

REPORT ON EXAMINATION

OF

WAYNE COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

SEPTEMBER 23, 2015

EXAMINER

MY-NGHI IRENE TRAN, AFE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

June 1, 2018

Honorable Maria T. Vullo  
Superintendent  
New York State Department of Financial Services  
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31297 dated March 30, 2015, attached hereto, I have made an examination into the condition and affairs of Wayne Cooperative Insurance Company as of December 31, 2014, 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 State Department of Financial Services.

The examination was conducted at the Company’s home office located at 10267 Old Route 31, Clyde, New York 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, 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.

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 where deemed appropriate.

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

- Company history
- Corporate records
- Management and control
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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 January 18, 1883 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 June 20, 1980, the Company changed 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. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert Frank Brisky Lyons, NY	President, Finger Lakes Construction Company
Clair Joseph Britt, Jr. Lyons, NY	Executive Officer, Lyons National Bank
James Frederick Buisch Savannah, NY	Owner, Main & Pinkney Farm Equipment
Kenneth Earl DiSanto Clyde, NY	Clyde Industrial Development Officer
Jane Elizabeth Hubbs Clyde, NY	Retired
Michael Walter Palumbos Pittsford, NY	Owner, PS&E LLC
Jeffrey Wayne Rice Clyde, NY	President and Chief Executive Officer, Wayne Cooperative Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Wayne Vreeland Rice Clyde, NY	Treasurer, Wayne Cooperative Insurance Company
William Michael Thompson, Sr. Canandaigua, NY	Owner, Jackson Hewitt Tax Preparation Firms
Michael Alan Virts Wolcott, NY	Cahoon Farms - Procurement Specialist, Real Estate Sales & Development
Richard Adelbert Wadsworth Lyons, NY	Teacher Assistant, Gananda Central School District
Melanie Lipinski Wickham Stanley, NY	Executive Secretary, Empire State Potato Growers, Inc.

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.

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

<u>Name</u>	<u>Title</u>
Jeffrey Wayne Rice	President and Chief Executive Officer
Marsh Joseph Hancock	Executive Vice President, Claims
James Frederick Buisch	Secretary
Wayne Vreeland Rice	Treasurer
Thomas Joseph Liseno	Assistant Vice President, Underwriting
Daniel Anthony Delisio	Vice President and Chief Information Officer

B. Territory and Plan of Operation

As of December 31, 2014, 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

<u>Paragraph</u>	<u>Line of Business</u>
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
15	Employers' liability
19	Motor vehicle
20	Marine and inland marine

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41, and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$150,000.

The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Premiums</u>
2010	\$12,355,944
2011	\$12,420,814
2012	\$12,791,681
2013	\$13,755,239
2014	\$14,769,668

The Company's predominant lines of business are commercial multi-peril, homeowners, and farm-owners multi-peril lines of business, which accounted for 37%, 35%, and 13%, respectively of the direct written premium in 2014. The business originates through about 170 independent agents. The Company does not assume any reinsurance business.

C. Ceded Reinsurance

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

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u> 2 layers 100% authorized	\$1,325,000 excess of \$175,000 ultimate net loss each risk, subject to a limit of liability to the Reinsurer of \$1,325,000 each loss, each risk and \$2,650,000 each loss occurrence.
<u>Property Catastrophe</u> 1 Layer 100% authorized	95% of 14,600,000, excess of \$400,000, each loss occurrence.
<u>Casualty</u> 2 layers 100% authorized	\$825,000 excess \$175,000 each loss, subject to a limit to liability to the Reinsurer of \$825,000 each occurrence.
<u>Casualty Clash</u> 100% authorized	\$1,000,000 excess of \$1,000,000 ultimate net loss each event, subject to the limit of liability to the Reinsurer of \$1,000,000.
<u>Identity Theft</u> 100% authorized	100% of liability for losses covered under the Identity Recovery Coverage form, with a limit of liability to the Reinsurer of \$25,000 as respects each identity recovery insured.

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 found that the Schedule F data reported by the Company in its filed annual statement accurately reflected 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. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from 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 SSAP No. 62R. During the period covered by this examination, the Company did not commute any reinsurance agreements.

D. Holding Company System

As of December 31, 2014, 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, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	98%
Liabilities to liquid assets (cash and invested assets)	53%
Premiums in course of collection to surplus as regards policyholders	1%

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	\$38,085,840	65.90%
Other underwriting expenses incurred	19,565,412	33.86%
Net underwriting gain	<u>138,873</u>	<u>0.24%</u>
Premiums earned	<u>\$57,790,125</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, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$20,843,596	\$ 0	\$20,843,596
Preferred stocks (stocks)	51,400	0	51,400
Common stocks (stocks)	1,540,979	0	1,540,979
Properties occupied by the company	452,744	0	452,744
Cash, cash equivalents and short-term investments	1,924,517	0	1,924,517
Investment income due and accrued	213,005	0	213,005
Uncollected premiums and agents' balances in the course of collection	194,739	0	194,739
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,326,056	0	1,326,056
Current federal and foreign income tax recoverable and interest thereon	77,500	0	77,500
Net deferred tax asset	657,000	0	657,000
Electronic data processing equipment and software	78,944	48,034	30,910
Furniture and equipment, including health care delivery assets	66,336	66,336	0
Company owned life insurance	<u>752,885</u>	<u>0</u>	<u>752,885</u>
Total assets	<u>\$28,179,701</u>	<u>\$114,370</u>	<u>\$28,065,331</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$ 5,311,918
Commissions payable, contingent commissions and other similar charges		560,362
Other expenses (excluding taxes, licenses and fees)		289,919
Unearned premiums		7,699,844
Advance premium		283,817
Ceded reinsurance premiums payable (net of ceding commissions)		93,264
Amounts withheld or retained by company for account of others		173,373
Remittances and items not allocated		<u>24,203</u>
Total liabilities		\$14,436,700

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$ 150,000	
Unassigned funds (surplus)	<u>13,478,631</u>	
Surplus as regards policyholders		<u>13,628,631</u>
Total liabilities, surplus and other funds		<u>\$28,065,331</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. Statement of Income

The net income for examination period as reported by the Company was \$4,023,942 as detailed below:

Underwriting Income

Premiums earned		\$57,790,125
Deductions:		
Losses and loss adjustment expenses incurred	\$38,085,840	
Other underwriting expenses incurred	<u>19,565,412</u>	
Total underwriting deductions		<u>57,651,252</u>
Net underwriting gain or (loss)		\$ 138,873

Investment Income

Net investment income earned	\$ 3,825,309	
Net realized capital gain	<u>647,704</u>	
Net investment gain or (loss)		4,473,013

Other Income

Net gain from agents' or premium balances charged off	\$ 1,223	
Finance and service charges not included in premiums	1,056,239	
Miscellaneous income	<u>43,106</u>	
Total other income		\$ <u>1,100,568</u>
Net income before federal and foreign income taxes		\$ 5,712,454
Federal and foreign income taxes incurred		<u>1,688,512</u>
Net income		\$ <u>4,023,942</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$4,836,085 during the five-year examination period January 1, 2010 through December 31, 2014 as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$ 8,792,546
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$4,023,942		
Net unrealized capital gains or (losses)	222,146		
Change in net deferred income tax	147,871		
Change in non-admitted assets	<u>442,126</u>	<u>          </u>	
Total gains and losses	<u>\$4,836,085</u>	\$ <u>          </u> 0	
Net increase in surplus			<u>4,836,085</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$13,628,631</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$5,311,918 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

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

There were no comments or recommendations in the prior report on examination.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report does not contain any comments or recommendations.

Respectfully submitted,

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My-Nghi Irene Tran, AFE  
Senior Insurance Examiner

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

My-Nghi Irene Tran, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

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My-Nghi Irene Tran

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2018.

*APPOINTMENT NO. 31297*

*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:*

***Irene MyNghi Tran***

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

***Wayne Cooperative 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 30th day of March, 2015*

***BENJAMIN M. LAWSKY***  
*Superintendent of Financial Services*

By:



*Rolf Kaumann*  
*Deputy Chief Examiner*

