REPORT ON EXAMINATION

OF THE

ERIE AND NIAGARA INSURANCE ASSOCIATION

AS OF

DECEMBER 31, 2013

DATE OF REPORT	DECEMBER 18, 2014
EXAMINER	WAYNE LONGMORE

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December 18, 2014

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 31128 dated March 6, 2014 attached hereto, I have made an examination into the condition and affairs of Erie and Niagara Insurance Association as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” or "ENIA" appears herein without qualification, it should be understood to indicate Erie and Niagara Insurance Association.

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 8800 Sheridan Drive, Williamsville, NY 14221.

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, 2008. This examination covered the five-year period from January 1, 2009 through December 31, 2013. 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 Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

This examination report includes a summary of significant findings for the following items as called for in the 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

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 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 on January 1, 1875, as the Erie and Niagara Farmers' Insurance Association. On June 7, 1887, the Company was incorporated for the purpose of transacting business as an assessment co-operative fire insurance company in Erie and Niagara counties of New York State.

In 1958, a merger was effected with the Ashford Mutual Fire Insurance Company of Delevan, New York. Erie and Niagara Farmers' Insurance Association was the surviving corporation.

The Company's name was changed by authorization of this Department on April 18, 1961, to the Erie and Niagara Insurance Association.

On November 1, 1982, a merger was effected with the Amherst and Clarence Insurance Company, of Williamsville, New York. On January 1, 1983, a merger was effected with the Cattaraugus and Allegany County Patron's Fire Relief Association, of Randolph, New York. In both instances, the Erie and Niagara Insurance Association was 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 seven nor more than fifteen members.

The board meets at least four times during each calendar year, thereby complying with Section 6624(b) of the New York Insurance Law.

At December 31, 2013, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Leonard Joseph Almquist Buffalo, NY	Certified Public Accountant, Self Employed
Gordon Paul Assad East Aurora, NY	Chief Executive Officer; Erie and Niagara Insurance Association Chairman of the Board and Chief Executive Officer, Cherry Valley Cooperative Insurance Company Director/President/Chief Executive Officer, E&N Financial Services, Inc.
James Walter Fulmer LeRoy, NY	Chairman/President/ Chief Executive Officer, Tompkins Financial Corporation Director, Cherry Valley Cooperative Insurance Company
Robert Milton Hoover Orchard Park, NY	Consulting Director, HTMS
Jonathan Leslie Lamb Oakfield, NY	Partner, Lamb Farms, Inc.
Robert Harmon Lowe Geneseo, NY	Executive Vice President, Erie and Niagara Insurance Association Director, Cherry Valley Cooperative Insurance Company Director/ Vice President/Secretary, E&N Financial Services, Inc.
Maureen Jill Marshall Elba, NY	Owner/Vice President, Torrey Farms, Inc.
John Alan Noble LeRoy, NY	Chairman of the Board, Erie and Niagara Insurance Association President, Noblehurst Farms Director, Cherry Valley Cooperative Insurance Company
Erik Mo O'Neill Williamsville, NY	Managing Director, Wells Fargo Advisors LLC
Linwood Dean Poelma East Amherst, NY	Vice President, M&T Bank Director, Cherry Valley Cooperative Insurance Company

Name and Residence	Principal Business Affiliation
Mary Beth Powell Williamsville, NY	President, Casilio Enterprises, Inc.

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 member has an acceptable record of attendance.

As of December 31, 2013, the principal officers of the Company were as follows:

Name	Title
John Alan Noble	Chairman of the Board
Gordon Paul Assad*	Chief Executive Officer
Norman John Orlowski, Jr.*	President
Robert Harmon Lowe*	Executive Vice President
Maureen Ann Mulcahy	Vice President, Corporate Relations/Secretary
Gina Marie Cartenuto	Vice President, Finance/Corporate/ Treasurer
David John Cecere	Vice President, Insurance Operations
Robert Joseph Florio	Vice President, Marketing
Scott Michael Stock	Vice President, Information Technology

* Effective February 12, 2014, Gordon Paul Assad and Robert Harmon Lowe retired from the Company. Norman John Orlowski, Jr. was promoted to President/CEO of ENIA, made a director of ENIA, and was made Chairman of the Board of Cherry Valley Cooperative Insurance Company.

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in New York State 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:

Paragraph	Line of Business
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)

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 was also licensed as of December 31, 2013, 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 in New York for the period under examination:

Calendar Year	Direct Written Premiums
2009	$51,163,346
2010	$52,361,661
2011	$54,347,954
2012	$56,828,926
2013	$60,417,031

At December 31, 2013, the Company wrote insurance through approximately 285 independent agents. The Company's predominant lines of business are commercial multiple peril, homeowners multiple peril and farmowners multiple peril, which accounted for 37%, 26% and 19%, respectively, of the Company's 2013 direct written business.

C. Reinsurance

Assumed

The Company reported no reinsurance assumed during the examination period.

Ceded

The Company had the following reinsurance in effect at December 31, 2013:

Property 3 layers 100% Authorized	\$2,650,000 excess of \$350,000 each loss, each risk. The second and third layers have a maximum reinsurer liability limit for all risks involved in each loss occurrence as follows: Second--\$1,800,000 and Third--\$5,000,000. It is noted that the first layer is placed with an affiliate. See section 2(D) of the report for additional information.
Casualty 2 layers 100% Authorized	\$2,600,000 excess of \$400,000 each loss occurrence.
Combined Property and Casualty 100% Authorized	In the event of a loss occurrence involving at least one casualty and one property policy subject to the contract, the reinsurer shall be liable in respect of each loss occurrence for the ultimate net loss over and above an initial ultimate net loss of \$400,000 each loss occurrence, subject to a limit of liability to the reinsurer of \$400,000 each loss occurrence.
Property Catastrophe Excess 100% Authorized	100% excess of \$1,500,000 each loss occurrence
Property Facultative per Risk 100% Authorized	\$5,000,000 excess of \$3,000,000 each risk

Equipment Breakdown quota share	100% of $100,000,000 any one risk
100% Authorized	

Based on its direct writings and the reinsurance program in effect the Company’s largest net amount at risk, as of the examination date, was $656,000.

Since the date of the prior examination, December 31, 2008, the Company’s net retention increased from $275,000 to $350,000 on property business and on casualty business the Company’s net retention increased from $300,000 to $400,000.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed. These contracts 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 material reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer. 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. Holding Company System

Cherry Valley Cooperative Insurance Company (“Cherry Valley”)

As of December 31, 2013, ENIA was affiliated with the Cherry Valley Cooperative Insurance Company, by virtue of common officers, directors and management.

The two insurers entered into a service agreement, effective January 1, 2010, whereby ENIA provides specified services to Cherry Valley.

The agreement provides that expenses incurred and paid for by ENIA, in the course of providing services under this agreement, are to be allocated between the two companies in a manner consistent with Department Regulation 30. ENIA will forward an itemized bill to Cherry Valley for its share of such allocated expenses quarterly and Cherry Valley shall pay each such bill within 30 days of receipt. This Department issued a letter of non-objection relative to the implementation of the agreement on January 27, 2010.

ENIA ceded business during the examination period to its affiliate, the Cherry Valley. As of December 31, 2013, the property excess of loss contract provided for the assumption, on the part of Cherry Valley from ENIA, of $50,000 in excess of $350,000 each risk, each loss.

E&N Financial Services, Inc. ("E&N Financial")

On May 5, 1995, this Department issued a non-exception letter to the organization of a wholly owned subsidiary of ENIA called E&N Financial Services, Inc. The purpose of E&N Financial is to act as an insurance agency and service subsidiary for the Company. The subsidiary is licensed by other insurance companies that offer insurance products not otherwise available from the Company.

Initially, ENIA purchased 100 shares of E&N Financial $.01 par common stock, at $60 per share, for a total investment of $6,000. On November 3, 1997, this Department issued a non-objection letter relative to the ENIA purchasing another 400 shares of E&N Financial at $60 per share, for a total of $24,000. The Company's total investment in E&N Financial as of December 31, 2013 was $30,000.

E&N Financial is located at the Company's home office. An agreement was entered into between the Company and the subsidiary on January 1, 1996, whereby the Company provides specified management and operational services to E&N Financial. The agreement also provides for operating expenses incurred and paid for by the Company in the course of providing services under this agreement, to be allocated between the two companies in a manner consistent with Department Regulation 30. ENIA will forward an itemized bill to E&N Financial for its share of such allocated expenses quarterly and E&N Financial shall pay each such bill within 30 days of receipt.

Tax Allocation Agreement

The Company also has a tax allocation agreement in place with E&N Financial dated June 17, 2004. Pursuant to the terms of the agreement, the parties expect to file consolidated federal income tax returns. The agreement states in part that the consolidated tax liability will be allocated in the ratio that each member's separate taxable income bears to the sum of the separate taxable income of all members having taxable income for the year. Consistent with the requirements of Department Circular Letter No. 33 (1979), the executed tax allocation agreement was submitted to the Department. The Department found the agreement to be unobjectionable per its letter dated June 21, 2004.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to policyholders' surplus	54%
Adjusted liabilities to liquid assets	34%
Gross agents' balances (in collection) to policyholders' surplus	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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$117,500,840	45.81%
Other underwriting expenses incurred	104,874,066	40.89
Net underwriting gain	34,101,634	13.30
Premiums earned	$256,476,540	100.00%

F. Real estate: Arrangement with Industrial Development Agency

In 1993, with the approval of the Department, the Company purchased a parcel of land for approximately $289 thousand and constructed a home office building for approximately $1.7 million. In 2003, also with the approval of the Department, the Company constructed an 11,000 square foot addition to the office building for a cost of approximately $1.5 million.

The initial construction of the building, as well as the 11,000 square foot addition, was accomplished through the auspices of the Erie County Industrial Development agency. In 1969, legislation was enacted in New York State providing for the creation of Industrial Development Agencies (‘IDAs’) to facilitate economic development in specific localities, and delineating their powers and status as public benefit corporations. IDAs, in order to improve economic conditions in their respective areas, generally attempt to attract, retain, and expand businesses within their jurisdictions through the provision of financial incentives to private entities. IDAs are legally empowered to buy, sell or lease property and to provide tax exempt financing for approved projects. Real property owned or controlled by IDAs is exempt from property and mortgage recording taxes, and the value of these exemptions can be passed through to assisted businesses. Additionally, purchases related to IDA projects can be exempt from State and local sales taxes.

It is noted that while IDA properties are tax exempt, businesses occupying IDA-owned properties typically make payments in lieu of taxes that are shared with the local government in their area. The Company has currently deeded approximately 6.8 acres of the Company’s home office property to the Erie County IDA under a sale/leaseback arrangement. It is noted that the total property consists of approximately 10.2 acres. The sale/ leaseback arrangement commenced on March 1, 2004 and will terminate on December 31, 2019 or such earlier termination as provided for in the agreement. The Company benefits from having developed the building under the auspices of the IDA through reduced real estate taxes. The Company also benefited due to the waiver of sales tax during the construction periods.

G. Accounts and Records

i. Department Regulation 118 Non-compliance

During the review of the Company’s contract for service with its Certified Public Accountant (“CPA”) it was noted that the following language, noted in Regulation 118 Section 89.8(a), was not included:

"Every company required to furnish an annual audited financial report shall require the CPA to submit written notification to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date…”

It is recommended that the Company incorporate in the contract for service with the external auditor (CPA) the required statement/language as stipulated by Department Regulation 118 Section 89.8(a).

ii. Non-compliance with New York Insurance Law (“NYIL”) Section 1409(a)

NYIL Section 1409(a) states that “Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

At December 31, 2013, the Company reported a Mutual Fund investment that was in excess of the limit established by the above-mentioned section of law. Given the immateriality of the excess, no change was made to the financials included in this report.

It is recommended that the Company comply with the requirements of Section 1409(a) of the New York Insurance Law by limiting investments in any one institution to ten percent of admitted assets.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$112,563,586	$ 0	$112,563,586
Common stocks (stocks)	29,721,562	0	29,721,562
Real Estate: Properties occupied by the company	1,698,498	0	1,698,498
Cash, cash equivalents and short-term investments	9,434,264	0	9,434,264
Investment income due and accrued	1,031,397	0	1,031,397
Uncollected premiums and agents' balances in the course of collection	1,582,888	66,682	1,516,206
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,333,152	0	7,333,152
Amounts recoverable from reinsurers	40,771	0	40,771
Current federal and foreign income tax recoverable and interest thereon	180,412	0	180,412
Net deferred tax asset	1,633,791	0	1,633,791
Electronic data processing equipment and software	281,135	31,719	249,416
Furniture and equipment, including health care delivery assets	154,699	154,699	0
Receivables from parent, subsidiaries and affiliates	37,041	0	37,041
Prepaid Pension	1,636,701	1,636,701	0
Advances	79,596	79,596	0
Finance Changes Receivable	55,584	55,584	0
Overfunded Plan Asset	(507,375)	(507,375)	0
Total assets	$166,957,701	$1,517,606	$165,440,095

Liabilities, surplus and other funds

Liabilities		
Losses and Loss Adjustment Expenses		$ 17,638,371
Commissions payable, contingent commissions and other similar charges		4,234,865
Other expenses (excluding taxes, licenses and fees)		3,425,272
Taxes, licenses and fees (excluding federal and foreign income taxes)		59,013
Unearned premiums		31,524,335
Advance premium		1,333,367
Ceded reinsurance premiums payable (net of ceding commissions)		112,875
Amounts withheld or retained by company for account of others		56,880
Remittances and items not allocated		128,012
Structured Settlement Loss		(9,789)
Post-Retirement Benefits Liability		427,495
Total liabilities		$ 58,930,696
Surplus and Other Funds		
Required surplus	$ 100,000	
Unassigned Funds (surplus)	106,409,399	
Surplus as regards policyholders		$106,509,399
Totals liabilities, surplus and other funds		$165,440,095

NOTE: The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any tax year during the examination period. 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. Statement of Income

Underwriting Income		
Premiums earned		$256,476,540
Deductions:		
Losses and loss adjustment expenses incurred	$117,500,840	
Other underwriting expenses incurred	104,874,066	
Total underwriting deductions		222,374,906
Net underwriting gain		$ 34,101,634
Investment Income		
Net investment income earned	$ 18,571,814	
Net realized capital gain	970,888	
Net investment gain		19,542,702
Other Income		
Net loss from agents' or premium balances charged off	$ (436,884)	
Finance and service charges not included in premiums	4,223,705	
Aggregate write-ins for miscellaneous income	(278,475)	
Total other income		3,508,346
Net income before federal and foreign income taxes		$ 57,152,682
Federal and foreign income taxes incurred		15,024,000
Net Income		$ 42,128,682

C. Capital and Surplus Account

Surplus as regards policyholders increased $47,345,845 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008			$ 59,163,554
	Gains in Surplus	Losses in Surplus	
Net income	$42,128,683	$ 0	
Net unrealized capital gains	4,668,051		
Change in net deferred income tax	484,038		
Change in non-admitted assets		205,136	
Aggregate write-ins for gains and losses in surplus	270,209	0	
	$47,550,981	$205,136	
Net increase (decrease) in surplus			47,345,845
Surplus as regards policyholders per report on examination as of December 31, 2013			$106,509,399

4. <u>LOSSES AND LOSS ADJUSTMENT EXPENSES</u>

The examination liability for the captioned items of $17,638,371 is the same as reported by the Company as of December 31, 2013. The examination analysis was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company exercise due care in obtaining, verifying for accuracy and completeness, and maintaining signed conflict of interest questionnaires from its board of directors, officers and key employees.	5
	The Company has complied with this recommendation.	
B.	Accounts and Records	
i.	It is recommended that the Company maintain minutes demonstrating full compliance with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section. A similar recommendation was included in the prior report.	13
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company comply with the requirements of SSAP No. 40 paragraph 15 henceforth in determining the rental charge for the occupancy of its own building.	14
	The Company has complied with this recommendation.	
C.	Risk Management and Internal Controls	
	It is recommended that the Company implement and keep updated a formal succession plan which addresses the key officers of the entity in order to help ensure the continued operation of the Company with minimal disruption if the key officers are unavailable so as to protect the best interests of the Company and its policyholders and have same available for review upon examination.	14
	The Company has complied with this recommendation.	
D.	Market Conduct Activities	
i.	It is recommended that the Company comply with the requirements of Section 3425(d)(1) of the New York Insurance Law, henceforth.	20
	The Company has substantively complied with this recommendation.	
ii.	It is recommended that the Company comply with the requirements of Section 3426(e)(1)(B) of the New York Insurance Law, henceforth.	20

The Company has substantively complied with this recommendation.

iii. It is recommended that the Company comply with Section 6615(a)(1) of the New York Insurance Law and have its rates of assessment approved by its board of directors. A similar recommendation was included in the prior report. 20

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
i.	It is recommended that the Company incorporate in the contract for service with the external auditor (CPA) the required statement/language as stipulated by Department Regulation 118 Section 89.8(a).	12
ii.	It is recommended that the Company comply with the requirements of Section 1409(a) of the New York Insurance Law by limiting investments in any one institution to ten percent of admitted assets.	12

APPOINTMENT NO. 31128

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Wayne Longmore

as a proper person to examine the affairs of the

Erie and Niagara Insurance Association

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

COMPANY

with such other information as he 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 6th day of March, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner