

REPORT ON EXAMINATION

OF THE

OTSEGO COUNTY PATRONS CO-OPERATIVE FIRE RELIEF ASSOCIATION

AS OF

DECEMBER 31, 2008

DATE OF REPORT

MAY 5, 2010

EXAMINER

NYANTAKYI AKUOKO

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

May 5, 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 30382 dated October 5, 2009 attached hereto, I have made an examination into the condition and affairs of Otsego County Patrons Co-operative Fire Relief Association as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Otsego County Patrons Co-operative Fire Relief Association.

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 8146 State Highway 7, Schenevus, New York 12155.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of Otsego County Patrons Cooperative Fire Relief Association. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

This examination report also includes a summary of significant findings regarding market conduct activities.

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on November 8, 1913, as Otsego County Patrons Co-operative Fire Relief Association for the purpose of transacting business as an assessment co-operative fire insurance corporation in Otsego, Delaware, Schoharie and Greene counties of this State. Effective January 1, 1987, this Department approved an extension of the Company's writing powers to include the kinds of insurance specified in subsections (a) and (b) of Section 6605 of the New York Insurance Law ("NYIL").

### 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 fifteen members. At least, four board meetings were held each year for the period under examination; thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2008, the board was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard C. Ballard, Sr. Morris, NY	Painter
Todd Cipperly Central Bridge, NY	Mortgage Broker, Advantage Real Estate Services, Inc.
Susan Bunyan Drake Cherry Valley, NY	Secretary/Treasurer, Otsego County Patrons Co-operative Fire Relief Association

Name and ResidencePrincipal Business Affiliation

Marjorie M. French  
Schenevus, NY

Second Vice President,  
Otsego County Patrons Co-operative Fire  
Relief Association

Richard Lee Hanson  
Richfield Springs, NY

President,  
Otsego County Patrons Co-operative Fire  
Relief Association

Lawrence Nelson Hickling  
Edmeston, NY

Dairy Farmer

David C. Maine  
West Edmeston, NY

Retired

Elsie Turner Myers  
Davenport, NY

First Vice President,  
Otsego County Patrons Co-operative Fire  
Relief Association  
Insurance Agent and Broker

Joanne Scanlon  
Schenevus, NY

Assistant Treasurer & Office Manager,  
Otsego County Patrons Co-operative Fire  
Relief Association

Walker C. Stowell  
Central Bridge, NY

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, 2008, the principal officers of the Company were as follows:

NameTitle

Richard Lee Hanson  
Susan Bunyan Drake  
Elsie Turner Myers  
Marjorie M. French

President  
Secretary/Treasurer  
First Vice President  
Second Vice President

B. Territory and Plan of Operation

As of December 31, 2008, the Company was only licensed to write business in the following nineteen counties of New York State: Albany, Broome, Chenango, Columbia, Cortland, Delaware, Fulton, Greene, Herkimer, Madison, Montgomery, Oneida, Onondaga, Oswego, Otsego, Schenectady, Schoharie, Sullivan and Ulster.

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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and Inland marine (inland marine only)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company was also licensed as of December 31, 2008, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

The Company's predominant lines of business are homeowners multiple peril, commercial multiple peril, and fire, which accounted for 45.33%, 20.54% and 14.19%, respectively of the 2008 direct premium writings. The Company writes on a direct basis through independent agents and two director-agents located throughout the Company's territory.

The following schedule shows the direct premiums written by the Company in New York for the period under examination (000's omitted):

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2004	\$1,710
2005	\$1,770
2006	\$1,860
2007	\$1,887
2008	\$1,859

C. Reinsurance

The Company did not assume any reinsurance during the period covered by this examination.

As of December 31, 2008, the Company had the following ceded reinsurance program in place:

<u>Type of Contract</u>	<u>Cession</u>
Property (3 layers)	\$785,000 in excess of \$15,000 each loss, each risk; reinsurer's liability from all risks in each loss occurrence shall not exceed \$170,000, \$800,000 and \$600,000 for the first, second and third layers, respectively.
Specified catastrophe perils	\$90,000 in excess of \$10,000 each loss, each risk, subject to a limit of liability to the reinsurer of \$180,000 each loss occurrence.
Casualty (2 layers)	\$490,000 in excess of \$10,000 each loss occurrence.
Combined (Property and Casualty combined in one loss occurrence)	\$85,000 in excess of \$15,000 net loss, each loss occurrence involving at least one casualty policy and one property policy.
Casualty Clash	\$500,000 in excess of \$500,000 ultimate net loss, each loss occurrence.

The Company had the following catastrophe excess of loss reinsurance program in effect at December 31, 2008:

Type of ContractCession

Property  
(2 layers)

\$450,000 in excess of \$50,000 ultimate net loss, each loss occurrence involving three or more risks.

100% in excess of \$500,000 ultimate net loss, each loss occurrence involving three or more risks.

All reinsurance contracts in effect throughout the examination period were reinsured by authorized reinsurers. Since the date of the prior examination, December 31, 2003, the Company's net retention increased from \$14,000 to \$15,000 on property business and on casualty business the Company's net retention increased from \$9,000 to \$10,000.

Section 1308(e)(1)(A) of the New York Insurance Law states, in part, that:

“During any period of twelve consecutive months, without the superintendent's permission: no domestic insurer, except life, shall by any reinsurance agreement or agreements cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period . . .”

The Department previously granted approval for the Company to cede an amount in excess of the fifty percent limitation prescribed by Section 1308(e)(1)(A) of the New York Insurance Law. However, in each of the five years under examination, the amount of ceded premiums were in excess of fifty percent of the beginning unearned premium of the respective year, but the Company failed to submit additional treaties that it became a party to for review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.

It is recommended that in the future, the Company submit its reinsurance contract(s) to the Department, as well as any new contracts and any amendments thereto that it becomes a party to, for review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.

All significant 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 the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by an attestation from the Company's officers. 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 SSAP No. 62.

D. Holding Company System

The Company is not a member of any holding company system as of December 31, 2008. Furthermore, the Company had no affiliations or pooling agreements in force at December 31, 2008.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written in 2008 to surplus as regards policyholders	64%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	67%
Premiums in course of collection to surplus as regards policyholders	4%

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	\$2,115,571	92.97%
Other underwriting expenses incurred	150,714	6.62
Net underwriting gain	<u>9,275</u>	<u>0.41</u>
Premiums earned	<u>\$2,275,560</u>	<u>100.00%</u>

F. Accounts and Records

i. Compliance with the Annual Statement Instructions

During the review of the Company's filed annual statements, instances were found of the Company not following the annual statement instructions. The Company did not fully complete the Supplemental Compensation Exhibit in the 2008 filed annual statement. In addition, the Company responded affirmatively to General Interrogatory 13.1, which asks if the senior officers of the reporting entity are subject to a code of ethics. It was noted that as of December 31, 2008, the Company had no written code of ethics in place.

See the following sections of the report for additional information:

- a. Section 2(F)(ii) "Misclassification of annual statement line items"
- b. Section 2(F)(vi) "Repurchase agreement"
- c. Section 2(F)(vii) "Completion of Schedule D - Part 1"

Therefore, it is recommended that the Company complete all financial statements filed with this Department in accordance with such statement's instructions, henceforth. It is noted that a similar recommendation was made in the two prior examination reports.

ii. Misclassification of Annual Statement Line Items

During the course of the examination, it was determined that the Company misclassified some annual statement line items. Advance premiums were included in the uncollected premiums asset contrary to the requirements of SSAP No. 53 paragraph 13 and the NAIC Annual Statement Instructions. An investment in a cash management account that was subject to a repurchase agreement which should have been reported on Schedule DA - Part 1 as a short term investment, pursuant to SSAP No. 2 paragraph 10, was reported as cash on Schedule E - Part 1. In addition, eleven certificates of deposit with maturity dates in excess of twelve months from the date of acquisition were reported as cash contrary to the requirements of SSAP No. 26 paragraph 2, which requires such certificates of deposit to be reported as bonds. Therefore, it is recommended that the Company comply with applicable SSAP's when completing the annual statements filed with this Department. A similar recommendation was made in the prior report on examination.

iii. Custodial Agreement

Section 3(III)(H) of the NAIC Financial Condition Examiners Handbook sets forth specific guidance that should be followed in the maintenance of custodial or safekeeping agreements. The Section states, in part, that:

“When conducting financial examinations, the custodial or safekeeping agreements should be considered and evaluated with this guidance.”

Upon examination, it was found that the agreement between the Company and a broker that held the Company’s Federal National Mortgage Association (“FNMA”) bond as of December 31, 2008, did not contain the required safeguards. During the course of the examination, the Company transferred the said security to its regular custodial account. Nevertheless, it is recommended that the Company obtain and maintain a custodial agreement with the custodian of any of its securities that contains the required safeguards and controls set forth in the NAIC Financial Condition Examiners Handbook.

iv. Fidelity Bond Coverage

During the review of insurance coverage, it was found that the fidelity bond amount maintained by the Company as of December 31, 2008, was less than the minimum amount recommended in the Handbook. During the course of the examination, the Company increased the amount of coverage to meet the NAIC recommended amount. Nevertheless, it is recommended that the Company maintain fidelity insurance at all times equal to at least the minimum amount recommended in the Handbook in order to adequately protect its assets. It is noted that a similar recommendation was made in the prior examination report.

v. Allocation of Expenses

SSAP No. 70 paragraph 6 regarding the allocation of expenses among the major expense categories (loss adjustment, other underwriting and investment) states, in part, that:

“Allocation to the . . . categories should be based on a method that yields the most accurate results. Specific identification of an expense with an activity that is represented by one of the categories . . . will generally be the most accurate method. Where specific identification is not feasible allocation of expenses should be based

upon pertinent factors or ratios such as studies of employee activities, salary ratios or similar analyses.”

Upon examination, it was found that the Company has not established and maintained written documentation supporting the allocation of expenses to the major expense categories as set forth in SSAP No. 70. In addition, it was found that the Company has not been allocating expenses to the expense classifications in accordance with the NAIC Annual Statement Instructions in some cases.

Therefore, it is recommended that the Company establish and maintain written documentation supporting the allocation of each expense classification to the major expense categories as set forth in SSAP No. 70. It is also recommended that the Company allocate expenses to the appropriate expense classification in order to comply with the NAIC Annual Statement Instructions. It is noted that similar recommendations referencing Department Regulation 30 regarding expense allocations were made in the prior examination report.

vi. Repurchase Agreement

The Company maintains a cash management account that was subject to a repurchase agreement. Upon examination, it was found that the Company did not make a disclosure regarding the agreement in the 2008 filed annual statement, as required by SSAP No. 91 paragraph 88 and the NAIC Annual Statement Instructions. Therefore, it is recommended that, in the future, the Company disclose in the annual statement the necessary information regarding investments subject to repurchase agreement in order to comply with SSAP No. 91.

vii. Completion of Schedule D - Part 1

SSAP No. 26 and the NAIC Annual Statement Instructions provide guidance for the reporting of securities on Schedule D - Part 1 of annual statements. Upon examination, it was found that some information reported on the 2008 Schedule D Part - 1 was not accurate. One of the bonds was found to be callable, but the Company did not indicate it as such in the column for bond characteristics. The reported rates of interest, the acquisition and maturity dates for some of the bonds were found to be inaccurate. Therefore, it is recommended that the Company comply with SSAP No. 26 and accurately complete the annual statement Schedule D - Part 1.

viii. Reconciliation of General Ledger Accounts

During the review of the annual statement liability line items “Taxes, licenses and fees” and “Amounts withheld or retained by company for account of others,” it was found that the general ledger amount did not agree to the supporting detail. In a follow-up discussion with management, it was noted that the general ledger balances for the two annual statement liability line items contained computing errors dating back to the previous management which have not been corrected.

Section 6611(a)(1) of the New York Insurance Law states that:

“Every co-operative property/casualty insurance company shall keep and maintain books of account and records in such manner as will show fully and truly the conditions, affairs and business of such corporation and facilitate the preparation and verification of its annual statements.”

Therefore, it is recommended that the Company reconcile the general ledger accounts to the supporting detail in order to comply with Section 6611(a)(1) of the New York Insurance Law. In addition, once the accurate balance in the account is determined based upon the supporting detail, the inaccurate amounts should be written off so that the general ledger is accurate, going forward. It is noted that a similar recommendation was made in the prior report on examination regarding compliance with Section 6611(a)(1) of the New York Insurance Law, though the accounts involved were different.

G. Risk Management and Internal Controls

During this examination, it was found that the Company’s current Disaster Response/Business Continuity Plan (“Plan”) lacked details regarding dealing with the death or disability of key employees. The prior report on examination contained a recommendation that the Company update its Business Resumption Plan and review same on a regular basis to ensure that it adequately addressed the issue regarding the death or disability of key employees. Accordingly, it is recommended that the Company adequately address its mitigating strategies regarding the death or disability of key employees to reduce the risk involved in order to protect the 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, 2008 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	\$451,794	\$ 0	\$451,794
Common stocks	6,592	0	6,592
Real estate: properties occupied by the company	28,148	0	28,148
Cash, cash equivalents and short-term investments	1,147,731	0	1,147,731
Investment income due and accrued	7,927	0	7,927
Uncollected premiums and agents' balances in course of collection	49,889	25,993	23,896
Deferred premiums, agents' balances and installments booked but deferred and not yet due	172,065	0	172,065
Amounts recoverable from reinsurers	676	0	676
Net deferred tax asset	17,000	0	17,000
Furniture and equipment, including health care delivery assets	<u>79,327</u>	<u>79,327</u>	<u>0</u>
Total assets	<u>\$1,961,149</u>	<u>\$105,320</u>	<u>\$1,855,829</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 141,152
Commissions payable, contingent commissions and other similar charges	67,966
Other expenses (excluding taxes, licenses and fees)	2,603
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,675
Unearned premiums	966,721
Ceded reinsurance premiums payable (net of ceding commissions)	70,328
Amounts withheld or retained by company for account of others	<u>1,629</u>
 Total liabilities	 \$1,253,074

Surplus and Other Funds

Required surplus	\$100,000
Unassigned funds (surplus)	<u>502,755</u>
 Surplus as regards policyholders	 <u>602,755</u>
 Total liabilities, surplus and other funds	 <u>\$1,855,829</u>

NOTE: The Internal Revenue Service has not yet begun to audit the Company's Federal Income Tax returns covering tax years 2004 through 2008. 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 \$177,095 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income

Premiums earned		\$2,275,560
Deductions:		
Losses and loss adjustment expenses incurred	\$2,115,571	
Other underwriting expenses incurred	<u>150,714</u>	
Total underwriting deductions		<u>2,266,285</u>
Net underwriting gain or (loss)		\$ 9,275

Investment Income

Net investment income earned	\$83,443	
Net realized capital gains or (losses)	<u>0</u>	
Net investment gain or (loss)		83,443

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 5,770	
Finance and service charges not included in premiums	<u>102,961</u>	
Total other income		<u>108,731</u>
Net income before federal and foreign income taxes		\$201,449
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$201,449</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$425,660
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$201,449		
Net unrealized capital gains or losses	4,494		
Change in net deferred income tax		\$ 8,524	
Change in nonadmitted assets	1,654		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>21,978</u>	
Total gains or losses in surplus	<u>\$207,597</u>	<u>\$30,502</u>	
Net increase (decrease) in surplus			<u>177,095</u>
Surplus as regards policyholders per report on examination as of December 31, 2008			<u>\$602,755</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$141,152 is the same as reported by the Company as of December 31, 2008. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Treatment of policyholders and claimants

Except as noted below, no unfair practices were encountered.

Policy form approval

Section 6609(b) of the New York Insurance Law states that:

“No policy form shall be delivered or issued for delivery by an assessment corporation unless it has been filed by said assessment corporation with the superintendent and he has approved it.”

On examination, it was found that some policy forms issued for delivery, including a policy jacket, policy declaration pages and the direct bill payment plan page, were not approved for use by the Superintendent.

Therefore, it is recommended that the Company comply with Section 6609(b) of the New York Insurance Law and file all forms prior to use, with the Superintendent for approval. It is noted that a similar recommendation was made in the prior report on examination.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i.    It was recommended that the Company comply with Section 6611(a)(3) of the NYIL and maintain formal minutes of committee meetings.	4
The Company has complied with this recommendation.	
ii.   It was recommended that the Company adhere to all provisions of its by-laws.	4
The company has complied with this recommendation.	
iii.  It was recommended that the Company comply with Section 712(a) of the NYBCL regarding board approval of membership to committees.	4
The Company has complied with this recommendation.	

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iv. It was recommended that the Company comply with Section 6611(a)(4)(C) of the NYIL regarding signature requirements on checks.	4
The Company has complied with this recommendation.	
v. It was recommended that, henceforth, the directors and the officers of the Company remain mindful of their fiduciary responsibilities to the Company and its policyholders, as set forth in Section 717(a) and 715(h) of the NYBCL. In addition, the Company is directed to replace any director and/or officer who cannot or does not fulfill their duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.	5
The company has complied with these recommendations.	
<b>B. <u>Territory and Plan of Operation</u></b>	
It was recommended that the Company write only in the counties it has been licensed in pursuant to Section 6608(b) of the NYIL.	5
The Company has complied with this recommendation.	
<b>C. <u>Reinsurance</u></b>	
i. It was recommended that the Company comply with Section 6610(d) and (e) of the NYIL and limit its net insurance on a single casualty risk and on a single risk and occurrence of specified catastrophe perils to the limitations put forth by Section 6610 of the NYIL.	8
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Section 6606(a)(2) of the NYIL by ceding to authorized or accredited reinsurers only, unless otherwise permitted by the superintendent.	9
The Company has complied with this recommendation.	
<b>D. <u>Accounts and Records</u></b>	
i. It was recommended that the Company comply with Section 1411(a) of the NYIL and have all investment transactions authorized or approved by the board of directors or a committee thereof responsible for supervising or making such investments.	10
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
<p>ii. It was recommended that the Company complete all financial statements filed with this Department in accordance with such statement's instructions, henceforth. It is noted that a similar recommendation was included in the prior report regarding the completion of Schedule P.</p> <p>The Company has not complied with this recommendation. A similar recommendation is included in this report.</p>	11
<p>iii. It was recommended that the Company comply with applicable SSAP's when completing annual statements filed with this Department.</p> <p>The Company has not complied with this recommendation. A similar recommendation is included in this report.</p>	11
<p>iv. It was recommended that the Company review and reconcile the general ledger to the premium reports (subsidiary ledgers) and to the investment ledger on a monthly basis in order to identify possible discrepancies and to facilitate the verification of its financial statements as required by Section 6611(a)(1) of the New York Insurance Law.</p> <p>The Company has not complied with this recommendation. A similar recommendation is contained in this report.</p>	11-12
<p>v. It was recommended that the Company allocate expenses to each expense category in accordance with the Department Regulation 30. It was further recommended that management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.</p> <p>The Company has not complied with these recommendations. A similar recommendation, this time referencing SSAP No. 70 and the NAIC Annual Statement Instructions is included in this report.</p>	12
<p>vi. It was recommended that the Company comply with Section 1409(a) and limit its investments to ten percent of its admitted assets in any one institution, unless the Section 6623(c) exception is applicable.</p> <p>The Company has complied with this recommendation.</p>	12-13
<p>vii. It was recommended that the Company maintain fidelity insurance at all times equal to at least the minimum amount recommended in the NAIC's Financial Condition Examiners Handbook in order to adequately protect its assets.</p> <p>The Company has not complied with this recommendation. A similar recommendation is included in this report.</p>	13

<u>ITEM</u>	<u>PAGE NO.</u>
viii. It was recommended that going forward the Company's contract with its CPA firm comply with the requirements put forth in Department Regulation 118.  The Company has complied with this recommendation.	13
ix. It was recommended that the Company update its Business Resumption Plan and review it on regular basis to ensure that it adequately addresses the current situation at the Company in order to protect the best interests of the Company and its policyholders.  The Company did not fully comply with this recommendation. A similar recommendation is included in this report.	13
E. <u>Market Conduct</u>	
i. It was recommended that the Company comply with Regulation 64 Part 216.9 and mail written notices to claimants at the time payment of claims over the amount stipulated in the Regulation is made to their representative. Also, it was recommended that the Company keep abreast of revisions and updates to the New York Insurance Law and the applicable insurance regulations and circular letters.  The Company has complied with these recommendations.	18
ii. It was recommended that the Company comply with Section 6609(b) of the NYIL and file all policy forms to be used, including policy jackets, with the Superintendent for approval.  The Company has not complied with this recommendation. A similar recommendation is included in this report.	19
iii. It was recommended that the Company comply with Section 2112(a) and file with the Department certificates of appointment for the agents it wishes to have represent it.  The Company has complied with this recommendation.	19
iv. It was recommended that the Company comply with Article V Section 3 of its by-laws regarding the collection of annual premiums. Also, it was recommended that the Company consistently apply its cancellation procedures in accordance with the provisions of Section 3425 of the NYIL.  The Company has complied with these recommendations.	19

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.     <u>Reinsurance</u></p> <p>It is recommended that in the future, the Company submit its reinsurance contract(s) to the Department, as well as any new contracts and any amendments thereto that it becomes a party to, for review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.</p>	<p>7</p>
<p>B.     <u>Accounts and Records</u></p> <p>i.     It is recommended that the Company complete all financial statements filed with this Department in accordance with such statement's instructions, henceforth. It is noted that a similar recommendation was made in the two prior examination reports.</p> <p>ii.    It is recommended that the Company comply with applicable SSAP's when completing the annual statements filed with this Department. A similar recommendation was made in the prior report on examination.</p> <p>iii.   It is recommended that the Company obtain and maintain a custodial agreement with the custodian of any of its securities that contains the required safeguards and controls set forth in the NAIC Financial Condition Examiners Handbook.</p> <p>iv.    It is recommended that the Company maintain fidelity insurance at all times equal to at least the minimum amount recommended in the Handbook in order to adequately protect its assets. It is noted that a similar recommendation was made in the prior examination report.</p> <p>v.     It is recommended that the Company establish and maintain written documentation supporting the allocation of each expense classification to the major expense categories as set forth in SSAP No. 70. It is also recommended that the Company allocate expenses to the appropriate expense classification in order to comply with the NAIC Annual Statement Instructions. It is noted that similar recommendations referencing Department Regulation 30 regarding expense allocations were made in the prior examination report.</p> <p>vi.    It is recommended that, in the future, the Company disclose in the annual statement the necessary information regarding investments subject to repurchase agreement in order to comply with SSAP No. 91.</p> <p>vii.   It is recommended that the Company comply with SSAP No. 26 and accurately complete the annual statement Schedule D - Part 1.</p>	<p>9</p> <p>9</p> <p>10</p> <p>10</p> <p>11</p> <p>11</p> <p>11</p>

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- viii. It is recommended that the Company reconcile the general ledger accounts to the supporting detail in order to comply with Section 6611(a)(1) of the New York Insurance Law. In addition, once the accurate balance in the account is determined based upon the supporting detail, the inaccurate amounts should be written off so that the general ledger is accurate, going forward. It is noted that a similar recommendation was made in the prior report on examination regarding compliance with Section 6611(a)(1) of the New York Insurance Law, though the accounts involved were different. 12
- C. Risk Management and Internal Controls
- It is recommended that the Company adequately address its mitigating strategies regarding the death or disability of key employees to reduce the risk involved in order to protect the interests of the Company and its policyholders. 12
- D. Market Conduct Activities
- It is recommended that the Company comply with Section 6609(b) of the New York Insurance Law and file all forms prior to use, with the Superintendent for approval. It is noted that a similar recommendation was made in the prior report on examination. 17

Respectfully submitted,

\_\_\_\_\_  
/s/  
Nyantakyi Akuoko  
Senior Insurance Examiner

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

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

\_\_\_\_\_  
/s/  
Nyantakyi Akuoko

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

Appointment No 30382

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:

***Nyantakyi Akuoko***

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

**Otsego Country Patrons Co-operative Fire Relief Association**

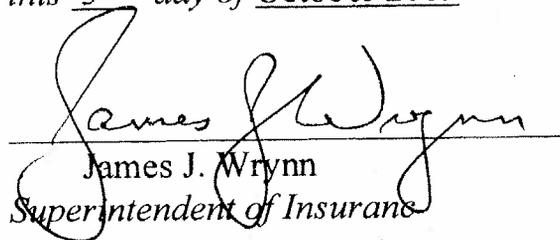
*and to make a report to me in writing of the condition of the said*

**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 5<sup>th</sup> day of October 2009

  
James J. Wrynn  
Superintendent of Insurance

