

REPORT ON EXAMINATION
OF THE
FARMERS TOWN MUTUAL INSURANCE COMPANY OF CLINTON
AS OF
DECEMBER 31, 2003

DATE OF REPORT

June 02, 2004

EXAMINER

FE ROSALES, CFE

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

June 02, 2004

Honorable Gregory V. Serio
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 22216 dated May 3, 2004 attached hereto, I have made an examination into the condition and affairs of Farmers Town Mutual Insurance Company of Clinton as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 72 Maple Lane, Clinton Corners, NY 12514.

Wherever the designations " the Company" or "FTMIC" appear herein without qualification, they should be understood to indicate Farmers Town Mutual Insurance Company of Clinton.

Wherever the term " Department" appear herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the five-year period from January 1, 1999 through December 31, 2003, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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:

- 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 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 in 1884 for the purpose of transacting business as an assessment cooperative fire insurance corporation in the Town of Clinton, Dutchess County, New York.

On December 10, 1910, a certificate was issued by the Department authorizing the Company to continue the transactions of business in the above named town. Subsequently, the Company's territory was extended to include all the counties of New York State excluding the counties of New York, Kings, Queens, Bronx and Richmond.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of eleven members. As of the examination date, the board of directors was comprised of nine members. It was noted that prior to year-end 2003 two directors passed away. During the Company's annual meeting in January 2004, two new directors were elected to fill the unexpired terms of the deceased directors. At least four board meetings were held each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law(NYIL).

The directors of December 31, 2003 were as follows:

<u>NAME AND RESIDENCE</u>	<u>PRINCIPAL BUSINESS AFFILIATION</u>
James Andrews LaGrangeville, New York	Retired
Donald Bowman Clinton Corners, New York	President of the Company Retired
Charles Carroll Pleasant Valley, New York	Teacher/Farmer

<u>NAME AND RESIDENCE</u>	<u>PRINCIPAL BUSINESS AFFILIATION</u>
Jay Cross Salt Point, New York	Insurance Agent
Victoria Cross Salt Point, New York	Insurance Agent
Clarence Knapp Clinton Corners, New York	Vice President of the Company Farmer
Alice Messerich Clinton Corners, New York	Farmer
Lily Shohan Clinton Corners, New York	Secretary & Treasurer of the Company
Sam Simon Poughkeepsie, New York	Doctor/Farmer

The minutes of all meetings of the board of directors held during the examination period were reviewed. It is noted that the meetings were generally well attended.

The principal officers of the Company as of December 31, 2003 were as follows:

<u>Name</u>	<u>Title</u>
Donald Bowman	President
Clarence Knapp	Vice President
Lily Shohan	Secretary & Treasurer

B. Territory and Plan of Operation

The Company is licensed to transact business in New York. As such, the Company writes in New York State only.

The following schedule shows the direct premiums written by the Company during the examination period:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1999	\$ 28,458
2000	28,388
2001	25,670
2002	29,409
2003	29,343

As of December 31, 2003, the Company was licensed to transact the kinds of insurance set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Business</u>
4	Fire
5	Miscellaneous property
6	Water Damage
7	Burglary and theft
8	Glass

The Company was also licensed as of December 31, 2003, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based upon the lines of business for which the Company is licensed, 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.

C. Reinsurance

The Company does not assume any business.

During the examination period the Company had a reinsurance arrangement with Mid-Hudson Cooperative Insurance Company. This contract was terminated effective May 31, 1999 on a run-off basis.

Effective June 1, 1999, the Company entered into a reinsurance arrangement with Guilderland Reinsurance Company. This contract contains the required standard clauses, including insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data as contained in the Company's annual statements filed during the examination period was found to accurately reflect its reinsurance transactions.

As of December 31, 2003 the Company had the following reinsurance program in place:

Property	Five(5) times the Company's net retention of \$15,000 subject to a maximum cession of \$75,000 each risk.
Windstorm	100% recoverable after a net retention of \$3,000, subject to a maximum cession of \$71,000 each risk; maximum occurrence retention is 10% of the Company's surplus.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2003.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires the Company to file a report with the Office of the State Comptroller for any amount payable to the residents of New York State that are unclaimed for over three years. Except as noted below, the Company made the required filings with the Office of the State Comptroller for three years (1999,2000 and 2003) during the five-year examination period.

The Company was not able to provide copies of its abandoned property filings for the years 2001 and 2002 as these records cannot be located. The Company has indicated that filings were made for these missing years.

Nevertheless, it appears that the Company is in violation of the records retention requirements of Regulation 152 (Part 243), Section 243.2(a). (Refer to Section H-Accounts & Records, Subsection 2 further herein.)

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003 based upon the results of this examination:

Net premiums written to surplus as regards policyholders	2.7%
Liabilities to liquid assets(cash and invested assets less investments in affiliates)	2.9%
Premiums in course of collection to surplus as regards policyholders	0.7%

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	\$ 51,483	43.4%
Other underwriting expenses incurred	41,164	34.7%
Net underwriting gain	<u>25,938</u>	<u>21.9%</u>
Premiums earned	<u>\$118,585</u>	<u>100.0%</u>

During the period under examination, the Company received an exemption from the expense limitations imposed by Section 6613 of the New York Insurance Law.

G. Accounts and Records

1. Section 6611(a) Compliance

The examiner's review of the Company's records and discussions with the Company's Secretary & Treasurer revealed that the Company does not keep a loss register. It is also noted that there is no claim number assigned to each claim. Section 6611(a)(1) of the New York Insurance Law (NYIL) states that:

“Every cooperative property/casualty insurance company shall keep and maintain books of account and records in such manner as will show fully and truly the condition, affairs and business of such corporation and facilitate the preparation and verification of its annual statements.”(Emphasis added.)

In addition, Section 6611(a)(4)(A) of the NYIL states that:

“The books of account shall include a cash book and general ledger together with the necessary supplemental and subsidiary records including a loss register showing all losses of which the corporation has had notice and the disposition or settlement thereof and a record of its investments.”

In view of the above, the Company appears to be in violation of the above-noted sections of the New York Insurance Law. It is therefore recommended that the Company comply with Sections 6611(a)(1) and 6611(a)(4)(A) of the NYIL, henceforth and keep a loss register that will show all losses of which the Company has had notice and the disposition or settlement thereof.

2. Regulation 152 Compliance

During the course of the examination, the Company failed to provide the following to the examiner:

- Copies of its abandoned property filings for the years 2001 and 2002 as these records cannot be located. The Company has indicated that negative report filings were made for these years. (See also the foregoing section E-Abandoned Property.)
- Claim file for a claim (Date of loss-January 15, 2001: loss payment of \$36,750). It is also noted that the claimant (Messerich) is a director of the Company.
- Copies of nine conflict of interest questionnaires (missing copies were one questionnaire in 1999, four in 2000, one each in 2001 & 2002, and two in 2003).

In view of the above, it appears that the Company is in violation of the record retention requirements of Regulation 152 (Part 243), Section 243.2(b) which requires the retention of these types of records for a period of six calendar years from its creation or until after the filing of the report on examination or the conclusion of the investigation in which the record was subject for review.

In addition , Section 243.2(b)(4) of Reg. 152 also states that "...an insurer shall maintain a claim file for six calendar years after all elements of the claim are resolved and the file is closed or until after the filing of the report on examination in which claim file was subject for review, whichever is longer. A claim file shall show clearly the

inception, handling and disposition of the claim, including the dates that forms and other documents were received.”

It is therefore recommended that the Company fully comply with the record retention requirements of Department Regulation 152 [New York Codes, Rules, and Regulations (NYCRR) Part 243].

3. Record Maintenance

The review of the Company’s records also revealed that majority of the records did not appear to be properly filed and organized. Further, records that were requested appear to be not readily accessible as the Company had difficulty retrieving such information.

In the view of the above, the Board is directed to take appropriate action to ensure that Company records are properly maintained in order that future verification of the annual statement can be facilitated as required by Section 6611(a)(1) of the NYIL.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash and short term investments	\$870,515		\$870,515
Subtotals, cash and invested assets	870,515		870,515
Investment income due and accrued	407		407
Premiums and agents' balances in course of collection	<u>5,538</u>		<u>5,538</u>
Total assets excluding protected cell assets	<u>\$876,460</u>		<u>\$876,460</u>
Total Assets	<u>\$876,460</u>		<u>\$876,460</u>
<u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 400
Other expenses(excluding taxes, licenses and fees)			6,750
Taxes, licenses and fees(excluding federal and foreign income taxes)			433
Unearned premiums			<u>17,506</u>
Total liabilities excluding protected cell liabilities			<u>25,089</u>
Total liabilities			25,089
Unassigned funds(surplus			<u>\$851,371</u>
Surplus as regards policyholders			851,371
Total liabilities, surplus and other funds			<u>\$876,460</u>

Note: The Internal Revenue Service did not audit the Company's Federal Income Tax returns during the period under examination. There are no audits currently in progress. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$194,225 during the five-year examination period January 1, 1999 through December 31, 2003, detailed as follows:

Underwriting Income

Premiums earned		\$ 118,585
Deductions:		
Losses and loss adjustment expenses incurred	\$ 51,483	
Other underwriting expenses incurred	<u>41,164</u>	
Total underwriting deductions		<u>92,647</u>
Net underwriting		\$ 25,398

Investment Income

Net Investment Income Earned	<u>\$169,536</u>	
Net Investment Gain		169,536

Other Income

Net Gain or (Loss) from Agents' or Premiums Balances	\$(1,249)	
Total Other Income		(1,249)
Net income before dividends to policyholders and federal income taxes		\$194,225
Dividends to policyholders		<u>0</u>
Net income before federal income tax		\$194,225
Federal income taxes incurred		<u>0</u>
Net income/(loss)		<u>\$194,225</u>

Surplus as regards policyholders, per report on examination as of December 31, 1998			\$657,146
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	<u>\$ 194,225</u>	<u>0</u>	
Total Gains and Losses	<u>\$194,225</u>	<u>\$ 0</u>	
Net increase in surplus			<u>194,225</u>
Surplus as regards policyholders, per report on examination as of December 31, 2003			<u>\$851,371</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$400 for the captioned item is the same as the balance reported by the Company as of December 31, 2003.

As of the examination date, there were no open claims. As such no case reserves were established aside from what was booked above.

It is noted, however, that the Company does not keep a loss register in violation of Section 6611(a)(4)(A) of the NYIL. It is also noted that there is no claim number assigned to each claim. The board minutes discussing the claims were used as the source to request for the claim files (Refer to the recommendation in the Accounts and Records Section).

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.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating

No problems were encountered in the above areas.

D. Claims and complaint handling

i. Regulation 64 Compliance

The Company's claim files were reviewed for compliance with the provisions of Regulation 64 (NYCRR Part 216) and to determine the Company's claim settlement practices. The examiners review of the Company's available claim files revealed the following:

- Out of the six claim files reviewed, two claim files appear to be in violation of Section 216.4 of Regulation 64-Failure to acknowledge pertinent communications, which states in part: "Every insurer, upon notification of a claim, shall, within 15 working days, acknowledge the receipt of such notice."
- Five claims appear to be in violation of Section 216.11 as the Company failed to date stamp all communications relating to the claim as required by this specific section.

It is therefore recommended that the Company fully and strictly comply with the time requirements provision of Section 216.4 of Regulation 64. In addition, it is recommended that the Company comply with Section 216.11 and date stamp all communications relating to a claim as required by this specific section of Regulation 64.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments and recommendations.

7. 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 comply with Sections 6611(a)(1) and 6611(a)(4(A) of the NYIL, henceforth and keep a loss register that will show all losses of which the Company has had notice and the disposition or settlement thereof.	9
ii. It is recommended that the Company fully comply with the record retention requirements of Department Regulation 152.	10
iii. The Board is directed to take appropriate action to ensure that Company records are properly maintained in order that future verification of the annual statement can be facilitated as required by Section 6611(a)(1) of the NYIL.	10
B. <u>Market Conduct Activities</u>	
i. It is recommended that the Company fully and strictly comply with the time requirement provision of Section 216.4 of Regulation 64	15
ii. In addition, it is recommended that the Company comply with Section 216.11 and date stamp all communications relating to a claim as required by this specific section of Regulation 64.	15

Respectfully submitted,

JS

Fe Rosales, CFE
Senior Insurance Examiner

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

Fe Rosales, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

JS
Senior Insurance Examiner

Subscribed and sworn to before me
this 7th day of July, 2004.

JS
LAURA L. MORTEFOLIO
Notary Public, State of New York
#01MO5023417
Qualified in Columbia County
Commission Expires 2/7/06

Appointment No 22216

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO , Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Fe Rosales

as proper person to examine into the affairs of the

Farmers Town Mutual Insurance Company of Clinton

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

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of Albany,

this 3rd day of May-2004



A handwritten signature in dark ink, appearing to read "Gregory V. Serio", written over a horizontal line.

GREGORY V. SERIO
Superintendent of Insurance