

REPORT ON EXAMINATION

OF THE

MID-HUDSON CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT:

OCTOBER 29, 2010

EXAMINER:

JOHN CONLEY

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

October 29, 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 30512 dated April 15, 2010, attached hereto, I have made an examination into the condition and affairs of Mid-Hudson Co-operative Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Mid-Hudson Co-operative Insurance Company.

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

The examination was conducted at the Company's home office located at 104 Bracken Road, Montgomery, NY 12549.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of Mid-Hudson Co-operative Insurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, 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 examiner 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

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Mid-Hudson Co-operative Insurance Company was incorporated as The Westchester and Putnam Patrons' Fire Relief Association, as an assessment cooperative, under the laws of the State of New York on April 19, 1900 and commenced operations on September 1 of the same year.

Pursuant to a charter amendment approved by this Department on November 10, 1965, the name of the Company was changed from The Westchester and Putnam Patrons' Fire Relief Association to the Mid-Hudson Co-operative 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 fifteen members. The board of directors met at least four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul Boehme Chatham, NY	Mayor, Village of Chatham, NY, Retired, NY State Insurance Examiner
Philip Coombe, Jr. Grahamsville, NY	Farmer Retired, NYS Superintendent of Corrections
Greg M. Cooper Mongaup Valley, NY	CPA, Secretary and Treasurer, Mid-Hudson Co-operative Insurance Company
George Dunkel Pine Bush, NY	Retired President, Community Bank of Sullivan County

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Raymond J. Enright Stanfordville, NY	Retired Teacher
Maureen M. Hess Hudson, NY	Secretary, Claverack Co-operative Insurance Company
Alan R. Lewis Newburgh, NY	Lawyer
James R. Lichtel East Greenbush, NY	Retired Chief Executive Officer, URB
James M. Russell Frankfort, NY	Retired President, Allegany Co-operative Insurance Company
Gary Schmidt Monticello, NY	Chief Executive Officer, Schmidt's Wholesale, Inc.
Gerald J. Skoda Woodbourne, NY	Retired, Cornell Co-operative Extension Agent President, Mid-Hudson Co-operative Insurance Company

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 had an acceptable record of attendance.

The review of the minutes revealed that the board consistently approved the Company's investment transactions complying with Section 1411(a) of the New York Insurance Law.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Gerald J. Skoda	President
Philip Coombe, Jr.	Vice President
Gerald M. Cooper	Secretary Treasurer

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business within all counties of the State of New York, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2005	\$6,313,520
2006	\$6,447,385
2007	\$6,501,632
2008	\$6,540,030
2009	\$6,307,578

At December 31, 2009, the Company wrote insurance through approximately seventy-nine independent agents and thirty-two brokers.

The Company writes predominantly commercial multiple peril, homeowners multiple peril, and fire insurance which accounted for 47.36%, 29.37% and 13.19%, respectively, of the 2009 net premiums written.

C. Reinsurance

During the period covered by this examination, the Company did not assume any reinsurance business.

The Company had the following reinsurance program in effect as of the examination date:

<u>Type of treaty</u>	<u>Cession</u>
<u>Multiple Line Excess of loss</u>	
1 <sup>st</sup> Excess Layer	<ul style="list-style-type: none"> <li>A. Property: \$125,000 excess of \$125,000 net loss, each risk. Limit \$250,000 each occurrence.</li> <li>B. Casualty: \$150,000 excess of \$100,000 ultimate net loss, each occurrence.</li> <li>C. Property and Casualty combined: \$125,000 excess of \$100,000 ultimate net loss, each occurrence for occurrence involving at least one property and one casualty policy. Recoveries under A and B of this layer, 2<sup>nd</sup> excess and casualty clash shall reduce the ultimate net loss subject to this paragraph.</li> <li>D. Annual Aggregate Deductible: Company shall retain \$100,000 otherwise recoverable hereunder.</li> </ul>
2 <sup>nd</sup> Excess Layer	<ul style="list-style-type: none"> <li>A. Property: \$250,000 excess of \$250,000 net loss, each risk. Limit \$500,000 each occurrence.</li> <li>B. Casualty: \$250,000 excess of \$250,000 ultimate net loss, each occurrence.</li> </ul>
Casualty Excess of Loss	\$500,000 excess of \$500,000 ultimate net loss, each occurrence.
Casualty Clash Excess of Loss	\$2,000,000 excess of \$1,000,000 ultimate net loss, each occurrence.

<u>Type of treaty</u>	<u>Cession</u>
Property Catastrophe excess of loss	<ul style="list-style-type: none"> <li>A. 1<sup>st</sup> Excess: 95% of \$400,000 excess of \$100,000 each occurrence (occurrence must involve 3 or more risks).</li> <li>B. 2<sup>nd</sup> Excess: 95% of \$1,000,000 excess of \$500,000 each occurrence (occurrence must involve 3 or more risks).</li> <li>C. 3<sup>rd</sup> Excess: 95% of \$1,500,000 excess of \$1,500,000 each occurrence (occurrence must involve 3 or more risks).</li> <li>D. 4<sup>th</sup> Excess: 100% excess of \$3,000,000 each occurrence (occurrence must involve 3 or more risks).</li> </ul>
<u>Aggregate Excess of Loss</u>	95% of the ultimate net loss over and above an initial ultimate net loss equal to 77% of the company's gross net earned premium subject to a limit of liability to the reinsurer of \$475,000.
<u>Property Facultative Pro Rata</u>	Limited to an amount three times the company's net retention plus the amount ceded to the company's working reinsurance contracts, subject to a minimum net retention of \$250,000 and to a maximum cession of \$1,250,000 on any one risk covered.

All of the Company's cessions during the examination period were to authorized or accredited reinsurers.

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

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation by the Company's chief executive officer and chief financial officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 26 and 27 of SSAP No. 62.

D. Holding Company System

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

E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	71.2%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	48.9%
Premiums in course of collection to surplus as regards policyholders	1.0%

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	\$14,317,955	62.91%
Other underwriting expenses incurred	7,616,087	33.47
Net underwriting gain	<u>823,490</u>	<u>3.62</u>
Premiums earned	<u>\$22,757,532</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$7,861,283	\$ 0	\$7,861,283
Common stocks	2,498,653		2,498,653
Properties occupied by the company	212,633		212,633
Cash, cash equivalents and short-term investments	1,638,522		1,638,522
Investment income due and accrued	78,374		78,374
Uncollected premiums and agents' balances in the course of collection	97,622	30,374	67,248
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,248,390		1,248,390
Amounts recoverable from reinsurers	1,930		1,930
Net deferred tax asset	228,274		228,274
Electronic data processing equipment and software	14,178	14,178	0
Furniture and equipment, including health care delivery assets	12,597	12,597	0
Prepaid expense	339	0	339
Total assets	<u>\$13,892,795</u>	<u>\$57,149</u>	<u>\$13,835,646</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	Surplus Increase <u>(Decrease)</u>
Losses and loss adjustment expenses	\$3,201,426	\$2,327,426	\$(874,000)
Commissions payable, contingent commissions and other similar charges	485,449	485,449	0
Other expenses (excluding taxes, licenses and fees)	125,234	125,234	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,115	6,115	0
Current federal and foreign income taxes	94,000	94,000	0
Unearned premiums	3,052,525	3,052,525	0
Ceded reinsurance premiums payable (net of ceding commissions)	98,906	98,906	0
Remittances and items not allocated	75,251	75,251	0
Abandoned property	<u>20,345</u>	<u>20,345</u>	<u>0</u>
Total liabilities	<u>\$7,159,251</u>	<u>\$ 6,285,251</u>	<u>\$(874,000)</u>
 <u>Surplus and Other Funds</u>			
Temporary change of DTA SSAP 10R	\$ 44,500	\$ 44,500	
Required surplus	100,000	100,000	
Unassigned funds (surplus)	<u>6,531,895</u>	<u>7,405,895</u>	<u>\$(874,000)</u>
Surplus as regards policyholders	<u>\$6,676,395</u>	<u>\$7,550,395</u>	<u>\$(874,000)</u>
 Total liabilities, surplus and other funds	 <u>\$13,835,646</u>	 <u>\$13,835,646</u>	

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2005 through 2009. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$1,352,854 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$22,757,532
Deductions:		
Losses and loss adjustment expenses incurred	\$14,317,955	
Other underwriting expenses incurred	7,646,328	
Aggregate write-ins for underwriting deductions	<u>(30,241)</u>	
Total underwriting deductions		<u>21,934,042</u>
Net underwriting gain or (loss)		\$ 823,490

Investment Income

Net investment income earned	\$1,310,566	
Net realized capital gain	<u>(91,168)</u>	
Net investment gain or (loss)		1,219,398

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (274,737)	
Finance and service charges not included in premiums	<u>519,617</u>	
Total other income		<u>244,880</u>
Net income before federal and foreign income taxes		\$2,287,768
Federal and foreign income taxes incurred		<u>1,095,401</u>
Net income		<u>\$1,192,367</u>

Surplus as regards policyholders per report on examination as of December 31, 2004			\$5,323,541
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,192,367		
Net unrealized capital gains or (losses)	51,864		
Change in net deferred income tax		\$25,225	
Change in nonadmitted assets	89,348		
Aggregate write-ins for gains and losses in surplus	<u>44,500</u>		
Total gains and losses in surplus	<u>\$1,378,079</u>	<u>\$25,225</u>	
Net increase (decrease) in surplus			<u>1,352,854</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$6,676,395</u>

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

The examination liability for the captioned items of \$3,201,426 is \$874,000 more than the \$2,327,426 reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements. The examination change represents the Company's own nine-month runoff deficiency as reported in its filed quarterly statement as of September 30, 2010.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance Contracts</u>	
It is recommended that the Company comply with requirements of Section 1308(e)(1)(A) of the New York Insurance Law and file all reinsurance contracts and addenda with the Department.	7
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i.   It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law and permit only officers of the Company to sign checks.	9
The Company has complied with this recommendation.	
ii.   It is recommended that the Company comply with Department guidelines, as suggested by NAIC guidelines, reinforced by Circular Letter No. 2 of 1977 and obtain a custodial agreement that includes the requirements suggested by the NAIC and the New York Insurance Department.	10
The Company has complied with this recommendation.	
C. <u>Market Conduct Activities</u>	
i.   It is recommended that the Company comply with the Department Regulation No. 95 (NYCRR Part 86.4) and include a fraud warning statement on all forms sent to a claimant.	15
The Company has complied with this recommendation.	
ii.   It is recommended that the Company comply with Section 318(a) of the New York Insurance Law and Regulation 96 (NYCRR Part 62-2.2) and report all fire losses in excess of \$1,000 to the Property Insurance Loss Register.	16
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Company comply with Section 3413 of the New York Insurance Law and Regulation 96 (NYCRR Part 62) and have completed by the claimant Parts 1, 2, and 3 of the standard fire claim forms included in the claim file, when applicable.  The Company has complied with this recommendation.	16
iv. It is recommended that the Company comply with Section 331 of the New York Insurance Law and Circular Letter No. 34 of 1999 and before payment is made on fire losses send written notice to Tax Districts who have informed the Department of their intent to claim against fire insurance proceeds.  The Company has complied with this recommendation.	16-17
v. Although the Company began to comply with Regulation 90 in 2004, it is recommended that the Company continue its compliance with all Parts of Regulation 90, particularly with Parts 218.4(a) and (b) and 218.5(a), henceforth, when sending out notices of termination to agents or brokers.  The Company has complied with this recommendation.	17

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations in this report on examination.



Appointment No 30512

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:

**JOHN CONLEY**

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

**Mid-Hudson Co-operative Insurance Company.**

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

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of Albany,*

*this 15<sup>TH</sup> day of April 2010*



*James J. Wrynn*  
James J. Wrynn  
Superintendent of Insurance