REPORT ON EXAMINATION

OF THE

A. CENTRAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT	SEPTEMBER 16, 2011
EXAMINER	WAYNE LONGMORE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

September 16, 2011

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 30624 dated January 4, 2011, attached hereto, I have made an examination into the condition and affairs of A. Central Insurance Company as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualifications, it should be understood to indicate A. Central 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 1899 Central Plaza East, Edmeston NY 13335.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of A. Central Insurance Company. The previous examination was conducted as of December 31, 2006. This examination covered the four-year period from January 1, 2007 through December 31, 2010. 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 also included a review and evaluation of the Company's own control environment assessment. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

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

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 incorporated under the laws of the State of New York on December 21, 2000 and became licensed on April 17, 2001. On January 24, 2001, NYCM Holdings, Inc. ("Holdings"), a wholly-owned subsidiary of New York Central Mutual Fire Insurance Company ("NYCMFIC"), was incorporated for the purpose of acting as an intermediate holding company to hold all of the issued and outstanding voting shares of the Company. On February 22, 2001, NYCMFIC acquired 100% of the 100 issued shares of Holdings for consideration of $5,100,000. On February 23, 2001, Holdings acquired 100% of the 3,000 issued shares of $1,000 par value common stock of the Company for consideration of $5,050,000. The Company is ultimately controlled by NYCMFIC, a New York domiciled advance premium cooperative property and casualty insurance company.

At December 31, 2010, capital paid in was $3,000,000, consisting of 3,000 shares of $1,000 par value per share common stock. Gross paid in and contributed surplus was $17,050,000 and has increased by $10,000,000 during the examination period, as follows:

Year	Description	Amount
2007	Beginning gross paid in and contributed surplus	$ 7,050,000
2008	Capital contribution	5,000,000
2010	Capital contribution	5,000,000
2010	Ending gross paid in and contributed surplus	$17,050,000

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members.

At December 31, 2010, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Daryl Robert Forsythe Norwich, NY	Chairman, NBT BanCorp, Inc.
Edward Gozigian Cooperstown, NY	Attorney at Law, Gozigian, Washburn & Clinton,
Jennifer R. Haack Painted Post, NY	Private Investor
Benjamin Clark Nesbitt West Oneonta, NY	Senior Vice President & Senior Trust Officer, Wilber National Bank
Albert Pylinski, Jr. Edmeston, NY	Executive Vice President, Chief Financial Officer, Chief Risk Officer, Treasurer, ACIC Executive Vice President, Chief Financial Officer, Chief Risk Officer, Treasurer, NYCMFIC Treasurer, Albert F. Stager, Inc. Executive Vice President and Treasurer, NYCM Holdings, Inc.
Robert Wesley Ranger West Winfield, NY	Private Investment Banker
VanNess Daniel Robinson Edmeston, NY	Chairman and Secretary, ACIC Chairman and Secretary, NYCMFIC Chairman and President, Albert F. Stager, Inc. Owner, Robinson Agency Inc. Chairman and Secretary, NYCM Holdings, Inc.
VanNess Daniel Robinson II Oneonta, NY	President and Chief Executive Officer, ACIC President and Chief Executive Officer, NYCMFIC Vice President, Albert F. Stager, Inc. Agent, Robinson Agency Inc. President, NYCM Holdings, Inc.

Name and Residence	Principal Business Affiliation
Charles Raymond Schanz Cooperstown, NY	Owner and President, C.R. Schanz, Inc.
Harry William Smith, Jr. Norwich, NY	President (Retired), Smith Norwich Inc.
William Francis Streck, M.D. Cooperstown, NY	President and Chief Executive Officer, Bassett Healthcare
Howard Chase Talbot, Jr. Cooperstown, NY	Director and Treasurer (Retired), National Baseball Hall of Fame
Bruce Clayton Wratten Leonardsville, NY	Owner and Operator, Horned Dorset, Ltd.

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, 2010, the principal officers of the Company were as follows:

Name	Title
VanNess Daniel Robinson	Chairman of the Board and Secretary
VanNess Daniel Robinson II	President and Chief Executive Officer
Albert Pylinski, Jr.	Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer
Michele D. Couperthwait	Senior Vice President
Michael J. LaCava	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business in New York State 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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

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

Calendar Year	Premiums Written
2007	$22,723,490
2008	$40,786,193
2009	$53,086,567
2010	$65,315,810

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $3,200,000.

At December 31, 2010, the Company wrote insurance through approximately 1,100 independent agents. Throughout the period under examination, 100% of the Company's reported direct written premiums were in the private passenger auto liability and auto physical damage lines. The Company's main office is located in Edmeston, New York and a branch office is located in Sherburne, NY.

C. Reinsurance

Assumed

The Company's assumed reinsurance program consists of its participation in an inter-company reinsurance pooling agreement with New York Central Mutual Fire Insurance Company. Assumed reinsurance accounted for 33.4% of the Company's gross premium written at December 31, 2010.

The Company entered into a net pooling reinsurance agreement ("Pooling Agreement") with New York Central Mutual Fire Insurance Company effective July 1, 2001. The Pooling Agreement and all subsequent amendments were submitted to the Department. The respective participation in the net combined pooled business for 2001 was: the Company, 5% and NYCMFIC, 95%. Subsequent changes to the pooling percentages were as follows:

- Effective January 1, 2002, the pool participation percentages were changed to the Company, 2% and NYCMFIC, 98%;
- Effective January 1, 2008, the pool participation percentages were changed to the Company, 4% and NYCMFIC, 96% and
- Effective December 31, 2010, the pool participation percentages were changed to the Company, 10% and NYCMFIC, 90%.

Ceded

The Company has structured its ceded reinsurance program to limit its maximum exposure as follows:

Type of treaty	Cession
Casualty 2 Layers 100% authorized	$4,825,000 in excess of $175,000 each occurrence; liability of the reinsurer under the second excess cover for losses in excess of policy limits and extra contractual obligations combined arising out of all occurrences taking place during the agreement year shall not exceed $6,000,000.

The Company cedes business to authorized non-affiliated reinsurance companies prior to pooling between the companies. During the examination period, the Company's net retention for casualty business has remained at $175,000.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed for required standard clauses. It was noted that the insolvency clause included in the casualty excess of loss agreement of reinsurance contained language that deviated from Section 1308(a)(2)(A) of the New York Insurance Law. The insolvency clause states in part:

> ". . . without diminution by reason of the inability of the Company to pay all or part of the claim, except as otherwise specified in the statutes of any state having jurisdiction of the insolvency proceedings. . ."

The Company's management was informed that the wording above appears to allow an exception by other states to the diminution language required by New York State and as such does not appear consistent with the requirements of Section 1308 of the New York Insurance Law. An endorsement to the contract was executed during the course of the examination in order to more fully comply with the requirements of Section 1308 of the New York Insurance Law.

Nonetheless, it is recommended that the Company include an insolvency clause in future reinsurance contracts that complies with Section 1308 of the New York Insurance Law.

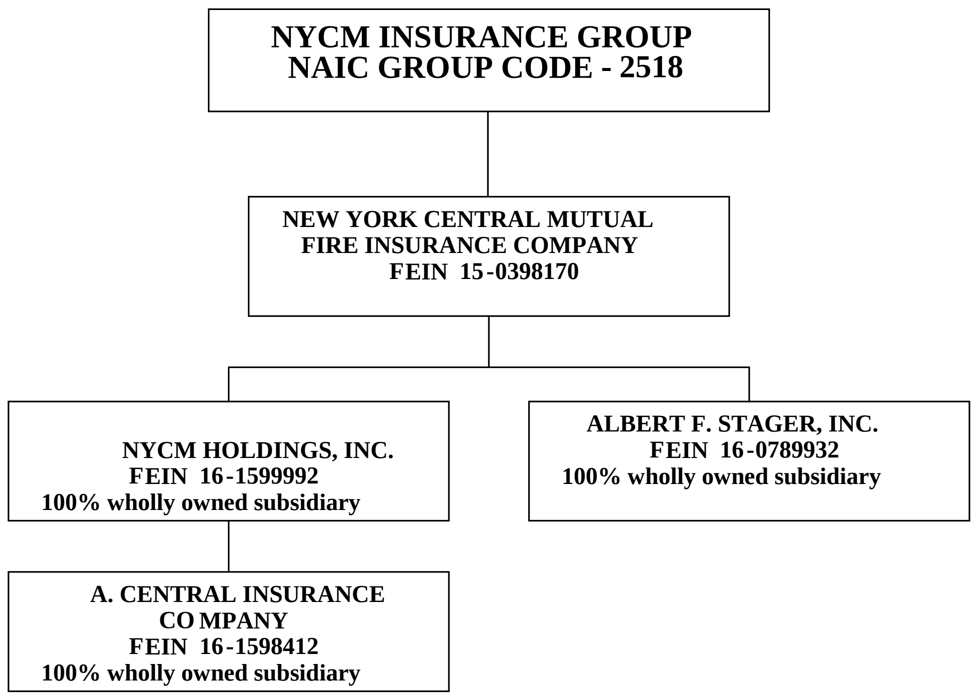
Examination review of the Schedule F data reported by the Company in its filed annual statement found it to accurately reflect its reinsurance transactions in all material respects. Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No.62R, with such representation supported by an attestation from the Company's chief executive and chief financial officers pursuant to the NAIC's Annual Statement Instructions. Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Affiliated Group

The Company is a wholly-owned subsidiary of NYCM Holdings, Inc., which in turn is wholly-owned by New York Central Mutual Fire Insurance Company, a New York domiciled advance premium cooperative property and casualty insurance company.

Since the ultimate controlling party of the affiliated group is an authorized insurer, it is exempt from the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. However, it is subject to the requirements of Article 16 of the New York Insurance Law and Department Regulation 53. A review of the annual filings made by NYCMFIC pursuant to Department Regulation 53 during the examination period indicated that such filings were complete and were filed in a timely manner.

The following is a chart of the holding company system at December 31, 2010:



At December 31, 2010, the Company was party to the following agreements with other members of its affiliated group:

Net Pooling Reinsurance Agreement

Refer to Section 2C of this report for the details of the net pooling reinsurance agreement between the Company and New York Central Mutual Fire Insurance Company.

Cost Allocation Agreement

The Company entered into a cost allocation agreement effective July 1, 2001, with NYCM Holdings, Inc. Pursuant to the agreement, Holdings provides and makes available to the Company, at cost, the services of its personnel, office space, the use of office equipment, and data processing services. Expenses incurred by Holdings for services, equipment or facilities that benefits the Company are to be allocated pursuant to Department Regulation 30 using actual usage or weighted time methods as bases of allocation.

Amounts due under the agreement shall be determined at the end of each month by Holdings on an estimated basis and, if necessary, there shall be a quarterly adjustment of such amounts. The Company shall pay all charges due under this agreement to Holdings within fifteen (15) days following receipt of each billing.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	2.2:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	116%*
Premiums in course of collection to surplus as regards policyholders	105%*

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The unusual operating results for the Company for year-end 2010 are the direct result of the Company's accounting for a change made to the net pooling reinsurance agreement. The pooling percentages as of December 31, 2010 were 96% and 4%, respectively, for NYMFIC and the Company. The pooling percentages were amended on December 31, 2010 on a cut-off basis to 90% and 10%, respectively, for NYCMFIC and the Company. The adjustment was made to more closely reflect each company’s percentage of direct premiums written. The most recent amendment to the pooling percentages and the accounting treatment was approved by the Department prior to implementation. The net effect of the transaction was a decrease in the Company's surplus of approximately $3.5 million at December 31, 2010.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$43,080,974	69.93%
Other underwriting expenses incurred	28,208,554	45.79
Net underwriting loss	(9,680,953)	(15.71)
Premiums earned	$61,608,575	100.00%

F. Accounts and Records

i. Custodial Agreement

Upon examination it was determined that the Company's custodial agreement with NBT Bank lacked certain clauses required by the Department and the NAIC Financial Condition Examiners Handbook. Company management is noted to have taken the necessary steps during the course of the examination to have the agreement reworded in order to incorporate the required clauses.

Nonetheless, it is recommended that the Company maintain custodial agreements that contain all of the safeguards and controls required by the Department and the NAIC Financial Condition Examiners Handbook.

ii. Written Contract With Independent Certified Public Accountants ("CPA")

It is noted that Department Regulation 118 was revised during the course of the examination period with the current version of the regulation being effective beginning with the reporting period ending December 31, 2010. A review of the Company's contract with its independent CPA firm revealed that the contract does not comply with certain requirements of Department Regulation 118.

Section 89.10 of Department Regulation 118 states:

> "(a) Every company subject to this Part shall retain a CPA who agrees by written contract with such company to comply with the provisions of Insurance Law section 307(b) and this Part. The contract must specify:

(1) that the CPA is independent with respect to the company and is acting in conformity with the standards of the CPA's profession, such as contained in the Code of Professional Ethics and pronouncements of the AICPA and the Rules of Professional Conduct of the New York Board of Public Accountancy, or similar code and meets the definition of a CPA set forth in subdivision (g) of section 89.1 of this Part;

(2) that the CPA understands the annual audited financial report, that the CPA's opinion thereon will be filed in compliance with this Part and that the superintendent will be relying on this information in the monitoring and regulation of the financial condition of the company;

(3) that the CPA consents to the requirements of section 89.11 of this Part and that the CPA consents and agrees to make available the work papers for review by the superintendent; and

(4) that the CPA represents that it is in compliance with the requirements of Section 89.5 of this Part.

(b) Every company subject to this Part shall further require that the CPA include, as part of each submission to the Department for which the CPA is responsible, the background and experience in general, and the experience of the staff assigned to the engagement and whether each is a CPA."

Company management is noted to have taken the necessary steps during the course of the examination to have a contract executed that incorporates the required clauses.

Nonetheless, it is recommended that the Company institute internal review procedures to ensure that all future contracts entered into with its independent auditors are in full compliance with Department Regulation 118.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$32,224,293	$ 0	$32,224,293
Common stocks	787,755		787,755
Cash, cash equivalents and short-term investments	1,881,007		1,881,007
Investment income due and accrued	335,066		335,066
Uncollected premiums and agents' balances in the course of collection	15,740,376	13,367	15,727,009
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,264,936		4,264,936
Amounts recoverable from reinsurers	3,810,708		3,810,708
Current federal and foreign income tax recoverable and interest thereon	25,000		25,000
Net deferred tax asset	45,912		45,912
Electronic data processing equipment and software	749	749	0
Accounts receivable	18,161		18,161
Cash surrender value (split life)	496,425		496,425
Equities and deposits in pools and associations	46,511		46,511
Cash surrender value (COLI)	393,510	0	393,510
Total assets	$60,070,409	$14,116	$60,056,293

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses		$10,490,490
Reinsurance payable on paid losses and loss adjustment expenses		925,161
Commissions payable, contingent commissions and other similar charges		308,712
Other expenses (excluding taxes, licenses and fees)		77,063
Taxes, licenses and fees (excluding federal and foreign income taxes)		9
Unearned premiums		23,524,475
Advance premium		169,956
Ceded reinsurance premiums payable (net of ceding commissions)		5,252,364
Amounts withheld or retained by company for account of others		339,758
Payable to parent, subsidiaries and affiliates		4,050,784
Total liabilities		$45,138,772

Surplus and Other Funds

Adoption of SSAP 10R	$ 45,912	
Common capital stock	3,000,000	
Gross paid in and contributed surplus	17,050,000	
Unassigned funds (surplus)	(5,178,391)	
Surplus as regards policyholders		14,917,521
Total liabilities, surplus and other funds		$60,056,293

NOTE: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax returns through tax year 2005. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2010. 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

Surplus as regards policyholders increased $4,115,602 during the four-year examination period January 1, 2007 through December 31, 2010, detailed as follows:

Underwriting Income		
Premiums earned		$61,608,575
Deductions:		
Losses and loss adjustment expenses incurred	$43,080,974	
Other underwriting expenses incurred	28,208,554	
Total underwriting deductions		71,289,528
Net underwriting gain or (loss)		$(9,680,953)
Investment Income		
Net investment income earned	$ 3,772,501	
Net realized capital gain or (loss)	(140,391)	
Net investment gain or (loss)		3,632,110
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (81,558)	
Finance and service charges not included in premiums	950,154	
Aggregate write-ins for miscellaneous income	(176,900)	
Total other income		691,696
Net income before dividends to policyholders and before federal and foreign income taxes		$(5,357,147)
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$(5,357,147)
Federal and foreign income taxes incurred		(83,184)
Net income		$(5,273,963)

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$10,801,917
Net income	$ 0	$5,273,964	
Net unrealized capital gains or (losses)	53,387		
Change in net deferred income tax		334,457	
Change in non-admitted assets	47,964		
Cumulative effect of changes in accounting principles	110,915		
Surplus adjustments paid in	10,000,000		
Aggregate write-ins for gains and losses in surplus	0	488,243	
Total gains or losses in surplus	$10,212,266	$6,096,664	
Net increase (decrease) in surplus			$ 4,115,602
Surplus as regards policyholders per report on examination as of December 31, 2010			$14,917,519

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $10,490,490 is the same as reported by the Company as of December 31, 2010. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Reinsurance	
	It is recommended that the Company fully comply with the reporting requirements of Department Regulation 53 part 81-1.2(f).	7
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
B.	Agreements with CPA Firms	
i.	It is recommended that the Company ensure that the contracts entered into with its independent auditors are in full compliance with Department Regulation 118. The Company has not complied with this recommendation. A similar comment is made in this report.	11
ii.	Compliance with SSAP No. 91 It is recommended that the Company require collateral for its repurchase agreements having a fair value of at least 102% of the purchase price in accordance with SSAP No. 91, paragraph 71(a). The Company has complied with this recommendation.	11
iii.	Directors and Officers Indemnification Insurance It is recommended that the Company comply with Department Regulation 110 and ensure that its Directors and Officers indemnification policy includes the requisite coinsurance percentage. The Company has complied with this recommendation.	12
C.	Market Conduct Activities It is recommended that the Company appoint agents in accordance with Section 2112(a) of the New York Insurance Law prior to transacting business with the agent. The Company has complied with this recommendation.	17

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Reinsurance	
	It is recommended that the Company include an insolvency clause in future reinsurance contracts that complies with Section 1308 of the New York Insurance Law.	8

ITEM			PAGE NO.
B.	Accounts and Records		
i.	Custodial Agreements		
	It is recommended that the Company maintain custodial agreements that contain all of the safeguards and controls required by the Department and the NAIC Financial Condition Examiners Handbook.		11
ii.	Written Contract With Independent Certified Public Accountants (“CPA”)		
	It is recommended that the Company institute internal review procedures to ensure that all future contracts entered into with its independent auditors are in full compliance with Department Regulation 118. It is noted that a similar recommendation was included in the previous report on examination.		12

Respectfully submitted,

_______/s/_______________
Wayne Longmore
Senior Insurance Examiner

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

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

_______/s/_______________
Wayne Longmore

Subscribed and sworn to before me

this__________ day of ___________________, 2011.

Appointment No. 30624

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Wayne Longmore

as proper person to examine into the affairs of the

A. CENTRAL 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 4th *day of* *January, 2011*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★
EXCELSIOR

JAMES J. WRYNN
Superintendent of Insurance