

REPORT ON EXAMINATION

OF THE

CHAUTAUQUA PATRONS INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

MAY 25, 2012

EXAMINER

ROBERT VARGAS

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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 30743 dated July 26, 2011, attached hereto, I have made an examination into the condition and affairs of Chautauqua Patrons Insurance Company 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 Chautauqua Patrons Insurance Company.

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

The examination was conducted at the Company’s home office located at 529 West Third Street, Jamestown, New York 14702-0070.

## **1. SCOPE OF EXAMINATION**

The Department has performed an individual examination of the Company, a single state insurer. The previous examination was conducted as of December 31, 2005. This examination covered the five-year period from January 1, 2006 through December 31, 2010, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves, and provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 the target areas investigated pursuant to the limited scope examination instructions and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was organized in 1877 as “The Chautauqua Patrons Fire Relief Association” for the purpose of transacting business as an assessment co-operative fire insurance corporation in Chautauqua County, New York. Effective February 26, 1976, the Company changed its name to Chautauqua Patrons’ Insurance Association.

Effective November 26, 1999, the Company’s charter was amended to extend its territorial limits to include all of the counties of this State, except the counties of New York, Kings, Queens, Bronx and Richmond; and all of the counties of the States of Pennsylvania and Ohio.

On July 17, 2002, the Company adopted its current title. Additionally its charter was amended to add boiler and machinery to the lines of business it was authorized to write.

### 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 twenty- nine members. The board meets at least once during each calendar year, with the executive committee meeting at least three times a year, to comply with section 6624(b) of the New York Insurance Law (“NYIL”). At December 31, 2010, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sham Bahgat Fredonia, N.Y.	CPA, Bahgat & Bahgat
Douglas A. Bowen Ripley, N. Y.	Insurance Agent
Salvatore Caruso Portland, N.Y.	Vice President, Chautauqua Patrons Insurance Company
Allen S. Chase Cassadaga, N.Y.	Treasurer and Secretary, Chautauqua Patrons Insurance Company
Joe Edwards Jr. Panama, N.Y.	President, Chautauqua Patrons Insurance Company
Brenda Ireland Panama, N.Y.	Insurance Agent

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David I. Lipsey Bemus Point, N.Y.	Insurance Agent
Mark T. Prechtl Bemus Point, N.Y.	Executive Vice President and Chief Executive Officer, Chautauqua Patrons Insurance Company
Ernest J. Rammelt Westfield, N.Y.	Owner, Chautauqua Energy
William R. Reynolds III Ashville, N.Y.	Retired

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, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joe Edwards Jr.	President
Mark Prechtl	Executive Vice President and Chief Executive Officer
Allen S. Chase	Treasurer and Secretary
Salvatore Caruso	Vice President

B. Territory and Plan of Operation

As of December 31, 2010, 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 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 underwrites predominantly commercial multiple peril and homeowners multiple peril lines of business through independent agents and director agents. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar year</u>	<u>Direct Premiums Written</u>
2006	8,624,173
2007	8,433,460
2008	8,179,862
2009	8,046,245
2010	8,157,094

C. Reinsurance

The Company did not assume any reinsurance business during the examination period.

The Company has structured its ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u> (3 Layers)	\$1,275,000 excess of \$125,000 ultimate loss each risk; limits of \$375,000, \$750,000, and \$1,300,000, respectively, ultimate net loss any one occurrence for each layer.
<u>Property Catastrophe Excess of Loss</u> (2 Layers)	100% of \$1,300,000 excess of \$200,000 ultimate net loss, any one loss occurrence, involving three or more risks. 100% ultimate net loss excess of \$1,500,000.
<u>Property Facultative Pro Rata</u>	Limited to an amount equal to three times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum retention of \$350,000 and to a maximum cession of \$500,000 any one risk.
<u>Casualty Excess of Loss</u> (3 Layers)	\$875,000 excess of \$125,000 ultimate net loss each occurrence.

<u>Type of treaty</u>	<u>Cession</u>
<u>Casualty Clash Excess of Loss</u>	\$1,000,000 excess of \$1,000,000 ultimate net loss each occurrence.
<u>Casualty Excess of Loss Facultative</u>	\$1,000,000 excess of \$1,000,000 ultimate net loss each occurrence.
<u>Aggregate Excess</u>	95% of \$500,000 of aggregate net losses, any one contract year in excess of 71% of the net premium earned.
<u>Equipment breakdown</u>	100% cession of not exceeding \$5,000,000 any one accident.

The examination review found that the Schedule F data reported by the Company in its filed annual statements accurately reflected 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 an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the 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 SSAP No. 62.

#### D. Affiliated Group

As of December 31, 2010, the Company owned 100% of the outstanding shares of its subsidiary, Chautauqua Patrons' Insurance Agency, Inc. The Agency was incorporated to furnish an outlet for the Company's agents for those kinds of insurance not provided by the Company. During the period of examination, the agency was dormant.

It was noted that the Company paid the subsidiary's 2010 franchise taxes and initially did not receive reimbursement, in violation of the provisions of Section 1608 of the New York Insurance Law. The Company subsequently received reimbursement for the franchise taxes paid; therefore, no recommendation is made in this report.

#### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	67%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	48%
Premiums in course of collection to surplus as regards policyholders	1%

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	\$19,332,386	61.94%
Other underwriting expenses incurred	11,236,214	36.00%
Net underwriting gain	<u>641,324</u>	<u>2.05%</u>
Premiums earned	<u>\$31,209,924</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### 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:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	<u>Net Admitted</u>
		<u>Assets Not Admitted</u>	<u>Assets</u>
Bonds	\$ 9,167,234	\$ 0	\$ 9,167,234
Common stocks	4,014,013	0	4,014,013
Real estate: properties occupied by the Company	457,316	0	457,316
Cash, cash equivalents and short-term investments	1,610,225	0	1,610,225
Investment income due and accrued	126,142	0	126,142
Uncollected premiums and agents' balances in the course of collection	68,372	3,436	64,936
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,338,151	0	1,338,151
Amounts recoverable from reinsurers	119	0	119
Current federal and foreign income tax recoverable and interest thereon	225,200	0	225,200
Net deferred tax asset	213,999	26,999	187,000
Furniture and equipment, including health care delivery assets	56,807	56,807	0
Prepaid expenses	<u>6,896</u>	<u>6,896</u>	<u>0</u>
Total Assets	<u>\$17,284,474</u>	<u>\$94,138</u>	<u>\$17,190,336</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$ 3,388,104
Commissions payable, contingent commissions and other similar charges		613,000
Other expenses (excluding taxes, licenses and fees)		83,986
Taxes, licenses and fees (excluding federal and foreign income taxes)		4,422
Unearned premiums		4,242,348
Advance premium		176,167
Ceded reinsurance premiums payable (net of ceding commissions)		22,760
Remittances and items not allocated		<u>13,037</u>
Total liabilities		\$ 8,543,824

Surplus and Other Funds

Required surplus	\$ 100,000	
Unassigned funds (surplus)	<u>8,546,512</u>	
Surplus as regards policyholders		<u>8,646,512</u>

Total liabilities, surplus and other funds		<u>\$17,190,336</u>
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Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2010. 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 \$2,116,121 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned		\$31,209,924
Deductions:		
Losses and loss adjustment expenses incurred	\$19,332,386	
Other underwriting expenses incurred	<u>11,236,214</u>	
Total underwriting deductions		<u>30,568,600</u>
Net underwriting gain or (loss)		\$ 641,324

Investment Income

Net investment income earned	\$ 1,995,692	
Net realized capital gain	<u>(405,429)</u>	
Net investment gain or (loss)		1,590,263

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (32,800)	
Finance and service charges not included in premiums	404,910	
Aggregate write-ins for miscellaneous income	<u>32,753</u>	
Total other income		<u>404,863</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 2,636,450
Federal and foreign income taxes incurred		<u>532,645</u>
Net income		\$ <u>2,103,805</u>

Surplus as regards policyholders per report on examination as of December 31, 2005				\$6,530,391
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,103,805			
Net unrealized capital gains or (losses)			127,634	
Change in net deferred income tax	433,286			
Change in non-admitted assets	55,925			
Prior period bond basis adjustment	<u>0</u>		<u>349,261</u>	
Net increase (decrease) in surplus	<u>\$2,593,016</u>		<u>\$476,895</u>	<u>\$2,116,121</u>
Surplus as regards policyholders per report on examination as of December 31, 2010				<u>\$8,646,512</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$3,388,104 is the same as reported by the Company as of December 31, 2010. The examination 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.

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

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A It was recommended that the Company comply with Article III Section I of its by-laws and appoint officers from within the board or amend its by-laws to provide for the appointment of officers within the board or amend its by-laws to provide for the appointment of officers from without, in order to comply with section 6611(a) (4)(C) of the NYIL.</p> <p>The Company has complied with this recommendation.</p>	4
<p>B It was recommended that the Company comply with Section 6606(a) (2) of the NYIL and obtain the permission of the superintendent before ceding to an unauthorized reinsurer.</p> <p>The Company has complied with this recommendation.</p>	8
<p>C It was recommended that the Company comply with Part 125.6 of Regulation 20 and amend the Equipment breakdown reinsurance treaty to include the reinsurer's assumption of all credit risk of the reinsurance intermediary, as put forth in the said Regulation.</p> <p>The Company has complied with this recommendation.</p>	8
<p>D It was recommended that the Company comply with the annual statement instructions and accurately complete Schedule F and the Supplemental Compensation Exhibits in future annual statements filed with the Department.</p> <p>The Company has complied with this recommendation.</p>	10
<p>E It was recommended that the Company amend the custodial agreement to comply with the NAIC Financial Condition Examiners Handbook Part 1 Section IV J.</p> <p>The Company has complied with this recommendation.</p>	10-11
<p>F It was recommended that the Company comply with SSAP No. 26 paragraph 4 and SSAP No. 30 paragraph 5 and report acquisition and disposal dates of bonds and stocks in the annual statement Schedule D in accordance with the SSAP.</p> <p>The Company has complied with this recommendation.</p>	11

<u>ITEM</u>		<u>PAGE NO.</u>
G	It was recommended that the Company comply with SSAP N.2 paragraphs 10 and 11 and report investments in money market fund accordingly.  The Company has complied with this recommendation.	11
H	It was recommended that the Company comply with Part 109.2 of Regulation 30 and allocate salary expenses in accordance with the provisions of the Regulation.  The Company has complied with this recommendation.	12
I	It was recommended that the Company comply with Section 3404(e) (68-73) and Circular Letter 17 of 1976 and provide mortgagees with the Ten days advance written notices of cancellations, no matter the reasons for the termination.  The Company has complied with this recommendation.	17

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

There are no comments or recommendations in this report.

Respectfully submitted,

\_\_\_\_\_  
/s/  
Robert Vargas, CPA

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

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

\_\_\_\_\_  
/s/  
Robert Vargas

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Robert Vargas**

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

**CHAUTAUQUA PATRONS 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 26th day of July, 2011*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRINN  
Superintendent of Insurance