

REPORT ON EXAMINATION  
OF THE  
ONTARIO INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

DATE OF REPORT

JUNE 16, 2014

EXAMINER

WAYNE LONGMORE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

June 16, 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 31073 dated November 7, 2013 attached hereto, I have made an examination into the condition and affairs of Ontario 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 Ontario 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 28 Canandaigua Street, Shortsville, NY 14548.

## 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.

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
- 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 Ontario Insurance Company was organized in 1877 and reorganized in 1879 for the purpose of transacting business as an assessment co-operative fire insurance association in Ontario County, New York.

On December 23, 1970, a certificate of amendment of the Certificate of Incorporation was approved by this Department changing the name of the Company from Ontario County Patrons Fire Relief Association to the Ontario-Yates Insurance Company.

On April 1, 1995, the Department approved the conversion, pursuant to Section 7305 of the New York Insurance Law, of the Company from an Assessment Co-operative Property/Casualty Insurance Company into an Advanced Premium Co-operative Property/Casualty Insurance Company.

On January 19, 2001, the Department approved an amendment to the Certificate of Incorporation changing the name of the Company from Ontario-Yates Insurance Company to Ontario Insurance 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 sixteen members. The board met at least twice and the executive committee at least twice during each calendar year, thereby complying with Section 6624(b) of the New York Insurance Law.

At December 31, 2013, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth Bersani Fairport, NY	Attorney, Trevett, Cristo, Salzer & Andolina P.C.
Joseph V. Bridgeford Canandaigua, NY	Executive Leader, Manufacturing & Technology Enterprises
Bruce M. Croucher Clifton Springs, NY	Chairman of the Board, Ontario Insurance Company
Keith A. Fry Farmington, NY	President, Chief Executive Officer and Treasurer, Ontario Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patricia K. Pavelsky Honeoye Falls, NY	Retired
Russell P. Pilato Clifton Springs, NY	Retired
Maureen A. Robinson Farmington, NY	Corporate Secretary/ Administrative Assistant, Ontario Insurance Company
Robert J. Spinelli Rochester, NY	Self-employed, Spinelli Consulting Services
William C. Wright Farmington, NY	Commissioner, Department of Public Works, Ontario County

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 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>
Bruce M. Croucher	Chairman of the Board
Keith A. Fry	President, Chief Executive Officer and Treasurer
Maureen A. Robinson	Secretary

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in New York only.

As of the examination date, the Company was authorized to accept and cede reinsurance as provided in Section 6606 of New York State Insurance Law and 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
9	Boiler and machinery

<u>Paragraph</u>	<u>Line of Business</u>
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)
32	Substantially similar kind of insurance

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	\$4,365,945
2010	\$4,378,035
2011	\$4,398,135
2012	\$4,416,995
2013	\$4,612,489

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 \$529,138.

The Company's predominant lines of business are Homeowners Multiple Peril, Commercial Multiple Peril, Fire and Allied lines, and Farmowners Multiple peril, which accounted for 36%, 33%, 13%, and 12%, respectively, of the 2013 direct premium writings. The business is produced through approximately 55 independent agents at 151 locations and three brokerage firms.

C. Reinsurance

Assumed reinsurance

The Company did not assume any reinsurance business during the examination period.

Ceded reinsurance

The Company has structured its ceded reinsurance program as of December 31, 2013, as follows:

Type of TreatyCession

Property and Casualty Combination Excess  
100% Authorized or Certified

Property Business: \$900,000 excess \$100,000 each loss, each risk; limit \$1,800,000 each loss occurrence.

Casualty Business: \$900,000 excess \$100,000 each loss occurrence.

Casualty and Property combined: In the event of a loss occurrence involving at least one property and one casualty policy: \$100,000 excess \$100,000 each loss occurrence.

Casualty and Umbrella combined: In the event of a loss occurrence involving at least one casualty and one umbrella policy: \$50,000 excess \$100,000 each loss occurrence.

Casualty Clash Excess of Loss  
100% Authorized or Certified

\$1 million excess \$1 million ultimate net loss each loss occurrence. With respect to Workers' Compensation Insurance required by subsection (j) of Section 3420 of the New York Insurance Law, no claim shall be made unless the Company shall have first sustained an ultimate net loss in excess of \$2 million. The reinsurer shall then reimburse the Company the whole of such excess.

Property Catastrophe Excess (2 layers)

Layer 1

100% Authorized or Certified

100% of \$550,000 excess \$200,000 ultimate net loss each loss occurrence (involving three or more risks ). Second event: 100% of 650,000 excess \$100,000 each occurrence; subject to an aggregate limit from all occurrences of \$1.2 million during the term of the contract.

Layer 2

100% Authorized or Certified

\$1,750,000 excess of ultimate net loss of \$750,000 each loss occurrence.

Aggregate Excess of loss

100% Authorized or Certified

\$450,000 (being 90% of \$500,000) in excess of 70% of the Company's gross net earned premium income for the term of the contract.

Umbrella Facultative quota share  
(2 layers)

1) The Company shall cede and reinsurer shall accept a 95% share of up to \$1million of ultimate net loss, each loss occurrence, each policy on all business reinsured.  
2) 100% of \$4,000,000 each loss occurrence, each policy over and above an initial ultimate net loss of \$1 million.



<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Facultative Per Risk</u> 100% Authorized or Certified	\$500,000 in excess of \$1 million each loss, each risk
<u>Equipment Breakdown quota share</u> 100% Authorized	100% of \$5,000,000 any one risk

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. The Company's retention remained unchanged at \$100,000 for both the property and casualty lines of business.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including 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 material reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer. 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.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2013. The Company was independent with no affiliation or pooling agreements in force at December 31, 2013.

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	33%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	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	\$ 9,984,071	57.26%
Other underwriting expenses incurred	5,953,369	34.14
Net underwriting gain	<u>1,498,862</u>	<u>8.60</u>
Premiums earned	<u>\$17,436,302</u>	<u>100.00%</u>

F. Accounts and Records

Approval of investments pursuant to New York Insurance Law (NYIL) Section 1411(a)

The Company was unable to document board approval for certain investment transactions listed in the 2013 filed annual statement.

NYIL section 1411(a) states:

No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.

It is recommended that the Company fully comply with the requirements of Section 1411(a) of the New York Insurance Law and that going forward have all investment transactions entered into the board minutes to ensure that all investments are authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investments.

### 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>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$10,449,587	\$ 0	\$10,449,587
Common stocks (stocks)	2,434,742	0	2,434,742
Real Estate: Properties occupied by the company	386,984	0	386,984
Cash, cash equivalents and short-term investments	1,679,203	0	1,679,203
Investment income due and accrued	80,522	0	80,522
Uncollected premiums and agents' balances in the course of collection	52,997	3,513	49,484
Deferred premiums, agents' balances and installments booked but deferred and not yet due	477,777	0	477,777
Net deferred tax asset	147,633	0	147,633
Furniture and equipment, including health care delivery assets	92,629	92,629	0
FAIR Plan	<u>53,648</u>	<u>2,495</u>	<u>51,153</u>
Totals assets	<u>\$15,855,722</u>	<u>\$98,637</u>	<u>\$15,757,085</u>
 <u>Liabilities, surplus and other funds</u>			
 <u>Liabilities</u>			
Losses and loss adjustment expenses			\$1,775,019
Commissions payable, contingent commissions and other similar charges			275,321
Other expenses (excluding taxes, licenses and fees)			53,931
Taxes, licenses and fees (excluding federal and foreign income taxes)			1,959
Current federal and foreign income taxes			107,783
Unearned premiums			2,277,654
Advance premium			71,569
Ceded reinsurance premiums payable (net of ceding commissions)			64,178
Amounts withheld or retained by company for account of others			220,418
Remittances and items not allocated			5,295
FAIR Plan liability			<u>4,958</u>
Total liabilities			\$4,858,085
 <u>Surplus and Other Funds</u>			
Required surplus		\$ 529,138	
Unassigned Funds (surplus)		<u>10,369,862</u>	
Surplus as regards policyholders			<u>10,899,000</u>
Totals liabilities, surplus and other funds			<u>\$15,757,085</u>

NOTE: The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any tax year during the examination period. 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 \$3,207,103 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Underwriting Income

Premiums earned \$17,436,302

Deductions:

Losses and loss adjustment expenses incurred \$9,984,071  
Other underwriting expenses incurred 5,953,369

Total underwriting deductions 15,937,440

Net underwriting gain \$ 1,498,862

Investment Income

Net investment income earned \$1,669,805  
Net realized capital gain (13,212)

Net investment gain or (loss) 1,656,593

Other Income

Net gain or (loss) from agents' or premium balances charged off \$ 30,841  
Finance and service charges not included in premiums 273,509  
Aggregate write-ins for miscellaneous income 7,860

Total other income 312,210

Net income before federal and foreign income taxes \$ 3,467,665

Federal and foreign income taxes incurred 1,099,942

Net Income \$ 2,367,723

Surplus as regards policyholders per report on examination as of December 31, 2008 \$ 7,691,897

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,367,723		
Net unrealized capital gains	635,797		
Change in net deferred income tax		\$39,864	
Change in nonadmitted assets	234,181		
Cumulative effect of changes in accounting principles	8,418		
Aggregate write-ins for gains and losses in surplus	<u>848</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$3,246,967</u>	<u>\$39,864</u>	<u>3,207,103</u>

Surplus as regards policyholders per report on examination as of December 31, 2013 \$10,899,000

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$1,775,019 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 no recommendations

#### 6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Accounts and Records</u> It is recommended that the Company fully comply with the requirements of Section 1411(a) of the New York Insurance Law and that going forward have all investment transactions entered into the board minutes to ensure that all investments are authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investments.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Wayne Longmore  
Senior Insurance Examiner

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

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 \_\_\_\_\_, 2014.

*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:*

*Wayne Longmore*

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

*Ontario 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 7th day of November, 2013*

*BENJAMIN M. LAWSKY  
Superintendent of Financial Services*



*By:*

*Jean Marie Cho  
Deputy Superintendent*