrees by written contract that:

On or before May 31<sup>st</sup>, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer’s and any such subsidiary’s accounting procedures and internal control systems as are necessary to the furnishing of the opinion.

A review of the Company’s contracts with its independent CPA entered into during the examination period revealed that, except for the contract covering the year ended December 31, 2007, the contracts did not comply with the requirements of Part 89.2(a) of Department Regulation 118. Specifically, the contracts stated that the audited financial statements and opinion for the prior year end and an evaluation of accounting procedures and internal control systems would be provided to the Company by May 31<sup>st</sup> “(*circumstances permitting*).” (Emphasis added).

It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.

ii. Signing of Checks By a Non-Officer

The examination review of the Company’s check signing authority revealed that the Company does not comply with the requirements of Section 6611(a)(4)(C) of the New York Insurance Law. Specifically, it was noted that checks were signed regularly by someone who is not an officer.

It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law by having all checks issued by the Company signed either by two officers or by one

officer upon the written order of another officer, except as otherwise provided by resolution of the corporation's board of directors or in its by-laws for handling of miscellaneous expenses.

iii. Recording of Acquisition of Bonds

The examination review of the recording of date of acquisition and disposal of securities revealed that the Company did not comply with SSAP No. 26, paragraph 4. Specifically, the Company recorded securities on the settlement date and not on the trade date.

It is recommended that the Company comply with SSAP No. 26, paragraph 4 by recording the acquisition and disposal of bonds on the trade date.

iv. Fidelity Bonds

The examination review of the Company's insurance coverages at December 31, 2007 revealed that the Company did not comply with the NAIC Financial Condition Examiners Handbook ("Handbook"). Specifically, the Company had no fidelity bond coverage at December 31, 2007; the Handbook recommended amount of fidelity bond coverage for a Company of this size is between \$150,000 and \$175,000.

It is recommended that the Company purchase the appropriate amount of fidelity bond coverage in accordance with the NAIC Financial Condition Examiners Handbook. It is noted that a similar recommendation was included in the prior report on examination.

v. Custodial Agreement

A review of the Company's custodial agreement at December 31, 2007, indicated that the agreement lacked several provisions and safeguards as set forth in the NAIC Financial Condition Examiners Handbook.

It is recommended that the Company amend its custodial agreement so that it contains all of the provisions and safeguards set forth in the NAIC Financial Condition Examiners Handbook.

vi. Changing of Signatories Upon Suspension or Termination

During the examination review of the Company's termination of two officers, it was noted that the Company did not change its signatories at banks in which it had deposited cash immediately upon suspension of these officers.

It is recommended that the Company institute procedures that will immediately safeguard the Company's assets at the time that any employee is suspended or terminated, including but not limited to, immediately changing the signatories on bank accounts for which the suspended or terminated employee was a signatory.

vii. Recording of Long-term Certificates of Deposits

A review of the recording of certificates of deposit on Schedule E - Part 1 at December 31, 2007, revealed that the Company did not comply with SSAP No. 2, paragraph 3 and SSAP No. 26, paragraph 2. Specifically, the Company reported certificates of deposit with maturity dates in excess of one year from date of acquisition as cash on Schedule E - Part 1 instead of as bonds on Schedule D - Part 1.

It is recommended that the Company comply with SSAP No. 2, paragraph 3 and SSAP No. 26, paragraph 2 by properly reporting all long-term certificates of deposit as bonds in future statements submitted to this Department.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 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	\$ 8,655,993	\$ 0	\$ 8,655,993
Common stocks	254,230	0	254,230
Real Estate: Properties occupied by the company	807,984	0	807,984
Real Estate: Properties held for sale	8,976	0	8,976
Cash, cash equivalents and short-term investments	3,944,056	0	3,944,056
Investment income due and accrued	408,910	0	408,910
Uncollected premiums and agents' balances in the course of collection	110,325	17,137	93,188
Deferred premiums, agents' balances and installments booked but deferred and not yet due	428,213	0	428,213
Amounts recoverable from reinsurers	10,701	0	10,701
Current federal and foreign income tax recoverable and interest thereon	22,800	0	22,800
Net deferred tax asset	232,800	7,900	224,900
Furniture and equipment, including health care delivery assets	<u>139,931</u>	<u>139,931</u>	<u>0</u>
Total assets	<u>\$15,024,919</u>	<u>\$164,968</u>	<u>\$14,859,951</u>

Liabilities, Surplus and Other FundsLiabilities

Loss and loss adjustment expenses		\$ 1,479,703
Commissions payable, contingent commissions and other similar charges		200,731
Other expenses (excluding taxes, licenses and fees)		23,777
Unearned premiums		2,932,155
Advance premiums		86,589
Ceded reinsurance premiums payable (net of ceding commissions)		<u>3,545</u>
Total liabilities		\$ 4,726,500

Surplus and Other Funds

<u>Required surplus</u>	\$ 100,000	
Unassigned funds (surplus)	<u>10,033,451</u>	
Surplus as regards policyholders		<u>10,133,451</u>
Total liabilities, surplus and other funds		<u>\$14,859,951</u>

NOTE: The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. Audits covering subsequent tax years have yet to commence. 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 \$1,875,963 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$18,499,269
Deductions:		
Losses and loss adjustment expenses incurred	\$11,133,051	
Other underwriting expenses incurred	<u>7,015,551</u>	
Total underwriting deductions		<u>18,148,602</u>
Net underwriting gain or (loss)		\$350,667

Investment Income

Net investment income earned	\$ 2,009,824	
Net realized capital gains (losses)	<u>(660)</u>	
Net investment gain or (loss)		2,009,164

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (3,713)	
Finance and service charges not included in premiums	391,054	
Aggregate write-ins for miscellaneous income	<u>5,912</u>	
Total other income		<u>393,253</u>
Net income before federal and foreign income taxes		\$2,753,084
Federal and foreign income taxes incurred		<u>981,317</u>
Net income		\$ <u>1,771,767</u>

Capital and Surplus

Surplus as regards policyholders per report on examination as of December 31, 2002			\$ 8,257,488
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,771,767		
Net unrealized capital gains or losses	67,286		
Change in net deferred income tax	70,600		
Change in nonadmitted assets	<u>0</u>	\$33,690	
Total gains and losses	<u>\$1,909,653</u>	<u>\$33,690</u>	
Net increase (decrease) in surplus			\$ <u>1,875,963</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$10,133,451</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$1,479,703 is the same as reported by the Company as of December 31, 2007. The examination analysis of the loss and loss adjustment expense reserves 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.

**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

i. Personal Lines Non-Renewals

The examination review of personal lines non-renewals revealed that the Company was not in compliance with Section 3425(d)(1) of the New York Insurance Law. In particular, the Company mailed or delivered notices of non-renewal 61 days in advance of the end of the policy period to some policyholders instead of 45 to 60 days.

It is recommended that the Company comply with Section 3425(d)(1) of the New York Insurance Law by mailing or delivering notices of non-renewal at least 45 days but not more than 60 days in advance of the end of the policy period.

ii. Complaint Register Maintenance and Response to Department Inquiries

The examination review of the Company's complaint handling procedures revealed that the Company was not in compliance with Department Regulation 64, Sections 216.4(c) and (d). In particular, the person responsible for the internal department designated to investigate and resolve complaints filed with the Insurance Department was an employee of the Company who was not an officer entrusted with the duty of executing the Insurance Department directives. In addition, the examination review revealed several instances regarding complaints recorded during the examination period, for which the Company took more than 10 business days to furnish the Department with the available information requested.

It is recommended that the Company comply with Department Regulation 64, Section 216.4(c) by having the responsibility of the complaint department vested in a corporate officer who is also entrusted with the duty of executing the Insurance Department directives.

It is also recommended that the Company comply with Department Regulation 64, Section 216.4(d) by furnishing the Department with the information requested in respect of a claim within 10 business days of receipt of any future inquiries from the Department.

iii. Timeliness of PILR reporting

The examination review of fire losses revealed that the Company is not in compliance with Regulation 96, Section 62-2.2. In particular, in a sample of thirteen fire losses for which the Company paid over \$1,000, it was noted that the Company did not report these losses to Insurance Services Office (“ISO”) within the required five business days following receipt of notice of loss. ISO is the designated agency that maintains the central registry for Property Insurance Loss Registry (“PILR”).

It is recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of \$1,000 involving applicable property, except losses to vehicles registered for use on public highways, to the central organization involved in property loss registration within five business days following receipt of notice of loss.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained seven 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 comply with Section 6611(a)(3) of the New York Insurance Law and record in written form all minutes of the finance and nominating committee meetings.	4
The Company has not complied with this recommendation. A similar recommendation is made in this report.	
ii. It was recommended that the Company comply with Article II, Section II of its by-laws and have the names of all qualified persons for the office of director submitted to the Secretary of the Company at least thirty days before the annual meeting.	4
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
It was recommended that the Company comply with the requirements of Section 1308(e)(1)(A) of the New York Insurance Law.	7

ITEMPAGE NO.

The Company has not complied with this recommendation. A similar recommendation is made in this report.

C. Accounts and Records

- i. It was recommended that the Company adhere to the annual statement instructions and include all receivable amounts due, not just over ninety-day balances on Line 10.1 of page 2 in all future annual statements filed with the Insurance Department. 8

The Company has complied with this recommendation.

- ii. It was recommended that the Company comply with Department directives, reinforced by Circular Letter No. 2 of 1977, and move any investments held by a broker to a proper banking institution in a timely fashion with a suitable written custodial agreement. 8-9

The Company has complied with this recommendation.

D. Fidelity Bond

- It was recommended that the Company increase its fidelity coverage to a level at least equal to the minimum suggested by the NAIC. 9

The Company has not complied with this recommendation. A similar recommendation is made in this report.

E. Market Conduct

- It was recommended that the Company comply with Regulation 64 (NYCRR Part 216.6(g)) and discontinue using the phrase “final payment” or any other expression that would imply that such check represents a final settlement of the loss on all loss checks. 13

The Company has complied with this recommendation.

## **7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<b>A. <u>Management</u></b>	
i. It is recommended that the Company comply with Section 6611(a)(3) of the New York Insurance Law by recording in written form all minutes of the principal committees of the board of directors. A similar recommendation was included in the prior report.	4
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law by having all investment transactions approved by the board of directors or by a committee thereof responsible for supervising such investments.	5
iii. It is recommended that the Company comply with its code of ethics by having each officer, director and employee complete and sign a conflict of interest statement each year that reveals all potential conflicts of interest.	5
<b>B. <u>Reinsurance</u></b>	
i. It is recommended that the Company comply with Section 1308(e)(1)(A) of the New York Insurance Law. A similar recommendation was included in the prior report.	8
ii. It is recommended that the Company comply with SSAP No. 62, paragraph 67(a) in all future filings with this Department, by disclosing any individual reinsurers and the unsecured aggregate recoverable amounts pertaining to that reinsurer when these amounts exceed three percent of its surplus.	8
iii. It is recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F - Part 3 correctly in all future filings with this Department.	9
<b>C. <u>Accounts and Records</u></b>	
i. It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.	10
ii. It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law by having all checks issued by the Company signed either by two officers or by one officer upon written order of another officer, except as otherwise provided by resolution of the corporation's board of directors or in its by-laws for handling of miscellaneous expenses.	10
iii. It is recommended that the Company comply with SSAP No. 26,	11

ITEMPAGE NO.

paragraph 4 by recording the acquisition and disposal of bonds on the trade date.

- |      |   |    |
|------|---|----|
| iv.  | It is recommended that the Company purchase the appropriate amount of fidelity bond coverage in accordance with the NAIC Financial Condition Examiners Handbook. A similar recommendation was included in the prior report.   | 11 |
| v.   | It is recommended that the Company amend its custodial agreement so that it contains all of the provisions and safeguards set forth in the NAIC Financial Condition Examiners Handbook.   | 11 |
| vi.  | It is recommended that the Company institute procedures that will immediately safeguard the Company's assets at the time that any employee is suspended or terminated, including but not limited to, immediately changing the signatories on bank accounts for which the suspended or terminated employee was a signatory.                                  | 12 |
| vii. | It is recommended that the Company comply with SSAP No. 2, paragraph 3 and SSAP No. 26, paragraph 2 by properly reporting all long-term certificates of deposit as bonds in future statements submitted to this Department.   | 12 |
| D.   | <u>Market Conduct</u>   |    |
| i.   | It is recommended that the Company comply with Section 3425(d)(1) of the New York Insurance Law by mailing or delivering notices of non-renewal at least 45 days but not more than 60 days in advance of the end of the policy period.  | 17 |
| ii.  | It is recommended that the Company comply with Department Regulation 64, Section 216.4(c) by having the responsibility of the complaint department vested in a corporate officer who is also entrusted with the duty of executing the Insurance Department directives.  | 17 |
| iii. | It is recommended that the Company comply with Department Regulation 64, Section 216.4(d) by furnishing the Department with the information requested in respect of a claim within 10 business days of receipt of any future inquiries from the Department.   | 17 |
| iv.  | It is recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of \$1,000 involving applicable property, except losses to vehicles registered for use on public highways, to the central organization involved in property loss registration within five business days following receipt of notice of loss. | 18 |

Respectfully submitted,

\_\_\_\_\_  
/s/

Frank P. Schiraldi  
Senior Insurance Examiner

STATE OF NEW YORK     )  
                                  )SS:  
                                  )  
COUNTY OF ONONDAGA    )

FRANK P. SCHIRALDI, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_  
/s/

Frank P. Schiraldi

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

Appointment No 22732

STATE OF NEW YORK  
INSURANCE DEPARTMENT

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

Frank Schiraldi

as proper person to examine into the affairs of the

BROOME COOPERATIVE 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 14<sup>th</sup> day of January 2008



A handwritten signature in black ink that reads "Eric Dinallo".

---

ERIC DINALLO  
Superintendent of Insurance