

REPORT ON EXAMINATION

OF

CALLICOON COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

OCTOBER 18, 2016

EXAMINER

MY-NGHI IRENE TRAN, AFE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

May 30, 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 31376 dated August 17, 2015, attached hereto, I have made an examination into the condition and affairs of Callicoon Co-operative 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 Callicoon Co-operative 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 15 Chapel Street, Jeffersonville, New York 12748.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of the Callicoon Co-operative 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
- 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 incorporated under the laws of the State of New York on June 29, 1910 as Callicoon Agricultural Fire Relief Association of Sullivan County for the purpose of transacting business as an assessment co-operative insurance association in Sullivan County. It commenced business on April 13, 1878. In 1964, the Company changed its name to Callicoon Co-operative Insurance Company.

### A. Management

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than seven nor more than eighteen members. The charter was amended reducing the required number of directors on September 18, 2012. The Company's by-laws requirement that the board of directors consists of not less than eleven or more than eighteen members remains unchanged since the last examination. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roger Eugene Bisland Glen Spey, NY	Assistant Vice President, Callicoon Co-operative Insurance Company
David William Bodenstein Jeffersonville, NY	Insurance Agent, President and owner of Mike Preis Insurance Inc.
Philip Edward Conaty Monticello, NY	Secretary and Treasurer, Callicoon Co-operative Insurance Company
George Washington Ferguson Wallkill, NY	Retired
John Kehrlie Gempler Kenoza Lake, NY	President, Callicoon Co-operative Insurance Company
Carol Kay Lane Monticello, NY	Retired
William Joseph Lane Monticello, NY	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Douglas Edward Loucks Livingston Manor, NY	New York State Corrections Officer
Jeanne Loucks Smith Livingston Manor, NY	Insurance Agent, Callicoon Co-operative Insurance Company
Edward Thomas Sykes Callicoon, NY	Vice President, Callicoon Co-operative Insurance Company
Lee Clark Titus Wallkill, NY	Insurance Agent, President and owner of Lee Titus Associates 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>
John Kehrlie Gempler	President
Philip Edward Conaty	Secretary and Treasurer
Edward Thomas Sykes	Vice President
Roger Eugene Bisland	Assistant Vice President

B. Territory and Plan of Operation

As of December 31, 2014, 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
9	Boiler and machinery

<u>Paragraph</u>	<u>Line of Business</u>
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 Company's predominant lines of business are commercial multiple peril, homeowners multiple peril and fire insurance which accounted for 39.4%, 35.5% and 14.2%, respectively of the Company's 2014 direct written premiums. The Company writes its direct business through approximately 20 independent agents. The Company does not assume any reinsurance business.

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	\$6,014,975
2011	\$5,981,975
2012	\$6,046,212
2013	\$6,024,873
2014	\$6,287,827

### C. Ceded Reinsurance

Since the prior examination, the Company has changed the term of its multi-line reinsurance agreement to a two-year period and increased its retention from \$100,000 to \$125,000 for property coverage and \$50,000 to \$75,000 for casualty coverage. All of the Company's reinsurance is with authorized reinsurers. 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>
<u>Property Excess of loss</u> (2 layers)	\$1,175,000 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 \$1,125,000 and \$1,600,000 for the first and second layers, respectively
<u>Property Aggregate Excess of Loss</u>	Reinsurer liability for Acts of Terrorism for all loss occurrences with annual aggregate limits of \$1,125,000, and \$1,600,000, for the first and second layer, respectively
<u>Property and Casualty Combined</u>	In the event of a loss occurrence involving one or more property policy and one or more casualty policy: \$75,000 excess of \$125,000 any one loss occurrence
<u>Property Catastrophe Excess of Loss</u>	\$3,700,000, excess of \$300,000, each loss occurrence
<u>Casualty Excess of loss</u> (2 layers)	\$925,000 in excess of \$75,000 ultimate net loss on any one loss occurrence; reinsurer's liability in any one loss occurrence shall not exceed \$425,000 and \$500,000 for the first and second layers, respectively
<u>Casualty Clash</u>	\$1,000,000 excess of \$1,000,000 each loss occurrence in the event of a loss involving one or more casualty policy; reinsurer's liability shall not exceed \$2,000,000 in all with respect to all loss occurrences under the agreement in any one agreement year
<u>Equipment Breakdown Quota Share</u> (Commercial Multi-peril policies and other policies as agreed)	100% of the Company's net retained liability; cessions limited to \$5,000,000 on any one risk

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 President and Secretary/Treasurer 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	24%
Liabilities to liquid assets (cash and invested assets)	16%
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	\$12,328,269	51.42%
Other underwriting expenses incurred	9,597,699	40.03%
Net underwriting gain	<u>2,049,738</u>	<u>8.55%</u>
Premiums earned	<u>\$23,975,706</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	\$23,598,479	\$0	\$23,598,479
Preferred stocks (stocks)	102,908		102,908
Common stocks (stocks)	1,155,849		1,155,849
Properties occupied by the company	150,242		150,242
Properties held for sale	250,000		250,000
Cash, cash equivalents and short-term investments	801,358		801,358
Investment income due and accrued	241,585		241,585
Uncollected premiums and agents' balances in the course of collection	246,939		246,939
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,045,939		1,045,939
Amounts recoverable from reinsurers	<u>100,752</u>	<u>0</u>	<u>100,752</u>
Totals assets	<u>\$27,694,051</u>	<u>\$0</u>	<u>\$27,694,051</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$ 1,748,587
Commissions payable, contingent commissions and other similar charges			192,266
Unearned premiums			<u>3,346,366</u>
Total liabilities			\$ 5,287,219
 <u>Surplus and other funds</u>			
Required surplus	\$ 100,000		
Unassigned funds (surplus)	<u>22,306,832</u>		
Surplus as regards policyholders			<u>22,406,832</u>
Total liabilities, surplus and other funds			<u>\$27,694,051</u>

Note: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax returns through tax year 2009. All material adjustments made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Services has not yet audited 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 \$5,162,704, as detailed below:

Underwriting Income

Premiums earned		\$23,975,706
Deductions:		
Losses and loss adjustment expenses incurred	\$12,328,269	
Other underwriting expenses incurred	9,597,733	
Aggregate write-ins for underwriting deductions	<u>(34)</u>	
Total underwriting deductions		<u>21,925,968</u>
Net underwriting gain		\$2,049,738

Investment Income

Net investment income earned	\$ 3,667,469	
Net realized capital loss	<u>(41,128)</u>	
Net investment gain		3,626,341

Other Income

Finance and service charges not included in premiums	\$ <u>236,896</u>	
Total other income		<u>236,896</u>
Net income before federal income taxes		\$ 5,912,975
Federal income taxes incurred		<u>750,271</u>
Net income		<u>\$ 5,162,704</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$5,740,890 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				\$16,665,942
	<u>Gains in</u>	<u>Losses in</u>		
	<u>Surplus</u>	<u>Surplus</u>		
Net income	\$5,162,704			
Net unrealized capital gains and losses	<u>578,186</u>	\$0		
Net increase (decrease) in surplus	\$5,740,890	\$0	<u>5,740,890</u>	
Surplus as regards policyholders as reported by the Company as of December 31, 2014				<u>\$22,406,832</u>

No adjustments were made to surplus as a result of this examination.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$1,748,587 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 one recommendation as follows (page number refers to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It was recommended that the Company comply with Part 89.5 9 (c)(1) of Department Regulation No. 118 and not utilize the same lead or coordinating CPA as an audit partner who has primary responsibility for the audit for more than five consecutive years.	8

The Company has complied with this recommendation.

**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. 31376**

**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:

**Irene My Nghi Tran**

as a proper person to examine the affairs of the

**Callicoon Co-operative 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 17th day of August, 2015

**ANTHONY ALBANESE**  
Acting Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

