

REPORT ON EXAMINATION

OF THE

WAYNE COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

OCTOBER 18, 2010

EXAMINER

LAMIN JAMMEH

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

October 18, 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 30383 dated December 14, 2009, attached hereto, I have made an examination into the condition and affairs of Wayne Cooperative 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 Wayne Cooperative 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 10267 Old Route 31, Clyde, NY 14433.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of Wayne Cooperative Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the six-year period from January 1, 2004 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

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

## 2. **DESCRIPTION OF COMPANY**

The Company was organized in 1877 as The Fire Relief Association of Wayne County for the purpose of transacting business as an assessment cooperative fire insurance company in the counties of Wayne, Ontario, Seneca, Monroe, and Cayuga in New York State.

On December 27, 1910, a certificate was issued by this Department authorizing the Company to continue the transaction of business as an assessment cooperative insurance company in the above named counties.

On June 20, 1980, the Company was authorized to change its name to Wayne Cooperative Insurance Company.

Effective January 1, 1987, the Company was authorized to write in all counties of New York State, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

### 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, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years. Every member insured by the Company is entitled to one vote at any meeting of the members. However, policyholders may not vote by proxy. The annual meeting of the board of directors is held immediately after the annual meeting of the Company. At least two board of directors' and two executive committee 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, 2009, the board of directors was comprised of the following ten members:

| <u>Name and Residence</u>              | <u>Principal Business Affiliation</u>   |
|--|---|
| Robert F. Brisky<br>Lyons, NY          | President,<br>Finger Lakes Construction                                       |
| Clair J. Britt<br>Lyons, NY            | Executive Officer,<br>Lyons National Bank                                     |
| James F. Buisch<br>Savannah, NY        | Monroe Tractor Management   |
| Kenneth E. DiSanto<br>Clyde, NY        | Officer,<br>Clyde Industrial Development                                      |
| Jane E. Hubbs<br>Clyde, NY             | Vice Chairman,<br>Wayne Cooperative Insurance Company                         |
| Margaret H. Laws<br>Macedon, NY        | Retired,<br>Rewal Estate Broker Mgmt.   |
| Jeffrey W. Rice<br>Clyde, NY           | President and Chief Executive Officer,<br>Wayne Cooperative Insurance Company |
| Wayne V. Rice<br>Clyde, NY             | Chairman,<br>Wayne Cooperative Insurance Company                              |
| William M. Thompson<br>Canandaigua, NY | Owner,<br>Tax Preparation Firms   |
| Richard A. Wadsworth<br>Lyons, NY      | Teacher Assistant   |

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

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

| <u>Name</u>       | <u>Title</u>                           |
|-------------------|--|
| Jeffrey W. Rice   | President                              |
| Daniel A. Deliso  | Vice President, Information            |
| Marsh J. Hancock  | Vice President, Claims                 |
| Bonnie L. Barclay | Assistant Vice President, Underwriting |

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York only.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| <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<br>Workers' Compensation) |
| 19               | Motor vehicle and aircraft physical damage (excluding aircraft<br>physical damage)  |
| 20               | Marine and inland marine (Inland Marine only)                                       |

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 for the period under examination:

| <u>Calendar Year</u> | <u>Total Premiums</u> |
|----------------------|-----------------------|
| 2004                 | \$9,273,048           |
| 2005                 | \$10,057,038          |
| 2006                 | \$10,918,805          |
| 2007                 | \$11,454,668          |
| 2008                 | \$11,887,628          |
| 2009                 | \$12,121,843          |

The company is principally a personal lines property and casualty insurer specializing in homeowners, farmowners, and other multi-peril policies as well as inland marine rider coverages. Business is produced by approximately 135 independent agencies in the upstate New York region.

C. Reinsurance

The Company does not assume any reinsurance business.

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

| <u>Type of Contract</u>               | <u>Cession</u>   |
|---------------------------------------|--|
| Property Excess of Loss<br>(2 Layers) | \$1,350,000 in excess of \$150,000 each risk and each loss occurrence.   |
| Casualty Excess of Loss<br>(2 Layers) | \$850,000 in excess of \$150,000 each loss occurrence.   |
| Casualty Clash Excess of Loss         | \$1,000,000 in excess of \$1,000,000 ultimate loss each loss occurrence.   |
|                                       | With respect to Workers Compensation Insurance<br>\$1,000,000 in excess of \$2,000,000 ultimate loss each loss occurrence. |
| Property Catastrophe Excess of Loss   | 95% of \$6.6 million excess of \$400,000 ultimate net loss first loss occurrence.  |
|                                       | 95% of \$6.7 million in excess of \$300,000 ultimate each loss occurrence thereafter.                                      |
|                                       | 100% excess of \$7,000,000 for windstorm.  |

All reinsurance was ceded to authorized reinsurers. The 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 SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive 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 as utilizing reinsurance accounting as set forth in paragraphs 17, 19, 25 and 26 of the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

D. Holding Company System

The Company was independent with no affiliations at December 31, 2009. It is 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                               | 124.8% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 60.0%  |
| Premiums in course of collection to surplus as regards policyholders                   | 2.0%   |

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 six-year period covered by this examination:

|  | <u>Amounts</u>      | <u>Ratios</u>  |
|--|---------------------|----------------|
| Losses and loss adjustment expenses incurred | \$37,518,309        | 67.51%         |
| Other underwriting expenses incurred         | 18,296,514          | 32.92          |
| Net underwriting loss                        | <u>(239,549)</u>    | <u>(0.43)</u>  |
| Premiums earned                              | <u>\$55,575,274</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>Examination</u><br>Assets Not<br><u>Admitted</u> | Net Admitted<br><u>Assets</u> |
|---|---------------------|---|-------------------------------|
| Bonds   | \$15,779,967        | \$ 0  | \$15,779,967                  |
| Preferred stocks  | 90,690              | 0   | 90,690                        |
| Common stocks   | 1,642,611           | 0   | 1,642,611                     |
| Properties occupied by the company  | 385,814             | 0   | 385,814                       |
| Cash, cash equivalents and short-term investments   | 1,624,842           | 0   | 1,624,842                     |
| Investment income due and accrued   | 209,019             | 0   | 209,019                       |
| Uncollected premiums and agents' balances in the course<br>of collection                    | 180,592             | 0   | 180,592                       |
| Deferred premiums, agents' balances and installments<br>booked but deferred and not yet due | 1,195,044           | 0   | 1,195,044                     |
| Current federal and foreign income tax recoverable and<br>interest thereon                  | 41,206              | 0   | 41,206                        |
| Net deferred tax asset  | 641,629             | 437,629   | 204,000                       |
| Electronic data processing equipment and software   | 63,974              | 63,974  | 0                             |
| Furniture and equipment, including health care delivery<br>assets                           | 54,895              | 54,895  | 0                             |
| Aggregate write-ins for other than invested assets  | <u>201,934</u>      | <u>0</u>  | <u>201,934</u>                |
| Total assets  | <u>\$22,112,217</u> | <u>\$556,498</u>                                    | <u>\$21,555,719</u>           |

Liabilities, Surplus and Other FundsLiabilities

|   |              |
|---|--------------|
| Losses  | \$4,654,965  |
| Loss adjustment expenses  | 878,269      |
| Commissions payable, contingent commissions and other similar charges | 384,208      |
| Other expenses (excluding taxes, licenses and fees)                   | 228,757      |
| Unearned premiums   | 6,382,719    |
| Advance premium   | 164,095      |
| Ceded reinsurance premiums payable (net of ceding commissions)        | (13,876)     |
| Amounts withheld or retained by company for account of others         | 84,036       |
| Total liabilities   | \$12,763,173 |

Surplus and Other Funds

|   |                     |
|---|---------------------|
| Aggregate write-ins for special surplus funds | \$ 100,000          |
| Unassigned funds (surplus)                    | <u>8,692,546</u>    |
| Surplus as regards policyholders              | <u>8,792,546</u>    |
| Total liabilities, surplus and other funds    | <u>\$21,555,719</u> |

NOTE: The Internal Revenue Service has not audited the Company's Federal Income Tax returns since tax year 1986. 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 \$3,076,269 during the six-year examination period January 1, 2004 through December 31, 2009, detailed as follows:

Underwriting Income

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Premiums earned                      |                   | \$55,575,274      |
| Deductions:                          |                   |                   |
| Losses incurred                      | \$33,520,052      |                   |
| Loss adjustment expenses incurred    | 3,998,257         |                   |
| Other underwriting expenses incurred | <u>18,296,514</u> |                   |
| Total underwriting deductions        |                   | <u>55,814,823</u> |
| Net underwriting gain or (loss)      |                   | \$ (239,549)      |

Investment Income

|                               |                  |           |
|-------------------------------|------------------|-----------|
| Net investment income earned  | \$ 3,870,506     |           |
| Net realized capital gain     | <u>(176,489)</u> |           |
| Net investment gain or (loss) |                  | 3,694,017 |

Other Income

|   |              |                     |
|---|--------------|---------------------|
| Net gain or (loss) from agents' or premium balances charged off                         | \$ 2,607     |                     |
| Finance and service charges not included in premiums                                    | 1,060,076    |                     |
| Aggregate write-ins for miscellaneous income  | <u>1,043</u> |                     |
| Total other income  |              | <u>1,063,726</u>    |
| Net income after dividends to policyholders but before federal and foreign income taxes |              | \$ 4,518,194        |
| Federal and foreign income taxes incurred   |              | <u>1,432,486</u>    |
| Net income  |              | <u>\$ 3,085,708</u> |

|  |                         |                          |                    |
|--|-------------------------|--------------------------|--------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2003 |                         |                          | \$5,716,277        |
|  | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> |                    |
| Net income   | \$3,085,708             |                          |                    |
| Net unrealized capital gains or (losses)   | 63,092                  |                          |                    |
| Change in net deferred income tax  | 246,351                 |                          |                    |
| Change in non-admitted assets  |                         | \$318,886                |                    |
| Aggregate write-ins for gains and losses in surplus                                | <u>4</u>                | <u>0</u>                 |                    |
| Total gains and losses   | <u>\$3,395,155</u>      | <u>\$318,886</u>         |                    |
| Net increase (decrease) in surplus   |                         |                          | <u>3,076,269</u>   |
| Surplus as regards policyholders per report on examination as of December 31, 2009 |                         |                          | <u>\$8,792,546</u> |

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$5,533,234 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <u>ITEM</u>   | <u>PAGE NO.</u> |
|---|-----------------|
| A.. <u>Accounts and Records</u>   |                 |
| i. It is recommended that the Company comply with SSAP 26, paragraph 6 and use the scientific (constant yield) interest method in calculating amortization on bond premiums or discounts. | 9               |

The Company has complied with this recommendation.

| <u>ITEM</u>  | <u>PAGE NO.</u> |
|--|-----------------|
| ii. It is recommended that the Company follow the annual statement instructions and complete the Notes to the Financial Statements in an accurate and proper manner.<br><br>The Company has complied with this recommendation.   | 10              |
| iii. It is recommended that the Company comply with SSAP No. 45, paragraph 18 and disclose all information pertaining to any purchase agreements, as required by the stated SSAP, held at year end in the Notes to the Financial Statements section of each annual statement filed with this Department.<br><br>The Company has complied with this recommendation. | 10              |
| <b>B. <u>Directors and Officers Liability Policy</u></b>   |                 |
| It is recommended that the Company comply with Regulation 110 (NYCRR Part 72.4) and include a coinsurance clause on its Directors and Officers policy.<br><br>The Company has complied with this recommendation.   | 11              |
| <b>6. <u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u></b>   |                 |

This report does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/s/  
Lamin Jammeh  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Lamin Jammeh

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

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:

Lamin Jammeh

as proper person to examine into the affairs of the

**Wayne Cooperative Insurance Company**

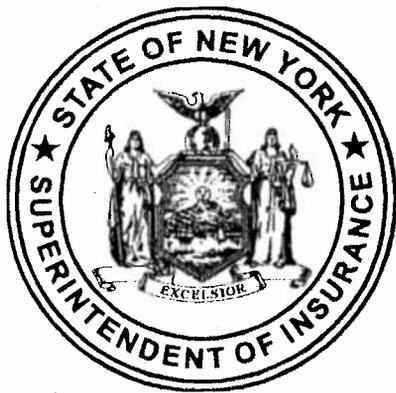
and to make a report to me in writing of the condition of the said

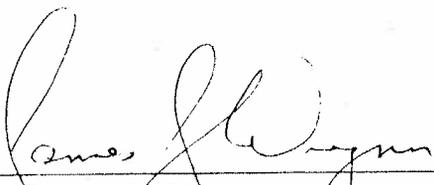
**Company**

with such other information as he shall deem requisite.

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

this 14<sup>th</sup> day of December 2009



  
\_\_\_\_\_  
James J. Wrynn  
Superintendent of Insurance