

REPORT ON EXAMINATION

OF THE

CENTRAL CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

JUNE 7, 2004

EXAMINER

FRANK P. SCHIRALDI



STATE OF NEW YORK
INSURANCE DEPARTMENT
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257

George E. Pataki
Governor

Gregory V. Serio
Superintendent

June 10, 2004

Honorable Gregory Serio
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 22123 dated January 12, 2004, attached hereto, I have made an examination into the condition and affairs of the Central Co-operative Insurance Company as of December 31, 2003 and submit the following report thereon.

The examination was conducted at the Company's home office located at 6 Southgate Road, Baldwinsville, New York 13027.

Wherever the designations "the Company" or "CCIC" appears herein without qualification, they should be understood to indicate the Central Co-operative Insurance Company.

TABLE OF CONTENTS

	<u>Page No.</u>
1. Scope of examination	2
2. Description of Company	2
A. Management	3
B. Territory and plan of operation	4
C. Reinsurance	5
D. Holding company system	7
E. Significant operating ratios	7
F. Abandoned property	8
G. Annual statement	8
H. Accounts and Records	8
3. Financial statements	10
A. Balance sheet	10
B. Underwriting and investment exhibit	12
4. Losses and Loss Adjustment Expenses	13
5. Market conduct activities	14
6. Compliance with prior report on examination	14
7. Summary of comments and recommendations	16

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covered the five year period from January 1, 1999 through December 31, 2003 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants.

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

2. DESCRIPTION OF COMPANY

The Company was organized in 1883 for the purpose of transacting business as a cooperative fire insurance corporation in Onondaga County, New York.

On August 11, 1970, this Department issued a certificate approving a change in the name of the Company to Onondaga Co-operative Insurance Company.

Under Agreements of Merger approved by this Department, effective January 1, 1990, the Company merged with Cortland Co-operative Insurance Company. The surviving corporation, Onondaga Co-operative Insurance Company, at the same time converted from an assessment co-operative fire insurance company with a change of name to the Central Co-operative Insurance Company.

A. Management

The corporate powers of the Company, at December 31, 2003, were exercised by a board of eleven (11) directors, divided into approximately three equal groups, one group being elected at each annual policyholders' meeting for a term of three years. During the period under review, the Company's board met at least four times in each calendar year.

The board of directors' membership at December 31, 2003, was as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Warren Abbott Baldwinsville, NY	Manager of Garden Center
Gary B. Gardner Syracuse, NY	Cattle Consultant
Charles J. Hinman Pulaski, NY	Secretary, Oswego County Mutual Insurance Company
Lee R. Hudson Camillus, NY	Poultry Farmer
Ronald G. Masters(E) Preble, NY	Farmer and Vice President, CCIC
Inghram R. Plumpton Jamesville, NY	Truck Farmer
Hugh Riehlman Homer, NY	Agriculture Consultant
John E. Seymour(E) Marietta, NY	Retired
Roy E. Smith(E) LaFayette, NY	Dairy and Poultry Farmer
Lewis E. Wellington(E) Skaneateles, NY	Retired Farmer and Chairman of Board for Central Cooperative Insurance Company
Stuart Young Cortland, NY	Dairy Farmer

(E) Member of executive committee

The minutes of all meetings of the Board of Directors' and committees thereof held during the examination period were reviewed. The average attendance by the board of directors during the examination period was approximately 85%, with each individual director's attendance being adequate at these meetings unless otherwise noted.

It is noted that Director Gary Gardner failed to attend three of the four board of directors meetings held in 1999 and 2003. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer each year. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings in each year do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It is recommended that Director Gardner increase his attendance at the board of director meetings or the Company should consider replacing him with someone more active in the affairs of the Company.

At December 31, 2003 the officers of the Company were as follows:

President	David W. Fraser
Vice President/Secretary	Norman W. Garrett, Jr.
Vice President	Ronald G. Masters
Treasurer	Earl S. Crego

B. Territory and Plan of Operation

At December 31, 2003, 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 defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine(inland marine only)

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

<u>Calendar Year</u>	<u>Written in New York State(000's)</u>
1999	\$ 3,591
2000	3,713
2001	4,035
2002	4,416
2003	4,541

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 \$427,568.

During 2003, homeowners multiple peril business accounted for 33.6% of the Company's direct writings. The second largest line, farmowners multiple peril, represented 23.2% of the Company's direct writings. All of the Company's business was written by approximately 100 independent agents located throughout the Company's territory.

C. Reinsurance

The company did not assume any reinsurance business during the examination period.

The examiner reviewed all ceded reinsurance contracts in effected during the examination period.

These contracts all contained the required standard clause including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2003, the Company had in force the following excess of loss reinsurance programs in place:

Property	\$110,000 x/s of \$40,000 any one risk, subject to a per occurrence limit of \$330,000;
	\$500,000 in excess of \$150,000 any one risk, subject to a per occurrence limit of \$1,500,000.
Casualty (2 layers)	\$460,000 in excess of \$40,000 any one loss occurrence.
	for Homeowner policies with ML 150 and ML 151 endorsements \$610,000 in excess \$40,000 each loss occurrence, subject to a per occurrence limit of \$500,000.
	\$500,000 in excess of the Company's underlying net retention of \$500,000
Property catastrophe (3 layers)	95% of \$2,300,000 in excess of \$200,000 any one loss occurrence;
	100% of \$500,000 in excess of \$2,500,000 net loss, per occurrence after deduction of all other reinsurance recoveries.
Aggregate	95% of net losses in excess of 70% of the Company's net premiums earned subject to a limit of \$500,000.

As of December 31, 2003, the Company had in force the following pro rata share reinsurance programs in place:

Property and Casualty	10% quota of Company's net retained insurance liability subject to a maximum of \$4,000 each loss, each risk;
Property	Ten (10) times the Company's net retention per risk, (Company's minimum retention of \$10,000 per risk), maximum cession \$1,000,000 subject to per occurrence limit of \$2,000,000.

In addition to the reinsurance described above, the Company had a reinsurance program for boiler and machinery coverage in effect at December 31, 2003. Under the terms of the Boiler and Machinery program, the Company ceded 100% of its liability for Boiler and Machinery endorsements.

Since the last examination, the Company's net retention for both property and casualty business has increased from \$30,000 to \$40,000. The quota share contract was reduced from 15% to 10% in 2001.

The Company is backed by authorized reinsurers.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2003. Furthermore, the Company had no affiliations or pooling agreements in force at December 31, 2003.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003 based upon the results of this examination:

Net premiums written in 2003 to Surplus as regards policyholders	.985 to 1
Premiums in course of collection to Surplus as regards policyholders	3.4%
Liabilities to cash and invested assets	51.1%

The above ratios falls 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, January 1, 1999 to December 31, 2003:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 7,658,003	74.16%
Other underwriting expenses incurred	3,090,195	29.92%
Net underwriting loss	<u>(421,711)</u>	<u>-4.08%</u>
Premiums earned	<u>\$10,326,487</u>	<u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company maintained appropriate records of unclaimed funds as required by Section 1316 of the New York Abandoned Property Law. Those reports that were required to be filed with the State Comptroller were done so in a timely manner.

G. Annual Statement

During a review of the Company's filed December 31, 2003 annual statement the following reporting violation was noted:

The reinsurance ceded by line as reported in the Underwriting and Investment Exhibit was incorrectly reported, although the total was correct.

It is recommended that the Company report its reinsurance ceded by line in accordance with the annual statement instructions when submitting future financial statements to this Department.

Subsequent to the examination date, but previous to the filing of this report, the Company amended its 2003 annual statement to correct this error.

H. Accounts and Records

During the examination of written premium, it was noted that the Company could not provide data in electronic format that tied into the annual statement for 2003. The Company provided data in hard copy for written premium, but this data did not tie-in to the annual statement amounts and it included policies with 2003 and 2004 effective dates.

Section 6611(a)(1) of the New York State Insurance Law requires that every co-operative insurance company maintain and keep, "books of accounts and records in such manner as will show fully and truly the condition, affairs and business of such corporation and facilitate the preparation and verification of its annual statement."

It is recommended that the Company develop a system that will comply with section 6611(a)(1) and accurately report premium written.

During the examination of the reporting of expense by the Company, it was noted that the Company allocates its expenses by use of judgment regarding the amount of time spent in Loss Adjustment, Other Underwriting and Investments.

Regulation 30 allows for the use of time studies as a basis for allocation when, “Time studies are actual measurements of time required to make motions, to complete a routine or regularly occurring procedures.”

It is recommended that the Company adhere to the provisions of Regulation 30 as the basis for allocation of expenses.

3. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and surplus as regards policyholder as determined by this examination as of December 31, 2003. This statement is the same as the balance sheet filed by the Company.

	Assets	<u>Assets Not Admitted</u>	Net Admitted <u>Assets</u>
Bonds	2,403,978		2,403,978
Common Stocks	735,753		735,753
Real estate(properties occupied by the Company)	129,199		129,199
Cash	48,143		48,143
Short Term Investments	<u>893,350</u>		<u>893,350</u>
Subtotal-cash and invested assets	4,210,423		4,210,423
Investment Income due and accrued	32,606		32,606
Uncollected premiums and agents balances in the course of collection	77,996		77,996
Deferred premiums, agents balances and installments booked but deferred and not yet due	971,888		971,888
Reinsurance recoverable from reinsurers	17,313		17,313
Federal and foreign income tax recoverable	5,000	5,000	
Net deferred tax assets	10,599		10,599
EDP equipment and software	19,658	19,658	
Funds held by Fair Plan	63,776		63,776
Year End Premium Adjustment	<u>6,145</u>	<u>6,145</u>	
Total Assets	<u>5,415,404</u>	<u>26,060</u>	<u>5,389,344</u>

Liabilities, Surplus and other Funds

Losses and loss Adjustment Expenses		1,078,762
Commissions payable and contingent commissions		364,588
Other expenses		5,548
Taxes licenses and fee		2,199
Unearned premiums		1,484,829
Advance premiums		30,607
Amounts withheld or retained by Co for account of others		5,644
Unfunded pension liability		98,508
Total liabilities		<u>3,070,685</u>
Special Contingent Surplus Section 4109	427,568	
Unassigned Funds	<u>1,891,091</u>	
Surplus as regards policyholders at 12/31/03		<u>2,318,659</u>
Total liabilities and Surplus		<u>5,389,344</u>

The Internal Revenue Service did not audit the Company's federal income tax returns for the years under examination. Audits covering subsequent tax years have yet to commence. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and investment exhibit

The following is a combined statement of the underwriting and investment results for the four year period under review, January 1, 1999 to December 31, 2003:

Underwriting Income

Premiums earned		10,326,487
Losses and loss adjustment	7,658,003	
Other underwriting expenses	3,090,195	
Total underwriting deductions		10,748,198
Net underwriting loss		(421,711)

Investment Income

Net Investment Income earned	724,049	
Net realized capital gains or (losses)	(32,561)	
Net Investment gain or (loss)		691,488

Other Income

Agents' balances charged off	18,470	
Finance and service charges	295,685	
Gain on sale of vehicle	1,364	
Net other Income		315,519
Net Income before Federal Income Taxes		585,296
Federal Income Taxes Incurred		63,855
Net Income		521,441

C. Capital and Surplus Account

Surplus as regards policy holders as of December 31, 1998, per prior report on examination			1,910,487
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net Income or loss	521,441	-0-	
Net unrealized capital gain loss	17,331	-0-	
Change in net deferred income tax	-0-	120,039	
Change in non-admitted assets	50,775	-0-	
Change in excess of statutory reserves over statement reserves	45,000	-0-	
Lines 23 and 29 from 2000 statement	9,000	-0-	
2000 Federal Tax Adjustment per Audit	-0-	72,107	
Cumulative effect of changes in accounting principles	-0-	79,158	
Audit Adjustment	132,535		
Unfunded pension liability	-0-	119,907	
Federal Income tax prior year	<u>23,301</u>	<u>-0-</u>	
Totals	799,383	391,211	
Net increase in surplus as regards policyholders			<u>408,172</u>
Surplus as regards policyholders as of December 31, 2003, per report on examination			<u>2,318,659</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$1,078,762 for Losses and Loss adjustment Expenses is the same as the amount reported by the Company as of the examination date. 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. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation. The general review was directed at practices of the Company in the following major areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained comments and recommendations as follows (page numbers refer to the prior report):

<u>Item</u>	<u>Page No.</u>
<p>A. Board of Directors</p> <p>It is recommended that Director Plumpton increase his attendance at the board of director meetings or the Company should consider replacing him with someone more active in the affairs of the Company.</p> <p>The Company has complied with this recommendation as far as Mr. Plumpton is concerned. However, there is a new recommendation regarding another director.</p>	4
<p>B. Policyholders' Meeting</p> <p>It is recommended that the Company comply with its by-laws and hold its annual policyholders' meeting at the specified time and place.</p> <p>The Company has complied with this recommendation.</p>	4

<u>Item</u>	<u>Page No.</u>
C. Annual Statement	
i. It is recommended that the Company report its Reinsurance recoverables on loss and loss adjustment expense payments in accordance with the annual statement instructions when submitting future financial statements to this Department. The Company has complied with this recommendation.	8
ii. It is recommended that the Company correctly report its advance premiums in future financial statements submitted to this Department The Company has complied with this recommendation.	8
iii. It is recommended that the Company report its operating expenses in accordance with the uniform accounting instructions of the Financial Condition Examiners Handbook in future financial statements submitted to this Department. The Company has complied with this recommendation.	9

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>Item</u>	<u>Page No.</u>
<u>A. Management</u>	
It is recommended that Director Gardner increase his attendance at the board of director meetings or the Company should consider replacing him with someone more active in the affairs of the Company	4
<u>G. Annual Statement</u>	
It is recommended that the Company report its reinsurance ceded by line in accordance with the annual statement instructions when submitting future financial statements to this Department.	8
<u>H. Accounts and Records</u>	
i. It is recommended that the Company comply with Section 6611(a)(1) and develop a system that will accurately report premium written.	8
ii. It is recommended that the Company adhere to the provisions of Regulation 30 as the basis for allocation of expenses.	9

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO , Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Frank P. Schiraldi

as proper person to examine into the affairs of the

Central 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 12th day of *January, 2004*



A handwritten signature in black ink, appearing to read "Gregory V. Serio", written over a horizontal line.

GREGORY V. SERIO
Superintendent of Insurance