

REPORT ON EXAMINATION

OF

UTICA MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

FEBRUARY 25, 2016

EXAMINER

WAYNE LONGMORE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

February 25, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31219 dated September 26, 2014 attached hereto, I have made an examination into the condition and affairs of Utica Mutual Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designations "the Company" or "UMIC" appear herein without qualification, they should be understood to indicate Utica Mutual 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 180 Genesee Street, New Hartford, NY 13413.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of Utica Mutual Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the coordinating state of the Utica National Insurance Group. The examination of the Company was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
Graphic Arts Mutual Insurance Company	New York
Utica National Assurance Company	New York
Founders Insurance Company of Michigan	Michigan
Republic –Franklin Insurance Company	Ohio
Utica National Insurance Company of Ohio	Ohio
Utica National Insurance Company of Texas	Texas
Utica Specialty Risk Insurance Company	Texas
Utica Lloyds of Texas	Texas

As noted above, other states participating in this examination were Texas, Ohio and Michigan.

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

Utica Mutual Insurance Company was incorporated under the laws of the State of New York on February 13, 1914 as the Utica Mutual Compensation Insurance Corporation. UMIC became licensed on June 1, 1914 and commenced business on July 1, 1914. The Utica Mutual Insurance Company name was adopted on February 1, 1919.

In 1967, the Company entered into an agreement with Graphic Arts Mutual Insurance Company (“GAMIC”) providing for common management of the two companies. Since 1969, UMIC has pooled premiums, losses and expenses with GAMIC through a reinsurance pooling agreement.

In 1983, UMIC purchased Republic-Franklin Insurance Company (“RFIC”), a stock property and casualty company organized under provisions of the State of Ohio Insurance Law. UMIC subsequently sold 6% of its interest in RFIC to GAMIC, creating 94% and 6% ownership. In 1984, RFIC was admitted to the pooling agreement between UMIC and GAMIC.

In 1995, UMIC acquired all the outstanding capital stock of Utica National Insurance Company of Texas (“UNIT”), which was then admitted to the aforementioned pooling agreement.

In 1995 UMIC acquired all of the common stock of Graphic Arts Insurance Company, a New York insurer. Graphic Arts Insurance Company changed its corporate title to Utica National Assurance Company (“UNAC”) and was admitted to the pooling agreement in 1997.

In 2010 UMIC acquired 100% of Nationwide Holdings, Inc. which is the owner of Founders Insurance Company (“FIC”), an Illinois domestic insurer. FIC in turn owns 100% of Founders Insurance Company of Michigan (“FICOM”), a Michigan domestic insurer. FIC was admitted to the pooling agreement in 2014. Subsequent to December 31, 2014, Nationwide Holdings, Inc. was dissolved, effective September 29, 2015, leaving UMIC as 100% owner of FIC.

A. Management

Pursuant to the Company’s charter, management of the Company is vested in a board of directors consisting of not less than seven nor more than thirty-one persons.

The board meets at least four times during each calendar year.

At December 31, 2014, the board of directors was comprised of the following fourteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Russell A. Acevedo, MD Fayetteville, NY	Medical Director of Intensive Care, Crouse Hospital
Clarence W. Bachman Fairport, NY	Vice President, Cohber Press
Alfred E. Calligaris Watertown, NY	President, The Stebbins Engineering and Manufacturing Co., Inc.
Richard P. Creedon Whitesboro, NY	President and Chief Operating Officer Utica National Insurance Group
Paul A. Hagstrom, Ph.D. Clinton, NY	Professor, Hamilton College
Gregory M. Harden McConnellsville, NY	President and Chief Executive Officer, Harden Furniture Company
Zelda J. Holcomb, Ph.D. Columbia, MD	Owner/ Consultant, Holcomb Associates, LLC
Nicholas O. Matt New Hartford, NY	Chairman and Chief Executive Officer, Matt Brewing Company
Peter J. O’Neill Fayetteville, NY	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alan J. Pope Gainsville, GA	Senior Vice President, PointeNorth Insurance Group
Timothy R. Reed Utica, NY	Executive Director, Distance Running Hall of Fame
James Douglas Robinson New Hartford, NY	Chairman and Chief Executive Officer, Utica National Insurance Group
Linda E. Romano, Esq. New Hartford, NY	Attorney at Law, Bond, Schoeneck & King
Eric K. Scholl Anna Maria, FL	Managing Director, Allianz Global Investors

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 has an acceptable record of attendance.

The review of the Company's charter revealed the following:

Article VI of the Charter for UMIC states in part that "All except four (4) of the directors shall be members of the corporation or officers of member corporations..." Also, Section 1209(b) of the New York Insurance Law ("NYIL") states in part:

"Such corporation shall have not less than seven directors. The directors, except as provided in section four thousand two hundred ten of this chapter, shall be elected at the annual meetings of the members, and all except four of the directors of such corporation, elected after the organization of the corporation is completed and it has been licensed to issue insurance policies, must be members of the corporation or officers of member corporations." (Emphasis added)

The examination review revealed that as of the examination date seven of the fourteen UMIC directors are neither members of the Company nor officers of member corporations.

It is recommended that the Company comply fully with Article VI of its Charter as well as Section 1209(b) of the New York Insurance Law by reducing to no more than four, the number of directors who are neither members of the Company nor officers of member corporations. It should be noted that a similar recommendation was included in the previous report on examination.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James Douglas Robinson	Chairman of the Board and Chief Executive Officer
Richard P. Creedon	President and Chief Operating Officer
Kristen H. Martin	Executive Vice President and Director of Underwriting Operations and Secretary
Steven P. Guzski	Executive Vice President
Brian W. Miller Jr.	Vice President, Chief Financial Officer and Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all fifty states, Puerto Rico and the District of Columbia. It should be noted that the Company withdrew its Canadian license in 2014.

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>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

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 \$6,900,000.

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>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2010	\$65,521,646	\$192,901,845	33.97%
2011	\$62,843,151	\$186,200,861	33.75%
2012	\$65,758,747	\$186,189,038	35.32%
2013	\$62,677,224	\$194,840,483	32.17%
2014	\$53,836,373	\$195,323,359	27.56%

The majority of the Company's 2014 business (approximately 68%) is written in New York, Massachusetts, Connecticut, Pennsylvania, New Jersey, and North Carolina. The five largest lines of business, by percentage of total 2014 direct written premiums, are Workers' compensation (23%), Other liability – claims-made (21%), Commercial multiple peril (16%), Commercial auto liability (11%), and Other liability – occurrence (9%). Most of the business originates through approximately 2,300 independent agents and brokers.

The Company maintains branch offices in Utica, NY; Richmond, VA; Wakefield, MA; Woodbury, NY; Columbus, OH; Atlanta, GA; Richardson, TX and Des Plaines, IL. Each office handles its own underwriting function for its specific territory except for personal lines which are handled in the main office. There are five Regional Claim Offices, the Home Office Claim Office, and two Founders Claim Offices for a total of eight claims offices.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for 74% of the Company's gross premiums written at December 31, 2014. The Company's assumed reinsurance program consists mainly of business obtained through a pooling agreement with its affiliates: Founders Insurance Company, Graphic Arts Mutual Insurance Company, Republic-Franklin Insurance Company, Utica National Assurance Company, and Utica National Insurance Company of Texas.

During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. The main reason for the increase was due to a greater amount of the Utica National Insurance Group's premiums being written through the Company's subsidiaries and assumed by UMIC through the existing pooling agreement. Also, in 2010 UMIC purchased Founders Insurance Company (FIC) which contributed to the increase in total written premiums assumed by the pool.

The Company's participation in various mandated pools is reflected in its assumed reinsurance activity.

The Company utilizes reinsurance accounting as defined in the NAIC Statement of Statutory Accounting Principles ("SSAP") No. 62R for all of its assumed reinsurance business.

Pooling and Reinsurance with Affiliates

UMIC is the lead company in an inter-company reinsurance pool with five other property and casualty affiliates that cede 100% of their net written premium to UMIC. The Company retroceded 16% of the pooled premiums, net of external reinsurance to other pool members. As of December 31, 2014, the retrocession was as follows:

Graphic Arts Mutual Insurance Company	5%
Founders Insurance Company	5%
Republic –Franklin Insurance Company	3%
Utica National Assurance Company	2%
Utica National Insurance Company of Texas	1%

As of the examination date, Founders Insurance Company was not authorized to write business in the state of New York. However, the Company classified FIC as an authorized reinsurer in its 2014 filed annual statement. Furthermore, the Company inappropriately took a statutory credit of approximately \$75.6 million for a cession to FIC, an unauthorized reinsurer, in violation of Department Regulation 20.

Subsequent to the examination date, and as a result of discussions with the Department, FIC applied to the Department for accredited reinsurer status, which was granted in October 2016. Since this condition was subsequently rectified, the Department elected to not impose a statutory penalty in this report on examination.

It is recommended that in the future the Company accurately prepare Schedule F, in accordance with the NAIC's annual statement instructions.

It is recommended that the Company only take statutory credit for reinsurance cessions to authorized insurers or accredited reinsurers, unless it receives collateral in accordance with Department Regulation 20.

Under the present agreement, all transactions and items related to the insurance and/or general operations of the companies are pooled. The only major items that remain exempt are those related to investments and inter-company accounts.

At December 31, 2014, the business written by three other affiliates, Utica Specialty Risk Insurance Company (“USRIC”), Utica Lloyds of Texas (“ULOT”) and Utica National Insurance Company of Ohio (“UNICO”), is ceded 100% to the Company and is shared with the pool members in accordance with the above-mentioned pooling percentages.

Ceded Reinsurance

The Company’s 2014 reinsurance program was as follows:

<u>Treaty Type</u>	<u>Cession</u>
Property Per Risk, 4 layers	\$38,000,000 in excess of \$2,000,000 ultimate net loss each risk. Each contract layer has a loss occurrence limit with respect to all risks in one occurrence. First layer - \$6,000,000, second layer - \$10,000,000, third layer - \$20,000,000 and fourth layer - \$40,000,000.
Property Catastrophe, 3 layers (Layer 1 was 52% placed, Layer 2 was 82.2% placed and Layer 3 was 45.2% placed)	\$350,000,000 in excess of \$50,000,000 ultimate net loss each loss occurrence. The reinsurers’ liability as respects all losses occurring during the term of the contract shall not exceed limits as follows: First - \$100,000,000, Second - \$400,000,000 and Third - \$200,000,000.
Casualty, 4 layers	\$95,000,000 in excess of \$5,000,000 ultimate net loss each loss occurrence. The reinsurers’ liability as respects all losses occurring during the term of the contract shall not exceed limits as follows: First - \$10,000,000, Second - \$20,000,000, Third - \$40,000,000 and Fourth - \$120,000,000.

<u>Treaty Type</u>	<u>Cession</u>
School Umbrella Automatic	\$5,000,000 in excess of \$5,000,000 each incident/\$5,000,000 aggregate (where applicable) in excess of the Company's retention; and 80% of the next \$5,000,000 in excess of \$10,000,000 each incident /\$10,000,000 aggregate (where applicable).
Commercial Umbrella Automatic/Non-Schools	100% of \$5,000,000 in excess of \$5,000,000 each incident/\$5,000,000 annual aggregate of Net Loss under each Commercial umbrella policy.
Personal Umbrella Automatic	75% of the first \$1,000,000 and 100% of \$4,000,000 in excess of \$1,000,000 each occurrence.
Commercial Equipment Breakdown	100% of \$100,000,000 of liability for any one equipment breakdown.
Homeowners Equipment Breakdown	100% of \$100,000 of liability for any one homeowner's equipment breakdown, on any one risk.
Cybersurance	100% of \$250,000 of cyber liability.
Life Insurance Agents' and Brokers' E&O	100% of \$1,500,000 in excess \$500,000 per policy per claim.
Insurance Agents' and Brokers' E&O	100% of \$5,000,000 in excess \$5,000,000 per policy per claim.

In addition to the above, at December 31, 2014, the Company also had in force the following automatic facultative excess of loss reinsurance agreements for its property business:

<u>Type of Treaty</u>	<u>Cession</u>
Schools Property Facultative Automatic	\$75,000,000 in excess of \$40,000,000 each risk.
Non-Schools Property Facultative Automatic:	
Group I (Apartments, Banks, Offices, Printers, Retail Stores and Shopping Centers)	\$40,000,000 in excess \$40,000,000, each risk.
Group II (Auto Dealers, Auto Service, Churches, Day Care Centers, Hotel/Motel and Machine Shops)	\$25,000,000 in excess \$40,000,000, each risk.

Asbestos Claims Run-off

UMIC is noted to have entered into a run-off reinsurance agreement with National Indemnity Company as reinsurer to transfer all losses related to asbestos claims up to a contract limit of \$475,985,800 for certain policies written by UMIC on or prior to December 31, 2003. Pursuant to SSAP No. 62R, Paragraph 81, the accounting treatment for property and casualty run-off agreements must be approved by domiciliary regulators. On August 21, 2012, the Department issued a non-objection letter to UMIC on utilization of prospective accounting treatment regarding the agreement. Loss portfolio reinsurance agreements with an inception date of January 1, 2012, were executed on September 28, 2012 between UMIC and the other pool participants (UNAC, RFI, GAMIC and UNIT) which transferred all losses related to asbestos claims on contracts of insurance written by the subsidiary/pool participant on or prior to December 31, 2003.

The Company ceded to authorized and unauthorized reinsurers during the period under examination. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were not reviewed for compliance with Department Regulation No. 133 since the amounts held under these letters of credit were not material.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and except as noted below, were found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Insolvency Clause

The insolvency clauses in the Company's ceding reinsurance agreements make reference to a novation.

Department Circular Letter No. 5 (1988) states, in part, the following in reference to a novation:

“Any references to such an event in the reinsurance agreement should indicate that, prior to the implementation of a novation, the certificate of assumption on New York risks would have to be approved by the Superintendent. . .”

It is recommended that the Company include specific language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.

Offset Clause

The following contracts, in effect at December 31, 2014, contain a provision allowing for broad offset rights: Casualty Excess of Loss, Property Catastrophe Excess of Loss, Property per risk (through Willis), and Insurance Agents' and Brokers' Errors and Omissions Excess Cessions Reinsurance Contract.

The provision contained in the contracts is as follows:

“The Company and the Reinsurer shall have, and may exercise at any time and from time to time, the right to offset any balance or balances..., offsets shall be allowed under the terms of this Contract and any other Contract heretofore or hereafter entered into between the Company and the Reinsurer.” (Emphasis added)

In reinsurance agreements containing such broad rights to offset, the Department requires that the following language be included:

In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law.

It is recommended that the offset provision of certain reinsurance agreements be amended to state that in the event of the insolvency of either party to the agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law.

It is further recommended that all future reinsurance agreements with an offset provision entered into by the Company include such required language.

The examination review of 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 and Chief Financial Officer. Additionally, the 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.

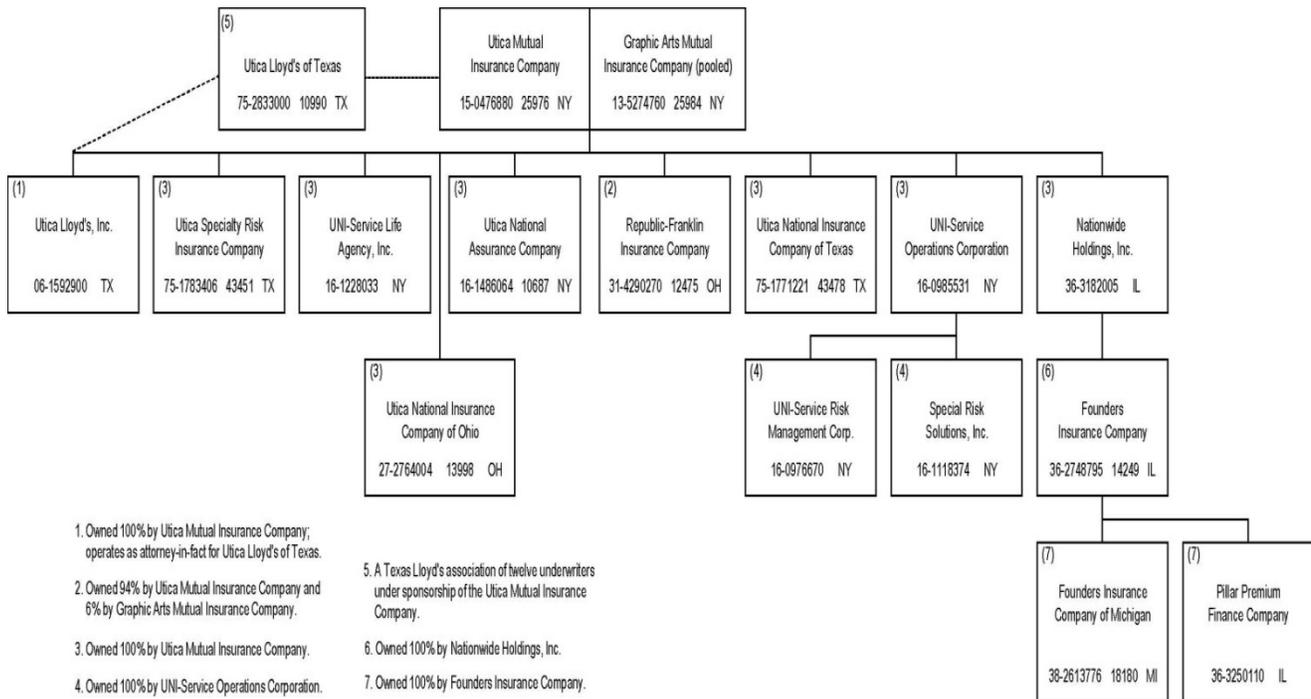
During the period covered by this examination, the Company commuted a ceded reinsurance agreement. The balances related to this commutation were immaterial.

D. Affiliated Group

The Company is the ultimate parent of the group of companies that operate under the trade name “Utica National Insurance Group.”

Pursuant to Section 1502(a) of the New York Insurance Law (“NYIL”), UMIC is exempt from the filing requirements of Article 15. However, pursuant to Department Circular Letter No. 10 (2010), domestic insurers are required to file with the superintendent copies of the insurance holding company system annual registration statement (“NAIC Form B”) filed in another state by the insurer or its parent authorized insurer, and any amendments thereto, at the same time that the insurer files the statement and any amendments with another state. If an insurer is not required to file the NAIC Form B in another state, then the insurer should file the information contained in NAIC Form B with the Department within 120 days following the close of the ultimate holding company's fiscal year. The Company is noted to have made the required filings in a timely manner during the period covered by the examination.

The following is an organizational chart outlining the relationship between members of the Affiliated Group at December 31, 2014:



At December 31, 2014, there are pooling, management, and tax agreements between and among various members of the affiliated group.

Pooling Reinsurance Agreement

Refer to section 2C of this report for a description of the Pooling Reinsurance Agreement between the Company and various affiliates.

UMIC & GAMIC Common Management Agreement

This agreement was made effective August 1, 1967 between UMIC and GAMIC.

The agreement may be terminated by the action of the board of directors of either party, but no such termination shall be effective until at least one year after notice thereof is given to the other party.

Tax Allocation Agreement

This Tax Allocation Agreement was entered into July 1, 2010 by and between Utica Mutual Insurance Company, Republic-Franklin Insurance Company, Utica National Insurance Company of Texas, Utica Lloyd's of Texas, Utica National Assurance Company, Utica National Insurance Company of Ohio, Utica Specialty Risk Insurance Company, Utica Lloyd's Inc., Founders Insurance Company, Founders Insurance Company of Michigan, UNI-Service Operations Corporation, UNI-Service Risk Management Corporation, UNI-Service Excess Facilities, UNI-Service Excess Facilities Insurance Agency of New England, UNI-Service Life Agency, Nationwide Holdings, Inc., Pillar Premium Finance Company and Financial American Insurance Management, Inc.

The Company had the following service agreements in effect at the examination date:

1. UMIC & FICOM Service Agreement

This service agreement was entered into December 11, 2014 by and between UMIC and Founders Insurance Company of Michigan ("FICOM"). UMIC, the ultimate parent company provides certain services to FICOM including executive management services, actuarial services, accounting services, technology services and all other activities necessary to the conduct of FICOM as FICOM may from time to time request.

In consideration for the services rendered by UMIC, FICOM shall pay UMIC a fee equal to the following incurred expenses:

- Loss adjustment expenses for adjusting, recording and paying of claims which are directly related to FICOM;
- Investment expenses for the investment of funds and pursuit of investment income that are directly related to FICOM;
- Other underwriting expenses that are directly related to FICOM.

Such fee shall be paid by FICOM within fifteen days following receipt by FICOM of a report showing the relevant expenses.

This agreement shall continue in force and effect until terminated by any party upon mutual agreement or upon 60 days' prior written notice to the other.

2. UMIC & USRIC Service Agreement

This service agreement is between UMIC and Utica Specialty Risk Insurance Company ("USRIC"). This agreement was made effective April 1, 2012.

UMIC agrees to render certain services for and on behalf of USRIC including underwriting advice and services, policy issuing and billing services, premium collection, auditing and record keeping, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct of USRIC as USRIC may from time to time request.

UMIC is responsible for all operating expenses of USRIC other than the following expenses and costs that are to be retained by USRIC:

- Commissions allowed producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

In consideration of the services rendered by UMIC, USRIC pays UMIC, in accordance with the provisions of Regulation No. 30 (11 NYCRR 105-109). This agreement shall continue to be in force until terminated by either party's giving at least thirty (30) days' written notice to the other party.

3. UMIC & ULOT Service Agreement

This agreement is by and between UMIC and Utica Lloyd's of Texas ("ULOT"). This contract became effective on September 1, 1999.

UMIC agrees to render certain services for and on behalf of ULOT, under the supervision and control of an Attorney-in-Fact, including underwriting advice and services, policy issuing and billing services, premium collection, auditing and record keeping, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct ULOT as ULOT may from time to time request.

UMIC is responsible for all operating expenses of ULOT other than the following expenses and costs, which are to be retained by ULOT:

- Commissions allowed producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses, other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

This agreement shall continue to be in force until cancelled by either party's giving thirty (30) days written notice to the other party.

4. UMIC & UNIT Service Agreement

This service agreement is between UMIC and Utica National Insurance Company of Texas ("UNIT") was made effective October 1, 2014.

UMIC agrees to render certain services for and on behalf of UNIT that include underwriting advice and services, policy issuing and billing services, auditing and record keeping, premium collection, office accommodations, claim adjustment and payment services, and all other activities necessary to the conduct of UNIT as UNIT may from time to time request.

Except as otherwise provided, each party to this agreement shall have the right to terminate this agreement for any reason by giving the other party written notice received sixty (60) days prior to the

effective date thereof. In addition, UNIT shall have the right to terminate this agreement immediately for cause.

5. UMIC & Operations Service Agreement

This service agreement is made and entered into between UMIC and UNI-Service Operations Corporation (“Operations”). This agreement was executed March 13, 2001 and was made effective January 1, 2001.

UMIC shall provide to Operations such services as may be needed by Operations in the course of its business operations. UMIC shall charge Operations for such services on terms that are fair, equitable, and reasonable and in conformity with customary insurance accounting practices consistently applied. Each party shall have the right, at its own expense and at any reasonable time, to audit the records of the other party.

The agreement shall continue in effect until cancelled by either party giving at least thirty (30) days’ notice in writing to the other party.

6. UMIC & UNICO Amended and Restated Service Agreement

This amended and restated service agreement between UMIC and Utica National Insurance Company of Ohio (“UNICO”) was entered into on September 7, 2011.

UMIC agrees to render certain services for and on behalf of UNICO that include underwriting advice and services, policy issuing and billing services, auditing and record keeping, premium collection, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct of UNICO as UNICO may from time to time request.

UMIC is responsible for all operating expenses of UNICO other than the following expenses and costs that are to be retained by UNICO:

- Commissions allowed producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

This agreement shall continue in force until terminated by either party's giving at least thirty (30) days' written notice to the other party.

7. UMIC & Excess Facilities Service Agreement

This agreement is between UMIC and Special Risk Solutions ("SRS"), formerly known as Uni-Service Excess Facilities, Inc. This agreement became effective January 2, 1990 and continues in force until cancelled by either party giving 30 days written notice to the other.

As a reinsurance intermediary, SRS may negotiate, place or arrange for reinsurance for UMIC and/or other insurance companies and for such actions may be paid a fee or commission. UMIC agrees to render certain services for and on behalf of SRS, under the supervision and control of SRS, including but not limited to accounting, preparation of renewal underwriting information, monitoring claims activities, assistance in claims and underwriting audits performed by other reinsurers, assistance in security reviews and general administrative services.

SRS shall pay UMIC a fee equal to ninety-eight percent (98%) of the commissions received by SRS for its work as a reinsurance intermediary.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to policyholders' surplus	78%
Adjusted liabilities to liquid assets	83%
Gross agents' balances (in collection) to policyholders' surplus	23%

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	\$2,002,362,645	72.69%
Other underwriting expenses incurred	1,052,525,594	38.21
Net underwriting loss	<u>(300,043,023)</u>	<u>(10.89)</u>
Premiums earned	<u>\$2,754,845,216</u>	<u>100.00%</u>

F. Accounts and Records

i. Department Regulation No. 118 - CPA Agreement Compliance

Section 89.8(a) of New York's Regulation 118 states in part that:

“Every company required to furnish an annual audited financial report shall require the CPA to submit written notification to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date...”

The examination review revealed that none of the CPA engagement letters/agreements provided for the current examination period stated the five business day requirement.

It is recommended that the Company ensure that future engagement letters with its independent certified public accountant include the five-day notice requirement called for in Section 89.8(a) of Department Regulation No. 118.

ii. Expense Limitation for Mutual Companies

Section 4110(a) of the New York Insurance Law states in part that:

“No domestic mutual property/casualty insurance company licensed to write a kind of insurance specified in paragraph seven, eight, nine, ten, eleven, thirteen, fourteen, fifteen, sixteen or seventeen of subsection (a) of section one thousand one hundred thirteen of this chapter shall expend in any one calendar year for management expenses a greater amount than thirty percent of the sum of its net premium income and seventy-five percent of its investment income for such year;...”

The examination review of expenses for the five year period under examination revealed that the Company exceeded the management expense limits in all five years covered by this examination.

It is recommended that the Company comply with the management expense limitations set forth in Section 4110(a) of the New York Insurance Law.

It should be noted that a similar recommendation was included in the previous report on examination.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,373,215,970	\$ 0	\$1,373,215,970
Common stocks	508,311,516	681,330	507,630,186
First liens - mortgage loans on real estate	4,752,486	0	4,752,486
Real estate properties occupied by the company	16,571,185	0	16,571,185
Cash, cash equivalents and short-term investments	18,785,462	0	18,785,462
Other invested assets	16,549,013	0	16,549,013
Receivables for securities	316,393	0	316,393
Investment income due and accrued	12,215,910	0	12,215,910
Uncollected premiums and agents' balances in the course of collection	188,709,750	3,360,860	185,348,890
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,332,825	64,566	17,268,259
Amounts recoverable from reinsurers	8,846,472	0	8,846,472
Net deferred tax asset	65,785,606	7,301,270	58,484,336
Guaranty funds receivable or on deposit	361,941	0	361,941
Electronic data processing equipment and software	823,573	0	823,573
Furniture and equipment, including health care delivery assets	325,551	325,551	0
Equities and deposits in pools and associations	4,018,873	19,889	3,998,984
Accounts receivable	4,318,082	1,026,037	3,292,045
Prepaid expenses	3,422,666	3,164,222	258,444
Clearing accounts	1,279,959	1,184,289	95,670
Miscellaneous office equipment	12,034,407	12,034,407	0
Deposits	<u>435,074</u>	<u>435,074</u>	<u>0</u>
Total assets	<u>\$2,258,412,714</u>	<u>\$29,597,495</u>	<u>\$2,228,815,219</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$1,014,091,253
Commissions payable, contingent commissions and other similar charges	15,239,573
Other expenses (excluding taxes, licenses and fees)	32,532,854
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,698,791
Current federal and foreign income taxes	6,054,874
Unearned premiums	314,335,798
Advance premium	3,335,815
Policyholders (dividends declared and unpaid)	2,515,644
Ceded reinsurance premiums payable (net of ceding commissions)	6,163,793
Funds held by company under reinsurance treaties	5,053,633
Amounts withheld or retained by company for account of others	12,558,390
Provision for reinsurance	4,400,556
Net adjustments in assets and liabilities due to foreign exchange rates	5,171
Payable to parent, subsidiaries and affiliates	4,863,739
Payable for securities	469,688
Contingent balance in safety groups	820,680
Reserve for corporate loss	100,000
Payable for securities	1,000
Liability for pension benefits	<u>(9,171,242)</u>
Total liabilities	\$1,422,940,511

Surplus and other funds

General voluntary surplus	\$ 1,500,000
Insurance department reserves	9,000
Reserve for undeclared dividends	5,918,655
Special contingent surplus	1,700,000
Unassigned funds (surplus)	<u>796,747,053</u>
Surplus as regards policyholders	<u>805,874,708</u>
Totals liabilities, surplus and other funds	<u>\$2,228,815,219</u>

NOTE: The Internal Revenue Service is currently reviewing the Company's 2010-2012 federal income tax returns. 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

The net income for the examination period was \$55,674,058 as detailed below.

Underwriting Income

Premiums earned		\$2,754,845,216
Deductions:		
Losses and loss adjustment expenses incurred	\$2,002,362,645	
Other underwriting expenses incurred	1,050,284,525	
LAD program expense	<u>2,241,069</u>	
Total underwriting deductions		<u>3,054,888,239</u>
Net underwriting gain or (loss)		(300,043,023)

Investment Income

Net investment income earned	298,602,738	
Net realized capital gain	<u>120,134,987</u>	
Net investment gain		418,737,725

Other Income

Net gain or (loss) from agents' or premium balances charged off	(4,347,858)	
Finance and service charges not included in premiums	5,935,839	
Foreign exchange	(314,892)	
Corporate loss	(1,314,813)	
Miscellaneous income	<u>(32,501,982)</u>	
Total other income		<u>(32,543,706)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		86,150,996
Dividends to policyholders		<u>30,816,662</u>
Net income after dividends to policyholders but before federal and foreign income taxes		55,334,334
Federal and foreign income taxes incurred		<u>(339,724)</u>
Net income		<u>\$ 55,674,058</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$85,373,506 during the five year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$720,501,199
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 55,674,058		
Net unrealized capital gains or (losses)		\$22,389,945	
Change in net unrealized foreign exchange capital gain (loss)	186,029		
Change in net deferred income tax	138,111		
Change in non-admitted assets	77,293,638		
Change in provision for reinsurance	17,684,679		
Cumulative effect of changes in accounting principles		1,669,789	
Contingent balance in safety groups	7,526,630		
Correction of prior period error		2,139,038	
Deferred tax admissible		9,268,089	
Pension expense		3,224,021	
Pension benefit obligation	<u>0</u>	<u>34,438,754</u>	
Total gains and losses	<u>\$150,976,516</u>	<u>\$65,603,006</u>	
Net increase in surplus			<u>85,373,509</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$805,874,708</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,014,091,253 is the same as reported by the Company as of December 31, 2014. The examination analysis 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 ten recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<ul style="list-style-type: none"> i. It was recommended that the Company comply with its by-laws by ensuring that all elective officers of the Company shall be annually sworn and their oaths entered of record in the books of the Company and that the chairman of the board, the president, the secretary, the treasurer, the comptroller, their officer assistants, if any, and any other officers, employees, or agents designated by the chief executive officer or board shall furnish bonds for the faithful performance of their respective duties, in such sums as the board may require, as required by Article V, Section 3 of the Company's by-laws. The Company has complied with this recommendation. 	5
<ul style="list-style-type: none"> ii. It was recommended that the Company comply with Section 1209(b) of the New York Insurance Law by reducing to no more than four, the number of directors who are neither members of the Company nor officers of member corporations. The Company has not complied with this recommendation. A similar comment is contained in this report. 	6
B. <u>Reinsurance</u>	
<ul style="list-style-type: none"> i. It was recommended that the offset provision of certain reinsurance agreements be amended to state that in the event of the insolvency of either party to the agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law. The Company has not complied with this recommendation. A similar comment is contained in this report. 	13
<ul style="list-style-type: none"> It was further recommended that all future reinsurance agreements with an offset provision entered into by the Company include such required language. The Company has not complied with this recommendation. A similar comment is contained in this report. 	13
<ul style="list-style-type: none"> ii. It was recommended that the Company comply with the NAIC Annual Statement Instructions by properly aging all reinsurance recoverables in all future filings with this Department. The Company has complied with this recommendation. 	13

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Accounts and Records</u>	
i. It was recommended that the Company complete its record retention policy.	18
The Company has complied with this recommendation.	
It was also recommended that all retention periods be modified to comply with the requirements of Department Regulation 152 and that records be kept for the required periods.	18
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with SSAP No. 6, paragraph 7 by using the effective date for the determination of non-admitted premium for original and endorsement premiums.	18
The Company has complied with this recommendation.	
iii. It was further recommended that the Company comply with SSAP No. 6, paragraph 9 by non-admitting installment premiums when they are over 90 days past due.	18
The Company has complied with this recommendation.	
iv. It was recommended that the Company comply with the management expense limitations set forth in Section 4110(a) of the New York Insurance Law.	19
The Company has not complied with this recommendation. A similar comment is contained in this report.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<p>It is recommended that the Company comply fully with Article VI of its Charter as well as Section 1209(b) of the New York Insurance Law by reducing to no more than four, the number of directors who are neither members of the Company nor officers of member corporations. It should be noted that a similar recommendation was included in the previous report on examination.</p>	5
B. <u>Reinsurance</u>	
<p>i. It is recommended that in the future the Company accurately prepare Schedule F, in accordance with the NAIC's annual statement instructions.</p>	8
<p>ii. It is recommended that the Company only take statutory credit for reinsurance cessions to authorized insurers or accredited reinsurers, unless it receives collateral in accordance with Department Regulation 20.</p>	9
<p>iii. It is recommended that the Company include specific language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.</p>	11
<p>iv. It is recommended that the offset provision of certain reinsurance agreements be amended to state that in the event of the insolvency of either party to the agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law.</p>	12
<p>v. It is further recommended that all future reinsurance agreements with an offset provision entered into by the Company include such required language.</p>	12
C. <u>Accounts and Records</u>	
<p>i. It is recommended that the Company ensure that future engagement letters with its independent certified public accountant include the five day notice requirement called for in Section 89.8(a) of Department Regulation No. 118.</p>	19
<p>ii. It is again recommended that the Company comply with the management expense limitations set forth in Section 4110(a) of the New York Insurance Law. It should be noted that a similar recommendation was included in the previous report on examination.</p>	20

Respectfully submitted,

Wayne Longmore
Senior Insurance Examiner

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

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.

Wayne Longmore

Subscribed and sworn to before me

this _____ day of _____, 2016.

APPOINTMENT NO. 31219

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

Utica Mutual Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

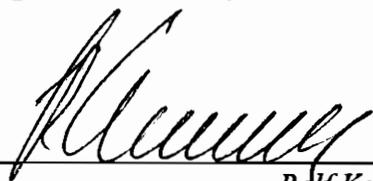
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 26th day of September, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

