

REPORT ON EXAMINATION

OF THE

CHAUTAUQUA PATRONS INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

MARCH 24, 2017

EXAMINER NAME

SUSAN K. WEIJOLA, CPCU

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 6, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31490 dated June 7, 2016, attached hereto, I have made an examination into the condition and affairs of Chautauqua Patrons Insurance Company as of December 31, 2015, 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, NY 14701.

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, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes, but is not limited to, the following:

- 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
- Statutory deposits
- Financial statements
- Significant subsequent events
- 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 amended its charter to extend its territorial limits to include all counties of New York (except the counties of Bronx, Kings, New York, Queens, Richmond), Pennsylvania, and Ohio. On July 17, 2002, the Company adopted its current name and amended its charter to add boiler and machinery to its lines of business. The charter was amended on October 21, 2010 to remove the states of Pennsylvania and Ohio from its territory.

A. Corporate Governance

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 four times during each calendar year. At December 31, 2015, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sham Bahgat Fredonia, NY	Certified Public Accountant, Bahgat and Bahgat Agency
Douglas Bowen Ripley, NY	Insurance Agent, Douglas A. Bowen Agency
Salvatore Caruso Portland, NY	Vice President, Chautauqua Patrons Insurance Company
Allen S. Chase Cassadaga, NY	Secretary and Treasurer, Chautauqua Patrons Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joe Edwards, Jr. Panama, NY	President, Chautauqua Patrons Insurance Company
Brenda Ireland Panama, NY	Insurance Agent, J. Edwards Insurance Agency
David L. Lipsey Bemus Point, NY	Chairman, Chautauqua Patrons Insurance Company
Mark T. Prechtl Bemus Point, NY	Executive Vice President and Chief Executive Officer, Chautauqua Patrons Insurance Company
Ernest Rammelt Westfield, NY	Owner, Chautauqua Energy
William R. Reynolds, III Ashville, NY	Retired
Edward P. Wright Jamestown, NY	Attorney, Wright, Wright and Hampton

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, 2015, the principal officers of the Company were as follows:

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

B. Territory and Plan of Operation

As of December 31, 2015, 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 only)

The Company is also authorized to accept and cede reinsurance as provided for in Section 6606 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and its current capital structure, and pursuant to the requirements of Articles 13, 41 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>Total Premiums</u>
2011	\$8,360,495
2012	\$8,515,940
2013	\$8,988,041
2014	\$9,412,402
2015	\$9,952,799

The Company predominantly writes homeowner multiple peril and commercial multiple peril lines of business, which accounted for 53% and 35%, respectively, of the 2015 direct premium written in New York State. The business is written through approximately 170 independent agents located throughout the upstate New York area.

C. Reinsurance Ceded

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

The Company has structured its ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
Multiple Line Excess of Loss Property (2 layers) 100% Authorized	1 st layer: \$250,000 excess of \$250,000; occurrence limit \$750,000; 2 nd layer: \$900,000 excess of \$500,000; occurrence limit \$1,350,000.
Casualty (2 layers) 100% Authorized	1 st layer: \$350,000 excess of \$150,000 each loss occurrence; 2 nd layer: \$500,000 excess of \$500,000 each loss occurrence.
Casualty and Property Combined 100% Authorized	\$150,000 excess of \$250,000, in the event of a loss occurrence involving at least one casualty and one property policy.
Property Catastrophe Excess of Loss (2 layers) 100% Authorized	1 st layer: 100% of \$1,200,000 ultimate net loss excess of \$300,000; 2 nd layer: 100% excess of \$1,500,000 ultimate net loss, each loss occurrence involving three or more risks.
Casualty Clash Excess of Loss 100% Authorized	\$1,000,000 excess of \$1,000,000.
Aggregate Excess of Loss 100% Authorized	95% of \$500,000 of aggregate net losses, any one contract year, excess of 71% of the gross net earned premium income.
Equipment Breakdown 100% Authorized	100% cession not exceeding \$5,000,000 any one accident.

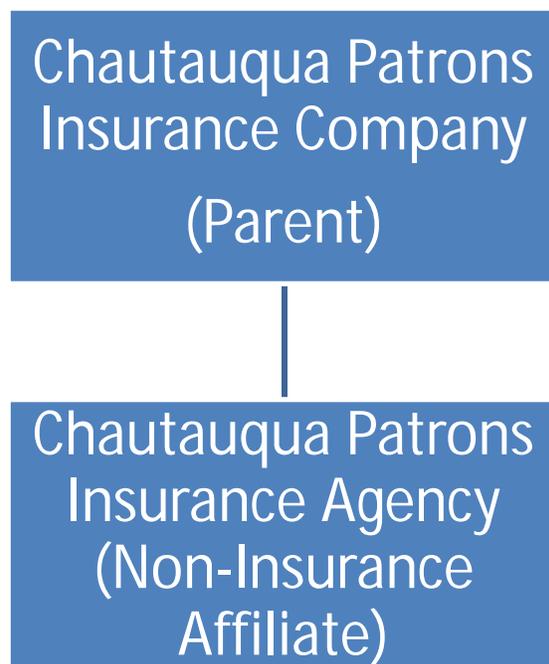
All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle (“SSAP”) No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Treasurer 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 SSAP No. 62R.

D. Affiliated Group

As of December 31, 2015, the Company owned 100% of the outstanding shares of its subsidiary, Chautauqua Patrons Insurance Agency (the “Agency”). The Agency was incorporated to furnish an outlet for the Company’s agents for to solicit certain kinds of insurance not offered by the Company. The agency was inactive and dormant during the examination period.

The following is an unabridged chart of the holding company system at December 31, 2015:



At December 31, 2015, the Company was not a party to any agreements with other members of its holding company system:

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Operating Ratios	Result
Net premiums written to surplus as regards policyholders	73%
Liabilities to liquid assets (cash and invested assets)	44%
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	\$21,398,466	62.46%
Other underwriting expenses incurred	13,768,434	40.19
Net underwriting loss	<u>(908,451)</u>	<u>(2.65)</u>
Premiums earned	<u>\$34,258,449</u>	<u>100.00%</u>

F. Accounts and Records

During this examination, it was noted that the Company did not have an investment management agreement in place with its investment manager(s). Accordingly, it is recommended that the Company execute a formal investment management agreement with its investment manager(s). The agreement should contain the appropriate provisions as set- forth in the NAIC Financial Condition Examiners Handbook.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$11,304,581	\$ 0	\$11,304,581
Common stocks	5,536,865	0	5,536,865
Properties occupied by the company	380,034	0	380,034
Cash, cash equivalents and short-term investments	1,784,927	0	1,784,927
Investment income due and accrued	137,135	0	137,135
Uncollected premiums and agents' balances in the course of collection	87,092	10,063	77,029
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,505,013	0	1,505,013
Amounts recoverable from reinsurers	95	0	95
Electronic data processing equipment and software	6,449	6,449	0
Furniture and equipment, including health care delivery assets	15,756	15,756	0
Aggregate write-ins for other than invested assets	<u>1,714</u>	<u>1,714</u>	<u>0</u>
Total assets	<u>\$20,759,661</u>	<u>\$33,982</u>	<u>\$20,725,679</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$3,309,057
Commissions payable, contingent commissions and other similar charges		651,953
Other expenses (excluding taxes, licenses and fees)		68,645
Taxes, licenses and fees (excluding federal and foreign income taxes)		4,080
Current federal and foreign income taxes		9,365
Net deferred tax liability		108,399
Unearned premiums		5,275,095
Advance premium		147,876
Ceded reinsurance premiums payable (net of ceding commissions)		115,171
Amounts withheld or retained by company for account of others		1,243
Remittances and items not allocated		<u>7,072</u>
Total liabilities		\$9,697,956

Surplus and Other Funds

Required surplus	\$ 100,000	
Unassigned funds (surplus)	<u>10,927,723</u>	
Surplus as regards policyholders		<u>11,027,723</u>
Total liabilities, surplus and other funds		<u>\$20,725,679</u>

Note: The Company is unaware of any potential exposure to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$1,861,737 as detailed below:

Underwriting Income

Premiums earned		\$34,258,449
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Deductions:

Losses and loss adjustment expenses incurred	\$21,398,466	
Other underwriting expenses incurred	<u>13,768,434</u>	

Total underwriting deductions		<u>35,166,900</u>
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Net underwriting gain or (loss)		\$ (908,451)
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Investment Income

Net investment income earned	\$1,921,873	
Net realized capital gain	<u>711,510</u>	

Net investment gain or (loss)		2,633,383
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Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (46,154)	
Finance and service charges not included in premiums	<u>406,734</u>	

Total other income		<u>360,580</u>
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Net income after dividends to policyholders but before federal and foreign income taxes		\$2,085,512
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Federal and foreign income taxes incurred		<u>223,775</u>
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Net income		<u>\$1,861,737</u>
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C. Capital and Surplus Account

Surplus as regards policyholders increased \$2,381,211 during the five-year examination period January 1, 2011 through December 31, 2015 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2010			\$ 8,646,512
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,861,737	\$ 0	
Net unrealized capital gains or (losses)	445,221		
Change in net deferred income tax	9,097		
Change in non-admitted assets	33,422		
Cumulative effect of changes in accounting principles	26,734		
Aggregate write-ins for gains and losses in surplus	<u>5,000</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$2,381,211</u>	<u>\$ 0</u>	<u>2,381,211</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$11,027,723</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$3,309,057 is the same as reported by the Company as of December 31, 2015. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and records</u>	
i.	It is recommended that the Company execute a formal investment management agreement with its investment manager(s). The agreement should contain the appropriate provisions set forth in the NAIC Financial Condition Examiners Handbook.	8

APPOINTMENT NO. 31490

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Susan Weijola

as a proper person to examine the affairs of the

Chautauqua Patrons Insurance Association

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

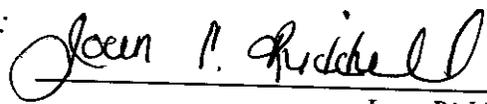
COMPANY

with such other information as she shall deem requisite.

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

this 7th day of June, 2016

MARIA T. VULLO
Acting Superintendent of Financial Services

By: 
Joan Riddell
Deputy Chief Insurance Examiner

