

REPORT ON EXAMINATION

OF

EASTERN MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

OCTOBER 5, 2016

EXAMINER

SUSAN K. WEIJOLA, CPCU

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria Vullo  
Superintendent

June 4, 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 31362 dated September 16, 2015, attached hereto, I have made an examination into the condition and affairs of Eastern Mutual 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 Eastern Mutual Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 6504 State Route 32, Greenville, NY 12083.

## 1. SCOPE OF EXAMINATION

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

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:

- 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
- 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

Eastern Mutual Insurance Company was organized on January 8, 1855 as the Farmers' Fire Insurance Association of the Towns of Greenville, Dunham, Westerlo and Rensselaerville for the purpose of transacting business as an assessment co-operative fire insurance corporation in the counties of Greene and Albany in this State. Subsequently, the Company's territory was extended to include all of the counties of New York State, excluding the counties of New York, Kings, Queens, Bronx and Richmond.

In 1969, this Department approved a change in the name of the Company to the Eastern Co-operative Insurance Company. Effective July 1, 1992, this Department approved a merger of Schoharie & Schenectady Mutual Insurance Association into Eastern Co-operative Insurance Association (surviving corporation). Concurrent with the merger, the Company's license was amended to indicate its new name, Eastern Mutual 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 meets at least four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Valerie Davis Greenville, NY	Vice President and Secretary, Eastern Mutual Insurance Company
Robert Flagler Altamont, NY	Chairman of the Board, Eastern Mutual Insurance Company
Elizabeth Friedland Albany, NY	Retired, Schoharie and Schenectady Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Jeffers Oriskany Falls, NY	President, Sauquoit Valley Insurance Company
Kent Johnson Rensselaer, NY	President and Treasurer, Eastern Mutual Insurance Company
Michael Nobles Montpelier, VT	Chief Executive Officer, Eastern Mutual Insurance Company
William Scrafford Greenville, NY	Retired, Former President Eastern Mutual Insurance Company
Allyn Wright Medusa, NY	Retired, Independent Forestry Consultant
Fred Zeitler Greenville, NY	Self-employed CPA
Alan Zuk Berne, NY	Retired, Transportation Officer

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>
Michael Nobles	Chief Executive Officer
Jennifer Galfetti	Chief Financial Officer
Kent Johnson	President and Treasurer
Valerie Davis	Vice President and Secretary

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
9	Boiler and machinery
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 only)

The Company is also licensed to accept and cede reinsurance as provided for in Section 6606 of the New York Insurance law.

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 \$100,000.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2010	\$6,969,593
2011	\$7,134,915
2012	\$7,266,648
2013	\$7,457,418
2014	\$7,807,102

The Company predominantly writes commercial multiple lines and homeowners multiple lines of business which accounted for 56% and 29%, respectively, of the 2014 direct premiums written. The business is written through approximately 245 independent agents in upstate New York.

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

C. Reinsurance ceded

As of December 31, 2014, the Company had the following ceded reinsurance program in place with Union Mutual Insurance Company, which controls the Company through an affiliation agreement:

<u>Type of contract</u>	<u>Cession</u>
<u>Property Excess of loss</u> (2 layers) 100% authorized	\$1,125,000 in excess of \$125,000 ultimate net loss on any one risk any one loss occurrence; reinsurer's liability from all risks in any one loss occurrence shall not exceed \$1,425,000 and \$1,950,000 for the first and second layers, respectively.
<u>Property Per Risk</u> 100% authorized	\$1,750,000 in excess of \$1,250,000 ultimate net loss each and every loss, each and every risk; reinsurer's liability for each loss occurrence shall not exceed \$3,500,000 and a maximum limit of liability of \$5,250,000 for all loss occurrences during the term of the contract.
<u>Property Catastrophe Excess</u> (3 layers) 100% authorized	1 <sup>st</sup> layer: 95% of \$450,000 ultimate net loss in excess of \$300,000 each loss occurrence involving three or more risks;  2 <sup>nd</sup> layer: 95% of \$750,000 ultimate net loss in excess of \$750,000 each loss occurrence involving three or more risks.  3 <sup>rd</sup> layer: 100% of ultimate net loss in excess of \$1,500,000 each loss occurrence involving three or more risks.
<u>Property (Specified Catastrophe Perils of windstorm, hail, tornado, cyclone, flood, earthquake or volcanic eruption)</u> 100% authorized	\$765,000 in excess of \$35,000 ultimate net loss on any one risk; subject to further limit of \$1,530,000 any one loss occurrence.
<u>Casualty</u> 100% authorized	\$1,875,000 in excess of \$125,000 ultimate net loss in any one loss occurrence
<u>Casualty and Property Combined:</u> 100% authorized	In the event of a loss occurrence involving one or more property policy and one or more casualty policy: \$475,000 excess of \$125,000 each loss occurrence
<u>Aggregate Excess of Loss</u> 100% authorized	95% of \$750,000 aggregate net losses in excess of 72.5% of the net earned premium income in any one contract year.
<u>Equipment Breakdown</u> 100% authorized	100% cession not exceeding \$25,000,000 for any one accident, any one policy.

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.

The examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. 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 President and Secretary pursuant to the NAIC Annual Statement Instructions. The examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Affiliated Group

i. Affiliation with Union Mutual Fire Insurance Company

As of December 31, 2014, the Company was affiliated with Union Mutual Fire Insurance Company (“Union Mutual”), a Vermont based insurance company, by virtue of an affiliation agreement.

On May 26, 2000, the Department approved the affiliation agreement between the Company and Union Mutual. Pursuant to the agreement, Union Mutual provides strategic support; reinsurance and other insurance services including claims, underwriting, marketing, accounting, actuarial, data processing, legal, investment, personnel, communications, training and administrative support services. Union Mutual provides IT support services to the Company under an agreement filed with the Department in June 2012.

During the examination period, the Company ceded reinsurance to Union Mutual under the following reinsurance agreements: property and casualty excess of loss; property per risk excess of loss; aggregate excess of loss and equipment breakdown. (Refer to section 2.C - Reinsurance for details of these agreements.)

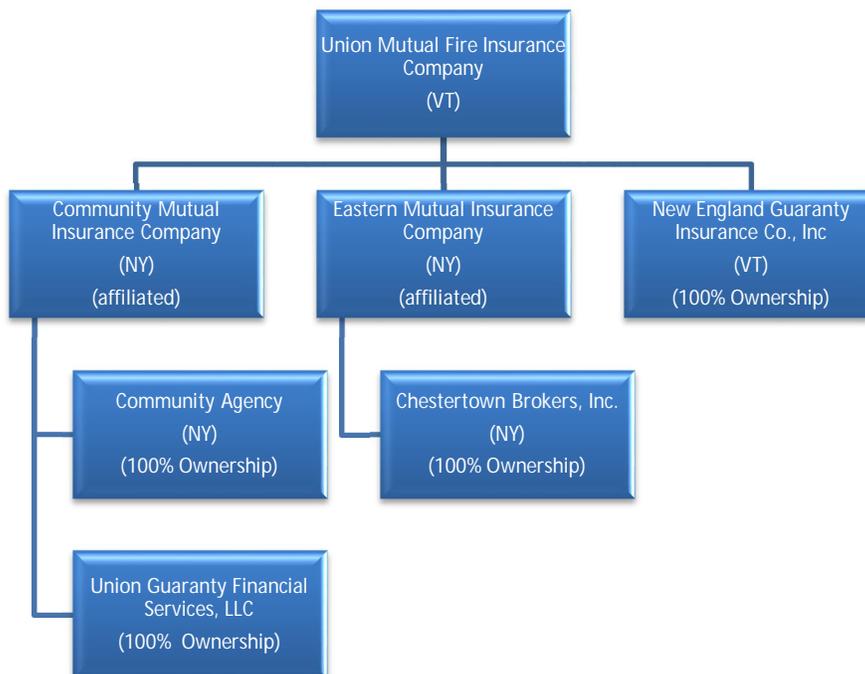
ii. Chestertown Brokers, Inc.

In February 1982, the Department approved the organization of a wholly-owned subsidiary called Chestertown Brokers, Inc. (“Chestertown”). The purpose of the subsidiary is to provide additional property

and casualty outlets to agents of the Company for lines of business not written by the Company. In 1987, the board of directors of the Company appointed Chestertown as an agent of the Company.

Chestertown is located at the Company's home office. An agreement was entered into between the Company and the subsidiary whereby the Company provides clerical and management services to Chestertown. The agreement was filed with this Department.

The following is a chart of the affiliated group at December 31, 2014:



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	39%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	35%
Premiums in the course of collection to surplus as regards policyholders	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	\$12,058,238	48.04%
Other underwriting expenses incurred	9,929,101	39.55%
Net underwriting gain	<u>3,115,356</u>	<u>12.41%</u>
Premiums earned	<u>\$25,102,695</u>	<u>100.00%</u>

F. Accounts and Records

A review of a sample of claims revealed that for four of the ten claims tested, the data in the loss notice did not match the data in the claim and/or policy system.

It is recommended that the Company exercise greater care when entering data from loss notices to the claim system. It is also recommended that all data be verified for accuracy either prior to entry or upon claim assignment.

### 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	\$15,662,295		\$15,662,295
Common stocks (stocks)	3,319,648		3,319,648
Properties occupied by the company	510,829		510,829
Cash, cash equivalents and short-term Investments	1,492,241		1,492,241
Investment income due and accrued	142,103		142,103
Uncollected premiums and agents' balances in the course of collection	36,180	\$ 80	36,100
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,303,818	2,892	1,300,926
Amounts recoverable from reinsurers	17,582	0	17,582
Current federal and foreign income tax recoverable and interest thereon	11,750	0	11,750
Net deferred tax asset	49,905	0	49,905
Electronic data processing equipment and software	110,260	110,260	0
Aggregate write-ins for other than invested assets	<u>14,421</u>	<u>14,421</u>	<u>0</u>
Total assets	<u>\$22,671,032</u>	<u>\$127,653</u>	<u>\$22,543,379</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 3,724,426
Commissions payable, contingent commissions and other similar charges	302,574
Other expenses (excluding taxes, licenses and fees)	71,051
Taxes, licenses and fees (excluding federal and foreign income taxes)	34,406
Current federal and foreign income taxes	118,000
Unearned premiums	3,998,777
Advance premium	131,778
Ceded reinsurance premiums payable (net of ceding commissions)	125,178
Amounts withheld or retained by company for account of others	19,086
Remittances and items not allocated	1,746
Payable to parent, subsidiaries and affiliates	<u>3,708</u>
 Total liabilities	 \$ 8,530,730

Surplus and Other Funds

Special surplus funds	\$ 100,000
Unassigned funds (surplus)	<u>13,912,650</u>
Surplus as regards policyholders	<u>14,012,648</u>
 Total liabilities, surplus and other funds	 <u>\$22,543,380</u>

Note: The Internal Revenue Service has not notified the Company that an audit will be conducted of the Company's tax returns covering tax years 2010 through 2014. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$4,596,906 as detailed below:

Underwriting Income

Premiums earned		\$25,102,695
Deductions:		
Losses and loss adjustment expenses incurred	\$12,058,238	
Other underwriting expenses incurred	<u>9,929,101</u>	
Total underwriting deductions		<u>21,987,339</u>
Net underwriting gain or (loss)		\$ 3,115,356

Investment Income

Net investment income earned	\$ 2,228,258	
Net realized capital gain	<u>399,069</u>	
Net investment gain or (loss)		2,627,327

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (57,587)	
Finance and service charges not included in premiums	636,278	
Aggregate write-ins for miscellaneous income	<u>10,269</u>	
Total other income		<u>588,960</u>
Net income before federal income taxes		\$ 6,331,643
Federal income taxes incurred		<u>1,734,737</u>
Net income		\$ <u>4,596,906</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$5,036,233 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 as reported by the Company as of December 31, 2009				\$ 8,976,415
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,596,903			
Net unrealized capital gains or (losses)	600,427			
Change in net deferred income tax			\$ 75,744	
Change in non-admitted assets			20,753	
Aggregate write-ins for gains and losses in surplus	<u>0</u>		<u>64,600</u>	
Net increase (decrease) in surplus	\$5,197,330		\$161,097	<u>5,036,233</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2014				<u>\$14,012,648</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$3,724,426 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

The prior report on examination contained two 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 was recommended that the Company comply with SSAP No. 26 and classify as bonds any certificate of deposit that has a fixed scheduled of payments and a maturity date in excess of one year from the date of acquisition.	9
This recommendation is no longer applicable as the Company no longer has certificates of deposit.	
ii. It was recommended that the Company amend its custodial agreement to include the recommended safeguards and controls as set forth in the NAIC Financial Condition Examiners Handbook.	9
The Company has complied with this recommendation.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
It is recommended that the Company exercise greater care when entering data from a loss notice to the claim system. It is also recommended that all data be verified for accuracy either prior to entry or upon claim assignment.	9

Respectfully submitted,

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Susan K. Weijola, CPCU  
Senior Insurance Examiner

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

Susan K. Weijola, 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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Susan K. Weijola

Subscribed and sworn to before me

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

APPOINTMENT NO. 31362

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, ANTHONY ALBANESE, Acting 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:

**Susan Weijola**

as a proper person to examine the affairs of the

**Eastern Mutual Insurance Company**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 16th day of September, 2015

**ANTHONY ALBANESE**  
Acting Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

