

REPORT ON EXAMINATION

OF THE

HARTWICK TOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

MAY 4, 2007

EXAMINER

NYANTAKYI AKUOKO

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of Examination	2
2.	Description of Company	2
	A. Management	2
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	5
	E. Significant operating ratios	5
	F. Accounts and records	6
3.	Financial Statements	8
	A. Balance sheet	8
	B. Underwriting and investment exhibit	9
4.	Losses and loss adjustment expenses	10
5.	Market conduct activities	10
6.	Compliance with prior report on examination	11
7.	Summary of comments and recommendations	12



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

May 4, 2007

Mr. Eric R. Dinallo
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 22587 dated February 23, 2007, attached hereto, I have made an examination into the condition and affairs of Hartwick Town Insurance Company as of December 31, 2006, and submit the following report thereon.

The examination was conducted at the Company's home office located at 618 County Highway 59, Cooperstown, New York 13326.

Wherever the designations "the Company" or "HTIC" appear herein without qualification, they should be understood to indicate Hartwick Town Insurance Company.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The Company received exemptions from audits by independent certified public accountants for all years under examination.

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, 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 under the laws of the State of New York on April 15, 1886 for the purpose of transacting business as assessment cooperative fire insurance in the Town of Hartwick, Otsego County, New York. The Company's current license, issued on March 2, 1998, authorizes the Company to transact business in the entire County of Otsego in this State.

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, divided into three groups as evenly as possible, with one group being elected at each annual policyholder's meeting for a term of three years. The board meets four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Eileen (Balcom) Barown Mt. Vision, NY	Housewife
Mary Balcom Cooperstown, NY	Secretary/Treasurer, Hartwick Town Insurance Company
Michael Chase Cooperstown, NY	Self-employed logger
Donald Eldred Hartwick, NY	Farmer
Donald Elliot Milford, NY	Farmer
Frederick D. Field Milford, NY	Contractor
Ralph Goodrich Hartwick, NY	Retired
Orrin Higgins Milford, NY	Vice President Hartwick Town Insurance Company
Patrick McBrearty Milford, NY	Retired
John Mott Hartwick, NY	Retired
William Powers Milford, NY	President Hartwick Town Insurance Company

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 has an acceptable record of attendance.

As of December 31, 2006, the officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
William Powers	President
Orrin Higgins	Vice President
Mary Balcom	Secretary/Treasurer

A review of the statements signed by the directors to confirm that they had received and read the prior examination report, indicated that there were no signed statements on file for two directors, including the Secretary/Treasurer. Section 312(b) of the New York Insurance Law requires that each member of the board "...shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report." It is recommended that the Company fully comply with Section 312(b) of the New York Insurance Law and ensure that each and every director of the Company sign a statement, which shall be retained in the Company's files, to confirm that the report on examination has been received and read.

It was determined from the review of the annual statement General Interrogatories that the Company does not have an established procedure for disclosure to its board of directors of any material interest and affiliation on the part of any of its officers, directors or responsible employees that is in conflict or is likely to conflict with the official duties of such person. The establishment of such a procedure is not only a good business practice, but it also serves as a source of information for both the policyholders and regulatory bodies to know of such conflicts on the part of a director, officer or key employee. It is recommended that the Company establish a procedure for disclosure to its board of directors of any material interest or affiliation on the part of any of its officers, directors or responsible employees that is in conflict or is likely to conflict with the official duties of such person.

B. Territory and Plan of Operation

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, in Otsego County of the State of New York only:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premium Written</u>
2002	2,364
2003	2,394
2004	2,531
2005	2,277
2006	2,328

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 Company writes fire coverage for farms, rural homes, mobile homes and some rural commercial property. Policies are issued by HTIC for a three-year term and assessments are levied annually in advance for the fiscal year, October first to September thirtieth. An insured starting insurance coverage after October first pays pro-rata share of the last assessment. The Company does not use agents or brokers.

C. Reinsurance

The Company did not assume nor cede any reinsurance during the examination period.

D. Holding Company System

The Company is not a member of any holding company system as of December 31, 2006. The Company was independent with no affiliations or pooling agreements in force at December 31, 2006.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.0175 to 1
Liabilities to liquid assets	1.30%
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	\$ 0	0.00%
Other underwriting expenses		
incurred	26,259	220.91
Net underwriting loss	<u>(14,372)</u>	<u>(120.91)</u>
Premiums earned	<u>\$ 11,887</u>	<u>100.00%</u>

F. Accounts and Records

i. Completion of annual statement

During the examination review of the Annual Statement schedules and exhibits for the period covered by the examination, it was discovered that the Company has not been complying with the NAIC Annual Statement Instructions regarding the completion of the Statement of Income, Underwriting and Investment Exhibit Part 3, Schedule D, Schedule DA, and Schedule E. In some instances, subtotals were not completed and in other instances, data was reported on the wrong schedules. Pursuant to Section 307(a)(2) of the New York Insurance Law, “The superintendent shall from time to time prescribe the form of such annual statement...”. Pursuant to Regulation 172, Part 83.2(a) “...the superintendent has prescribed forms and annual and quarterly statement instructions (instructions) that are adopted from time to time by the National Association of Insurance Commissioners (NAIC), as supplemented by additional New York forms and instructions.” Hence insurers are required to file annual and quarterly statements on the NAIC forms in accordance with the NAIC Annual Statement Instructions. It is recommended that the Company fully comply with the NAIC Annual Statement Instructions and accurately complete the Statement of Income, the Underwriting, and Investment Exhibit Part 3, and Schedules D, DA, and E in all future statements filed with the Department.

ii. Custodial agreement

The examination review of the custodian agreement between the Company and Wilber National Bank indicated that the agreement was lacking certain provisions and safeguards as per the guidelines included in the NAIC Financial Condition Examiners Handbook, Part 1 Section IV.J. It is recommended that the Company amend its custodial agreement to include the missing provisions and safeguards in accordance with the NAIC Financial Condition Examiners Handbook, Part 1 Section IV.J.

iii. Valuation of bond asset

The Company has been reporting its bond investments at par value in the filed annual statement for each of the five years covered by the examination. The bonds were not amortized and no designation was assigned to it. The NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles (“SSAP”) No. 26, paragraph 7 states that bonds shall be valued and reported in accordance with the SSAP, the NAIC Purposes and Procedures of the Securities Valuation Office manual, and the designation assigned in the NAIC Valuations of Securities product prepared by the Securities Valuation Office. Further, pursuant to SSAP No. 26, paragraph 6 the amortization of bond premium or discount shall be calculated using the scientific (constant yield) method taking into consideration specified interest and principal provisions over the life of the bond. It is recommended that the Company value and report its investments in bonds in accordance with SSAP No. 26.

Due to the immateriality of the difference between par value and amortized value no examination change has been made.

3. FINANCIAL STATEMENTSA Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders determined by this examination as of December 31, 2006. This statement is the same as the balance sheet reported by the Company.

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$ 66,491	\$ 0	\$ 66,491
Cash, cash equivalents and short-term investments	<u>68,103</u>	<u>0</u>	<u>68,103</u>
Totals assets	<u>\$134,594</u>	<u>\$ 0</u>	<u>\$ 134,594</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and Loss adjustment expenses			\$ 0
Unearned premiums			<u>1,746</u>
Total liabilities			\$ 1,746
Required surplus			100,000
Unassigned funds (surplus)			<u>32,848</u>
Surplus as regards policyholders			<u>\$132,848</u>
Total liabilities and surplus as regards policyholders			<u>\$134,594</u>

Note: The Company is exempt from filing tax returns with the Internal Revenue Service.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$3,833 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$11,887
Deductions:		
Losses and loss adjustment expenses incurred	\$ 0	
Other underwriting expenses incurred	<u>26,259</u>	
Total underwriting deductions		<u>26,259</u>
Net underwriting gain or (loss)		\$(14,372)

Investment Income

Net investment income earned	<u>\$18,095</u>	
Net investment gain or (loss)		\$ 18,095

Other Income

Aggregate write-ins for miscellaneous income	<u>\$ 110</u>	
Total other income		<u>\$ 110</u>
Net income before federal and foreign income taxes		\$ 3,833
Federal and foreign income taxes incurred		<u>0</u>
Net Income		<u>\$ 3,833</u>

Surplus as regards policyholders per report on examination as of December 31, 2001				\$129,015
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>		
Net income	\$3,833	\$ 0		
Net increase (decrease) in surplus	\$3,833	\$ 0	\$ 3,833	
Surplus as regards policyholders per report on examination as of December 31, 2006				\$ <u>132,848</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$0 is the same as the amount reported by the Company as of December 31, 2006. 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. 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, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- A. Underwriting
- B. Rating

Section 6610(c) of the New York Insurance Law defines what constitutes a risk and the maximum amount of insurance an assessment cooperative insurer may assume on a single risk. An examination review of a sample of policy applications indicated that the diagrams included were not clear as to

location of buildings or the distances between buildings insured. As a result, the examiner could not rely on the information provided to verify compliance with the statutory requirements as put forth in Section 6610(c). Therefore, it is recommended that the Company ensure that clear and complete diagrams are included with all future applications so that compliance with the statutory requirements set forth in Section 6610(c) of the New York Insurance Law can be verified.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It was recommended that the Company correctly classify its money market securities as common stock in future financial statements submitted to this Department.	8
	The Company has complied with this recommendation.	
B.	It was recommended that the Company fulfill the requirements of Section 1402 of the Insurance Law before investing in other securities.	8
	The Company has complied with this recommendation.	
C.	It was recommended that the Company send claimants explanation letters having the wording as required by Regulation 64 (11 NYCRR 216.7).	9
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Management</u>	
	i. It is recommended that the Company fully comply with Section 312(b) of the New York Insurance Law and ensure that each and every director of the Company sign a statement, which shall be retained in the Company's files to confirm that the report on examination has been received and read.	4
	ii. It is recommended that the Company establish a procedure for disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors or responsible employees that is in conflict or is likely to conflict the official duties of such person.	4
B	<u>Accounts and Records</u>	
	i. It is recommended that the Company fully comply with the NAIC Annual Statement Instructions and accurately complete the Statement of Income, the Underwriting and Investment Exhibit Part 3, and Schedules D, DA, and E in all future statements filed with the Department.	6
	ii. It is recommended that the Company amend its custodial agreement to include the missing provisions and safeguards in accordance with the NAIC Financial Condition Examiners Handbook, Part 1 Section IV.J.	7
	iii. It is recommended that the Company value and report its investments in bonds in accordance with SSAP No. 26.	7
C	<u>Limitation of risk</u>	
	It is recommended that the Company ensure that clear and complete diagrams are included with all future applications so that compliance with the statutory requirements of Section 6610(c) of the New York Insurance Law can be verified.	11

Respectfully submitted,

Nyantakyi Akuoko
Senior Insurance Examiner

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

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

Nyantakyi Akuoko

Subscribed and sworn to before me

this _____ day of _____, 2008.

Appointment No 22587

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **Eric R. Dinallo**, Acting Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Nyantakyi Akuoko

as proper person to examine into the affairs of the

Hartwick Town 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 23rd day of February 2007



A handwritten signature in cursive script, appearing to read "Eric R. Dinallo".

Eric R. Dinallo
Acting Superintendent of Insurance