

REPORT ON EXAMINATION

OF THE

FRANKLIN FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

MAY 9, 2014

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

May 9, 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 31114 dated February 11, 2014, attached hereto, I have made an examination into the condition and affairs of Franklin Fire Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Franklin Fire 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 13077 State Highway 357, Franklin, NY 13775.

## 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.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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
- Statutory deposits
- 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

Franklin Fire Insurance Company was organized in 1881 for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Franklin, Delaware County, New York.

As of December 31, 2013, the Company was licensed to operate in seven counties in New York State, namely: Broome, Chenango, Delaware, Greene, Otsego, Schoharie and Sullivan.

### 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 thirteen members, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years. The board meets six times during each calendar year. At December 31, 2013, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Burton Barnes Treadwell, NY	Treasurer, Franklin Fire Insurance Company
Thomas Barnes Treadwell, NY	Vice President, Franklin Fire Insurance Company
Richard Blackman Walton, NY	Farmer
James Carey Franklin, NY	Retired
Herman Herklotz Franklin, NY	President, Franklin Fire Insurance Company
Beverly Koopman Treadwell, NY	Farmer and Bus Driver

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Heather Ross Oneonta, NY	Senior Administrative Assistant, Watershed Council
Brian Sickler Franklin, NY	Owner, Sickler Memorials
Ruth Sickler Franklin, NY	Secretary, Franklin Fire Insurance Company
Donald Smith Franklin, NY	Farmer
Richard Yarnes Walton, NY	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, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Herman Herklotz	President
Thomas Barnes	Vice President
Ruth Sickler	Secretary
Burton Barnes	Treasurer

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed as an assessment cooperative insurance company to transact business in the following counties of New York only: Broome, Chenango, Delaware, Greene, Otsego, Schoharie and Sullivan.

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

Paragraphs 5, 6, 7, and 8 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 Insurance Law of the State of New York.

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>Total Premiums</u>
2009	\$54,831
2010	\$55,669
2011	\$54,843
2012	\$56,205
2013	\$54,626

The Company writes fire and allied lines through its director-agents. Policies are issued for a term of three years covering farms, residential and commercial risks, including contents, livestock, produce and machinery. Policies are issued against specified perils that include fire and windstorm. Applications for insurance are received by directors of the Company and all risks are inspected at least every three years, on or prior to the renewal dates of policies.

C. Reinsurance

The Company assumed no reinsurance during the period covered by this examination. As of December 31, 2013, the Company had the following ceded reinsurance program in place:

<u>Property</u>	\$75,000 excess of \$15,000 ultimate net loss, each loss, each risk. Limit of \$225,000 each loss occurrence.
<u>Windstorm</u>	100% of the ultimate net loss over and above an ultimate net loss equal to 10% of the Company's policyholder's surplus. However, no claim shall be made hereunder unless the loss occurrence involves three or more risks.

All reinsurance contracts in effect throughout the examination period were with authorized reinsurers.

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.

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 SSAP No. 62. Representations were supported by an attestation from the Company's Secretary 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.

Examination review found that the Company is ceding more than 50% of its premiums written. The Company has received approval to do so, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

D. Holding Company System

The Company is not a member of any holding company system. As of December 31, 2013, the Company was independent with no affiliations.

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 surplus as regards policyholders	3%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	2%
Premiums in course of collection to surplus as regards policyholders	0%

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	\$110,868	56.16%
Other underwriting expenses incurred	309,742	156.91
Net underwriting loss	<u>(223,210)</u>	<u>(113.07)</u>
Premiums earned	<u>\$197,400</u>	<u>100.00%</u>

F. Accounts and Records

i. Compliance with the Annual Statement Instructions

Upon review of the Schedule D, Part 1 contained in the Company's 2013 annual statement, it was noted that the Company did not indicate the NAIC Designation for several of its securities, as required by the NAIC annual statement instructions. It is recommended that the Company comply with the NAIC annual statement instructions when completing its filed annual statements.

ii. Recording of bond acquisition dates

Additionally, the review indicated that the Company used the settlement date as the date of acquisition of securities, rather than the trade date, as required pursuant to paragraph 4 of SSAP No. 26. It is recommended that the Company use the trade date as the date of acquisition of securities pursuant to paragraph 4 of SSAP No. 26.

### 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:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> <u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$1,200,170	\$0	\$1,200,170
Cash, cash equivalents and short-term investments	113,477	0	113,477
Investment income due and accrued	<u>25</u>	<u>0</u>	<u>25</u>
Total Assets	<u>\$1,313,672</u>	<u>\$0</u>	<u>\$1,313,672</u>
 Liabilities, surplus and other funds			<u>Examination</u>
Losses and loss adjustment expenses			\$ 1,000
Taxes, licenses and fees (excluding federal and foreign income taxes)			200
Unearned premiums			<u>27,175</u>
Total liabilities			\$ <u>28,375</u>
Unassigned funds (surplus)			<u>\$1,285,297</u>
Surplus as regards policyholders			<u>\$1,285,297</u>
Total Liabilities surplus and other funds			<u>\$1,313,672</u>

Note: The Internal Revenue Service (“IRS”) has completed its audits to determine the Company’s eligibility for exemption from Federal income tax through December 31, 2007. The Company was cited for non-compliance with Section 6033 of the Internal Revenue Code of 1986, which requires that income and expenses from all activities be stated separately on the appropriate line of IRS Form 990. The finding did not have an impact on the Company’s tax exempt status. The Company has complied with the IRS recommendation and has since separately reported investment income and investment expenses on the appropriate line of IRS Form 990.

B. Statement of Income

Surplus as regards policyholders decreased \$44,518 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Underwriting Income

Premiums earned		\$ 197,400
Deductions:		
Losses and loss adjustment expenses incurred	\$110,868	
Other underwriting expenses incurred	<u>309,742</u>	
Total underwriting deductions		<u>420,610</u>
Net underwriting gain or (loss)		\$(223,210)

Investment Income

Net investment income earned	\$175,404	
Net realized capital gain	<u>643</u>	
Net investment gain or (loss)		<u>176,047</u>
Net income before federal and foreign income taxes		\$(47,163)
Federal and foreign income taxes incurred		<u>0</u>
Net Income		\$ <u>(47,163)</u>

Surplus as regards policyholders per report on examination as of December 31, 2008			\$1,329,815
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$47,163	
Net unrealized capital gains	\$2,645	<u>0</u>	
Net increase (decrease) in surplus	\$2,645	\$47,163	(44,518)
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$1,285,297</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,000 is the same as reported by the Company as of December 31, 2013. 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 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 four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Management</u> It was recommended that the Company comply with its by-laws and allow only qualified members of the Company to serve on the board.  The Company has complied with this recommendation.	4
B	<u>Accounts and Records</u>	
i.	It was recommended that the Company comply with the annual statement instructions and accurately complete Schedule D of the annual statement and all other schedules and exhibits.  The Company has not complied with this recommendation. A similar comment is made in this report.	8
ii.	It was recommended that the Company comply with SSAP No. 26 and record the trade date as the acquisition date for each applicable bond reported in Schedule D of the annual statement.  The Company has not complied with this recommendation. A similar comment is made in this report.	8
iii.	It was recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law regarding its investment transactions.  The Company has complied with this recommendation.	8

## 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 comply with the NAIC annual statement instructions when completing its filed annual statements.	7
ii.	It is recommended that the Company use the trade date as the date of acquisition of securities pursuant to paragraph 4 of SSAP No. 26.	7

Respectfully submitted,

\_\_\_\_\_/s/  
Lamin Jammeh  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Lamin Jammeh

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

*APPOINTMENT NO. 31114*

*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:*

***Lamin Jammeh***

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

***Franklin Fire Insurance Company***

*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 11th day of February, 2014*

***BENJAMIN M. LAWSKY***  
*Superintendent of Financial Services*

By:

  
\_\_\_\_\_  
***Rolf Kaumann***  
*Deputy Chief Examiner*

