REPORT ON EXAMINATION

OF THE

UNITED FRONTIER MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT:	DECEMBER 15, 2010
EXAMINER:	WAYNE LONGMORE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

December 15, 2010

Honorable James J. Wrynn
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 30569 dated May 22, 2010, attached hereto, I have made an examination into the condition and affairs of United Frontier Mutual Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate United Frontier Mutual Insurance Company.

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

The examination was conducted at the Company's home office located at 195 Davison Road, Lockport, New York 14094-3333.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of United Frontier Mutual Insurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. 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. 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 Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
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

The Company was organized in 1877 as The Farmers Mutual Insurance Company of Orleans and Niagara Counties, for the purpose of transacting business as an assessment cooperative fire insurance company.

In 1970, the Department permitted the Company to change its name to the Niagara Orleans Mutual Insurance Company.

On January 1, 1984, the Department issued a certificate permitting the Company to do business as an advance premium cooperative insurance company and to issue non-assessable policies.

On July 1, 1986, the Niagara and Erie County Farmers' Protective Association merged into the Company. On January 1, 1987, the Frontier Co-operative Fire Insurance Company merged into the Company. The merged companies at this time petitioned the Superintendent for approval to change the Company's name to the United Frontier Mutual Insurance Company. Permission was granted for the use of the new name effective January 1, 1987.

On July 1, 1999, The Alliance Mutual Insurance Company merged into the Company.

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 twenty-five members. The board of directors and the executive committee meets at least four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
David W. Cloy Ransomville, NY	Business Owner
Carolyn Rustay Flansburg Albion, NY	Assistant Secretary, United Frontier Mutual Insurance Company
John C. Gavenda Albion, NY	Attorney
Pamela J. Good Williamsville, NY	Business Analyst/Project Manager
Lynn G. Hill Albion, NY	Town Councilman
John W. Long Albion, NY	Farmer
Glenn D. Maxon Holley, NY	Bus Driver
David H. Muck Williamsville, NY	Retired
Elaine B. Wendt Newfane, NY	Assistant School Principal Secretary, United Frontier Mutual Insurance Company
Thomas S. Wronski Lockport, NY	President, United Frontier Mutual Insurance Company
Lloyd V. Ziemendorf Niagara Falls, NY	Chairman, United Frontier Mutual Insurance Company Insurance Agent

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, 2009, the principal officers of the Company were as follows:

Name	Title
Thomas S. Wronski	President
Carol Ann Wunderlich	Treasurer
Lloyd V. Ziemendorf	Chairman of the Board
David W. Cloy	Vice Chairman of the Board
Elaine B. Wendt	Secretary

Fiduciary Responsibilities of Directors and Officers

It was noted during the review of the minutes of the meeting of the board of directors that a Company issued credit card was used for the purchase of personal items by an individual who is both a director and officer of the Company. The purchases in question were subsequently repaid by that individual. Section 717(a) of the New York Business Corporation Law states, in part:

> "A director shall perform his duties as a director…in good faith and with that degree of care which an ordinarily prudent person in a like position would use under similar circumstances."

Section 715(h) of the New York Business Corporation Law states, in part:

> "An officer shall perform his duties as an officer in good faith and with that degree of care which an ordinarily prudent person in a like position would use under similar circumstances."

The use of the Company issued credit card for the purchase of personal items does not appear to be the acts of a prudent person.

Also, this type of transaction is considered a loan to a director and/or officer and is in violation of Section 1411(f)(1) of the New York Insurance Law which states, in part

> "No insurer doing business in this state shall… make any loan to any of its directors or officers, directly or indirectly. . . ."

In addition, since the arrangement was not approved by the board of directors, these transactions are also in violation of Section 1411(a) of the New York Insurance Law which states, in part:

> "No domestic insurer shall make any loan or investment…unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan."

Therefore, the following recommendations are being made:

It is recommended that the directors and officers of United Frontier Mutual Insurance Company remain mindful of their fiduciary responsibilities to the Company and its policyholders, as set forth in Sections 717(a) and 715(h) of the New York Business Corporation Law. In addition, the Company should replace any director or officer of the Company who cannot or does not fulfill his/her duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.

It is recommended that the Company comply with Sections 1411(a) and 1411(f)(1) of the New York Insurance Law.

It is recommended that the Company formalize and keep updated a credit card usage policy and have same approved by the Board of Directors.

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York 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
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

Based on 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 $520,675.

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

Calendar Year	Total Premiums
2005	$4,046,870
2006	$3,857,296
2007	$3,590,338
2008	$3,368,802
2009	$3,161,836

At December 31, 2009, the Company wrote insurance primarily through independent agents. The Company's predominate lines of business are homeowners multiple peril, commercial multiple peril and fire, which accounted for 42.8%, 39.1% and 5.4%, respectively, of the Company's 2009 direct written premiums.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for less than 5% of the Company's gross premium written at December 31, 2009. During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. The assumptions reflect the Company's participation in the NAMICO Reinsurance Facility ("NAMICO") as well as assumptions from the Regional Reciprocal Catastrophe Pool ("RRCP"). NAMICO provides reinsurance on directors and officers liability and insurance company professional liability insurance policies. Under the RRCP the Company reinsures its pro-rata share of a catastrophe pool.

Ceded Reinsurance

The Company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Type of Treaty	Cession
Property 3 layers	$850,000 in excess of $150,000 each loss, each risk; liability of the reinsurer not to exceed $300,000, $750,000 and $1,000,000 ultimate net loss any one loss occurrence for the first second and third layers, respectively.

Type of Treaty	Cession
Property Catastrophe 3 layers	First Layer - 95% of $850,000 in excess of $150,000 each loss occurrence. In the event that the Company experiences an ultimate net loss of $150,000 or more for any one loss occurrence during the term of this contract, the reinsurer shall be liable in respect of any other loss occurrences during the term of the contract for 95% of the ultimate net loss over an initial ultimate of $75,000 each loss occurrence subject to a limit of $878,750 (being 95% of $925,000) each loss occurrence further subject to a limit of liability to the reinsurer of $1,686,250 (being 95% of $1,775,000) in respect of all loss occurrences commencing during the term of this contract. Second Layer- 100% of $500,000 in excess of $1,000,000 each loss occurrence. Third Layer - $1,500,000 million in excess of $1,500,000 each loss occurrence subject to a contract year limit of $3,000,000.
Casualty Excess of Loss 3 layers	$850,000 in excess of $150,000 each loss occurrence.
Property and Casualty Occurrence	$150,000 in excess of $150,000 per occurrence-in the event the property and casualty business covered under the first excess layer are both involved in the same loss.
Property Facultative	Cession hereunder shall be limited to an amount equal to two times the Company’s net retention plus the amount ceded under the Company’s working reinsurance contracts, subject to a minimum retention of $250,000 and a maximum cession of $500,000 on any one risk.

As of December 31, 2009, the Company had in place an equipment breakdown coverage 100 percent quota share reinsurance treaty. The agreement was made effective January 1, 2004, with Factory Mutual Insurance Company and remains effective until terminated.

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 of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect 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 chief executive officer and chief financial officer 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 paragraphs 26 and 27 of NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

D. Holding Company System

As of December 31, 2009, the Company was not a member of any holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.34:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	35%
Premiums in course of collection to surplus as regards policyholders	.3%

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	$9,634,900	68.57%
Other underwriting expenses incurred	5,035,085	35.83
Net underwriting loss	(618,072)	(4.40)
Premiums earned	$14,051,913	100.00%

F. Accounts and Records

Compliance with Section 1217 of the New York Insurance Law

During the review of employee reimbursements it was noted in certain instances that a voucher signed by or on behalf of the payee for goods or services rendered for the Company was not obtained prior to payment being made.

Section 1217 of the New York Insurance Law states:

> "No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment. If such disbursement be for services and disbursements, such vouchers shall set forth the services rendered and itemize the disbursements; if it is in connection with any matter pending before any legislative or public body or before any government department or officer, the voucher shall correctly describe also the nature of the matter and the company's interest therein. If such a voucher is unobtainable, the disbursement shall be evidenced by a statement of an officer or responsible employee affirmed by him as true under the penalties of perjury, stating the reasons therefor and setting forth the particulars above mentioned."

It is recommended that the Company comply with Section 1217 of the New York Insurance Law and obtain proper documentation from the payee for goods or services rendered for the company.

G. Risk Management and Internal Controls

The Company was unable to present a formalized succession plan which addresses the key officers of the entity.

It is recommended that the Company implement and keep updated a formal succession plan in order to protect the best interests of the Company and its policyholders.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company (column totals may be off due to rounding):

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$6,716,170	$ 0	$6,716,170
Common stocks	1,972,527		1,972,527
First liens – mortgage loans on real estate	61,987		61,987
Real Estate: Properties occupied by the company	417,398		417,398
Cash, cash equivalents and short-term investments	1,717,141		1,717,141
Company owned life insurance	261,531		261,531
Investment income due and accrued	33,067		33,067
Uncollected premiums and agents' balances in the course of collection	24,514		24,514
Deferred premiums, agents' balances and installments booked but deferred and not yet due	403,184		403,184
Amounts recoverable from reinsurers	125,259		125,259
Funds held by or deposited with reinsured companies	61,534		61,534
Current federal and foreign income tax recoverable and interest thereon	69,000		69,000
Net deferred tax asset	140,264		140,264
Electronic data processing equipment and software	80,088		80,088
Furniture and equipment	14,384	14,384	0
Net equity in NY FAIR Plan	60,348		60,348
Prepaid postage	3,111	3,111	0
Total assets	$12,161,507	$17,495	$12,144,012

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$ 2,315,097
Other expenses (excluding taxes, licenses and fees)		64,904
Unearned premiums		1,610,137
Advance premium		64,834
Ceded reinsurance premiums payable (net of ceding commissions)		(2,159)
Amounts withheld or retained by company for account of others		88
Total liabilities		$ 4,052,901
Surplus and other funds		
Aggregate write-ins for special surplus funds	$ 650,000	
Unassigned funds (surplus)	7,441,110	
Surplus as regards policyholders		8,091,110
Total liabilities, surplus and other funds		$12,144,011

NOTE: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax return for tax year 2008. No adjustments were made subsequent to the date of examination arising from said audit. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $1,201,944 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income		
Premiums earned		$14,051,913
Deductions:		
Losses and loss adjustment expenses incurred	$9,634,900	
Other underwriting expenses incurred	5,035,085	
Total underwriting deductions		14,669,985
Net underwriting gain or (loss)		$ (618,072)
Investment Income		
Net investment income earned	$1,606,681	
Net realized capital gain	366,851	
Net investment gain or (loss)		1,973,532
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (28,648)	
Finance and service charges not included in premiums	215,689	
Aggregate write-ins for miscellaneous income	(3)	
Total other income		187,038
Net income before federal and foreign income taxes		$ 1,542,498
Federal and foreign income taxes incurred		315,672
Net income		$ 1,226,826

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2004			$6,889,166
Net income	$1,226,826		
Net unrealized capital gains or losses		42,869	
Change in net deferred income tax		46,413	
Change in nonadmitted assets	64,376		
Aggregate write-ins for gains and losses in surplus	24	0	
Total gains or losses in surplus	$1,291,226	$89,282	
Net increase in surplus			1,201,944
Surplus as regards policyholders per report on examination as of December 31, 2009			$8,091,110

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $2,315,097 is the same as reported by the Company as of December 31, 2009. 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 three recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Territory and Plan of Operation	
i.	It is recommended that the Company comply with Section 6604(a) (3) of the Insurance Law and in the future obtain prior approval from the Insurance Department before writing a new line of business. The Company has complied with this recommendation.	6
B.	Accounts and Records	
i.	It is recommended that the Company comply with the annual statement instructions and properly record all information in Schedule D- Part 1 of the annual statement. The Company has complied with this recommendation.	11
ii.	It was recommended that the Company comply with Department guidelines as set forth by NAIC requirements, reinforced by Circular Letter No. 2 of 1977 and obtain a custodial agreement that includes the requirements specified by the NAIC and New York Insurance Department. The Company has complied with this recommendation.	11

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.	Management		
	i.	It is recommended that the directors and officers of United Frontier Mutual Insurance Company remain mindful of their fiduciary responsibilities to the Company and its policyholders, as set forth in Sections 717(a) and 715(h) of the New York Business Corporation Law. In addition, the Company should replace any director or officer of the Company who cannot or does not fulfill his/her duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.	6
	ii.	It is recommended that the Company comply with Sections 1411(a) and 1411(f)(1) of the New York Insurance Law.	6
	iii.	It is recommended that the Company formalize and keep updated a credit card usage policy and have same approved by the board of directors.	6
B.	Accounts and Records		
		It is recommended that the Company comply with Section 1217 of the New York Insurance Law and obtain proper documentation from the payee for goods or services rendered for the company.	10
C.	Risk Management and Internal Controls		
		It is recommended that the Company implement and keep updated a formal succession plan in order to protect the best interests of the Company and its policyholders.	10

Respectfully submitted,

/s/
Wayne Longmore
Senior Insurance Examiner

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

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. 30569

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

UNITED FRONTIER MUTUAL 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 22nd *day of* May, *2010*

JAMES J. WRYNN
Superintendent of Insurance