

REPORT ON EXAMINATION
OF THE
ASSOCIATED MUTUAL INSURANCE COOPERATIVE
AS OF
DECEMBER 31, 2001

DATE OF REPORT:

MAY 14, 2003

EXAMINER:

WARREN YOUNGS

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

May 14, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21908, dated June 11, 2002, attached hereto, I have made an examination into the condition and affairs of the Associated Mutual Insurance Cooperative as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office located at 39 Broadway, Woodridge, New York 12789.

Wherever the designations "the Company" or "AMIC" appear herein without qualification, they should be understood to indicate the Associated Mutual Insurance Cooperative.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covered the four year period from January 1, 1998 through December 31, 2001, 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, inter-company balances, 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 certified public accountants.

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

2. DESCRIPTION OF COMPANY

The Associated Mutual Insurance Company of Woodridge, New York was the surviving company of five closely related cooperatives. These Companies were under the same management and were simultaneously consolidated and converted into a mutual fire insurance company on January 1, 1971 upon meeting the requirements of Sections 6629 and 7306 of the New York Insurance Law. The first of the five cooperatives, known collectively as the Associated Cooperative Fire Insurance Companies of Sullivan and Adjoining Counties, began operation in 1913. The other co-operatives were organized later to enlarge their capacity to meet the growing requirements of their members.

On January 1, 1997, upon meeting the requirements of Section 7306(a) of the New York Insurance Law, the Company simultaneously converted into an assessment cooperative corporation and then into an advance premium cooperative property/casualty insurance corporation. Also, on January 1, 1997 the name of the corporation was changed to the Associated Mutual Insurance Cooperative, with a new license issued to do a property/casualty insurance business within the state of New York.

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. As of the examination date, the board of directors was comprised of twelve members.

Ten board meetings and two executive committee meetings were held in each of the years during the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law.

The directors as of December 31, 2001, were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Wallace M. Berkowitz Monticello, NY	President and part owner of NWB Affiliates, Inc.; Chairperson of the board of AMIC
Esterita Blumberg Liberty, NY	Vice Chairperson of the board of AMIC
Gary B. Bowers Narrowsburg, NY	Vice President-Finance of AMIC
Hiram H. Frank Liberty, NY	Retired
Irwin Gitlin Liberty, NY	Certified public accountant

<u>Director</u>	<u>Principal Business Affiliation</u>
Charles J. Houska Phoenicia, NY	Retired
Abraham Jaffe Glen Wild, NY	Secretary-Treasurer of AMIC
Robert Kaplan Glen Wild, NY	Poultry Farmer
David Levitz Grahamsville, NY	Retired
Zane A. Morganstein Monticello, NY	President and CEO of AMIC
Benjamin Posner South Fallsburg, NY	Retired
Harold Sashin Ellenville, NY	Retired

The minutes of all of the Board of Directors' meetings held during the examination period were reviewed. Such review indicated that all of the meetings were well attended. Each of the directors had a satisfactory attendance record for the board meetings held.

Each of the director's qualifications, as set forth in Article V Section 1 of the Company's charter and Article III Section 2 of its by-laws, was reviewed and it appears that each director was duly qualified.

The Company did not provide formal minutes of the nominating committee meetings held during the examination period and it did not provide all of the meeting minutes for the other committees of the board.

Section 6611(a)(3) of the New York Insurance Law states that “The secretary shall maintain a minute book recording the proceedings of all meetings of the corporation, its board of directors and the principal committees thereof.”

Thus, it is recommended that the Company maintain formal minutes of committee meetings, as required by Section 6611(a)(3) of the New York Insurance Law.

Section 712(a) of the New York Business Corporation Law gives the authority to create committees of the board to the board of directors. For each of the years under examination and in 2002 the board of directors did not approve the committee appointments presented by officers of the Company. This is in conflict with the provisions of Section 712(a) of the New York Business Corporation Law.

In addition, at an Executive Committee meeting held on January 29, 2002 the committee approved reducing the number of directors from twelve to eleven. This is in conflict with Article III Section 2 of the Company's by-laws and Section 712(a) of the New York Business Corporation Law.

In view of the above, it is recommended that the Company adhere to all the provisions of Section 712(a) of the New York Business Corporation Law.

During the review of the Company's charter, by-laws and its corporate minute books it was found that the Company violated several sections of its charter and by-laws during the period under examination and in 2002. Thus, it is recommended that the Company adhere to all the provisions of its charter and by-laws, henceforth.

At December 31, 2001, the officers of the Company were as follows:

Chairperson of the Board	Wallace M. Berkowitz
Vice Chairperson of the Board	Esterita Blumberg
President and CEO	Zane A. Morganstein
Secretary-Treasurer	Abraham Jaffe

Vice President-Finance	Gary B. Bowers
Vice President-Underwriting-Personal Lines and Assistant Secretary	Joan Collins
Vice President-Claims	Diane Kruk
Vice President-Marketing	Kathleen V. Giustiniani
Vice President-Information Technology	Kevin Washington
Vice President-Support Services	Debra Dubas

B. Territory and Plan of Operation

The Company is licensed to transact business within the entire State of New York. The Company writes in New York State only.

<u>Calendar Year</u>	<u>Direct Premiums Written (000's)</u>
1998	\$7,403
1999	7,621
2000	7,753
2001	8,350

As of December 31, 2001, 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>Kind of Insurance</u>
4	Fire
5	Miscellaneous property
6	Water Damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
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)

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, as of December 31, 2001, the Company is required to maintain a minimum surplus to policyholders in the amount of \$800,000.

At December 31, 2001, the Company wrote insurance through independent agents.

The Company's predominate lines of business are homeowners multiple peril and commercial multiple peril, which accounted for 7.20%, and 87.84%, respectively, of the Company's 2001 direct written business.

C. Reinsurance

The Company assumed a minor volume of losses during the examination period, representing its share of the losses of an insurance company that is in rehabilitation.

The examiner reviewed all ceded reinsurance contracts effected during the examination period. These contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2001, the Company had the following excess of loss reinsurance program in place:

Property	\$900,000 in excess of \$100,000 each risk, each occurrence, limit of \$2,700,000 all risks, each occurrence; except windstorm, which is \$920,000 in excess of \$80,000 each risk, each occurrence, limit of \$2,700,000 all risks, each occurrence.
Casualty	\$1,000,000 in excess of \$100,000 each occurrence.
Basket (loss common to both property and casualty)	\$100,000 in excess of \$100,000 each common occurrence; provided, however, that as respects a common occurrence, only loss pertaining to a single property risk shall be covered and in the event such common occurrence results in a loss to two or more property risks, the Company shall elect the property risk to be covered.

As of December 31, 2001, the Company also maintained catastrophe excess of loss coverage on a per occurrence basis:

Property	100% of \$5,000,000 in excess of \$350,000, subject to a limit of 100% of \$10,000,000 all occurrences taking place during any one calendar year.
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The Company also had available, as of the examination date, a property facultative facility on an offer and acceptance basis.

All of the Company's cessions during the period under examination were to authorized reinsurers.

The Company's retention for property, windstorm and casualty of \$100,000, \$80,000 and \$100,000, respectively, are the same as last exam.

D. Holding Company System

As of December 31, 2001, the Company was not a member of a holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	1.90 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	80.95%
Premiums in course of collection to Surplus as regards policyholders	6.50%
Change in Policyholders Surplus	(19.99)%
Two-year overall operating ratio	109.13%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners, except for the Change in Policyholders Surplus ratio and the Two-year overall operating ratio.

The benchmark range for the Change in Policyholders Surplus ratio is greater than (10)% and less than 50%. The main cause of the Company failing this ratio is the examination increase in loss and loss adjustment expense reserves.

The Company's Two-year overall operating ratios for the last three years under examination were:

<u>Year</u>	<u>Two-year overall operating ratio</u>
1999	101.00%
2000	104.00%
2001	109.13%

The benchmark range for the Two-year overall operating ratio is less than 100%. As shown above, the Company failed the Two-year overall operating ratio in each of the last three years under examination.

The underwriting ratios presented below are on an earned-incurred basis and encompass the four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and Loss adjustment expenses incurred	\$22,185,056	82.33%
Other underwriting expenses incurred	10,278,689	38.14%
Net underwriting gain (loss)	<u>(5,517,186)</u>	<u>(20.47)%</u>
Premiums earned	<u>\$26,946,559</u>	<u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company filed negative reports with the state comptroller under Section 1316 of the New York Abandoned Property Law.

It was discovered during the course of the examination that the Company was not escheating to the New York State Comptroller's Office the amounts required by Section 1316 of the New York Abandoned Property Law. The Company was writing these balances off and recording the amounts as a reduction of expenses.

In correspondence, dated January 21, 2003, the Company agreed to escheat the amounts in question to the Office of Unclaimed Funds in 2003. Nevertheless, it is recommended that the Company escheat to the State Comptroller's Office of Unclaimed Funds all amounts required by Section 1316 of the New York Abandoned Property Law.

G. Accounts and Records

i. Fidelity Insurance

As of December 31, 2001, the Company maintained employee dishonesty coverage in the amount of \$125,000.

The amount of fidelity insurance recommended in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") for an insurer of the Company's size, as of December 31, 2001, is at least \$200,000. During the course of the examination the above was brought to the attention of Company management who proceeded to increase the amount of employee dishonesty coverage to \$225,000. Nevertheless, it is recommended that the Company maintain fidelity coverage at least equal to the minimum amount recommended by the

NAIC, for a company of its size, in order to adequately protect the assets of the Company. It is noted that a similar recommendation was included in the prior report on examination.

ii. Rental Charge for the Occupancy of its Own Buildings

The prior report on examination as of December 31, 1997, contained a recommendation that the "Cooperative charge itself a sufficient rent to offset the expenses of maintaining its home office building." Based upon a review of the Company's filed Schedule A's and Part 4's of its annual statements during the period 1998 through 2001, the Company was not charging itself sufficient rental for the occupancy of its own buildings. It is noted that the Company did increase the amount of rent that it charged itself during the period under examination; however, as indicated above it was not sufficient. The Company should be charging itself a more realistic rental for the occupancy of its own buildings in an amount at least equal to its allocated expenses (real estate expenses, real estate taxes and real estate depreciation), plus a reasonable investment return thereon. Thus, it is recommended that the Company ensure that the rental charge for the occupancy of its own buildings includes real estate expenses, real estate taxes and real estate depreciation, plus a reasonable investment return thereon.

iii. CPA Contracts

The December 31, 1997 Report on Examination contained a recommendation that "... the Company comply with the directives of Regulation 118 and include the appropriate provisions in the written contract with its CPA firm."

The CPA contracts for the years under examination did not meet the requirements of Department Regulation 118. It is noted that the Company's CPA contract for the 2002 audit did meet the requirements of Department Regulation 118 and Section 307(b) of the New York Insurance Law. Nevertheless, it is recommended that the Company ensure that its contracts with

its CPA firm covering all future all audit years meet the requirements of Department Regulation 118 and Section 307(b) of the New York Insurance Law.

iv. Allocation of Expenses

This Department's Regulation No. 30 (11NYCRR105-109) sets forth the rules and methods governing the allocation of expenses among the major expense groups (loss adjustment, other underwriting and investment), as well as, expense categories. This regulation also requires insurers to maintain detailed worksheets on file, supporting percentages used in allocating expenses to the various expense groups and expense categories.

Management could not provide detailed worksheets to support the allocation of each expense category to a particular expense group. Thus, there was no viable way to determine whether the Company correctly allocated expenses, as per the rules found in the regulation. In addition, during the review of the Company's allocation of expenses to the various expense categories it was found that the Company was not performing such allocation in accordance with the requirements of this Department's Regulation No. 30 in all cases.

In correspondence dated January 11, 2003 and January 21, 2003 the Company did agree to take corrective action regarding these matters. Nevertheless, management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups and allocate the expenses of the Company to each expense category as required by this Department's Regulation No. 30.

v. Amortization of Bond Investments

Statement of Statutory Accounting Principles ("SSAP") No. 26 section 6 indicates that amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life

of the bond. A review of the Company's 2001 amortization of bonds revealed that the Company was not following the amortization requirements of SSAP No. 26 section 6. In correspondence dated December 27, 2002 the Company did agree to take corrective action regarding this matter. Nevertheless, it is recommended that the Company amortize its bond investments using the scientific (constant yield) interest method as required by Statement of Statutory Accounting Principles No. 26.

vi. Approval of Investments

Section 1411(a) of the New York Insurance Law states, in part, that “No domestic insurer shall make any loan or investment ... unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

The Company’s compliance with Section 1411(a) of the New York Insurance Law was reviewed for the period under examination. During such review it was found that the board of director minutes did not reflect approval of all of its long-term and short-term investments in accordance with Section 1411(a) of the New York Insurance Law.

After bringing the above to the attention of the Company management, they agreed to take corrective action regarding this matter. Nevertheless, it is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law and ensure that the minutes of board meetings accurately reflect the approval of all the Company's investment transactions.

3. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001 and as reported by the Company. The figures included in these financial statements have been rounded.

<u>Assets</u>	<u>Ledger</u> <u>Assets</u>	<u>Examination</u> Non Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Company</u> Net Admitted <u>Assets</u>	Surplus Increase <u>(Decrease)</u>
Bonds	\$10,805,721	\$	\$10,805,721	\$10,805,721	\$
Common stocks	486,669		486,669	486,669	
Mortgage loans on real estate	289,375		289,375	289,375	
Real estate	207,402		207,402	207,402	
Cash	3,893,869	1,220,164	2,673,705	3,893,869	(1,220,164)
Short-term investments	1,220,164		1,220,164	0	1,220,164
Agents' balances or uncollected premiums	2,000,819		2,000,819	2,000,819	
Electronic data processing equipment and software	25,467		25,467	25,467	
Interest, dividends and real estate income due and accrued	140,015		140,015	140,015	
Equities and deposits in pools and associations	169,970		169,970	169,970	
Other assets non-admitted	36,986	36,986			
Miscellaneous receivable	<u>231</u>	_____	<u>231</u>	<u>231</u>	_____
Total assets	<u>\$19,276,688</u>	<u>\$1,257,150</u>	<u>\$18,019,538</u>	<u>\$18,019,538</u>	<u>\$0</u>

<u>Liabilities & Surplus</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and Loss adjustment expenses	\$9,379,114	\$8,326,114	\$(1,053,000)
Commissions payable, contingent commissions and other similar charges	201,778	201,778	
Other expenses (excluding taxes, licenses and fees)	128,690	128,690	
Taxes, licenses and fees (excluding federal and foreign income taxes)	33	33	
Unearned premiums	4,269,357	4,269,357	
Ceded reinsurance premiums payable (net of ceding commissions)	144,998	144,998	
Amounts withheld or retained by company for account of others	<u>105,491</u>	<u>49,233</u>	<u>(56,258)</u>
Total liabilities	<u>\$14,229,461</u>	<u>\$13,120,203</u>	<u>\$(1,109,258)</u>
Required surplus	\$ 800,000	\$ 700,000	100,000
Unassigned funds (surplus)	<u>2,990,077</u>	<u>4,199,335</u>	<u>(1,209,258)</u>
Surplus as regards policyholders	<u>\$3,790,077</u>	<u>\$4,899,335</u>	<u>\$(1,109,258)</u>
Total liabilities and surplus as regards policyholders	<u>\$18,019,538</u>	<u>\$18,019,538</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 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

Surplus as regards policyholders decreased by \$1,308,304 during the four-year examination period, January 1, 1998 to December 31, 2001, detailed as follows:

Statement of IncomeUnderwriting Income

Premiums earned		\$26,946,559
Losses and loss adjustment expenses incurred	\$22,185,056	
Other underwriting expenses incurred	<u>10,278,689</u>	
Total underwriting deductions		<u>32,463,745</u>
Net underwriting gain (loss)		\$(5,517,186)

Investment Income

Net investment income earned	\$ 3,666,443	
Net realized capital gains or (losses)	<u>36,030</u>	
Net investment gain or (loss)		3,702,473

Other Income

Net loss from agents' or premium balances charged off	\$ 70,141	
Finance and service charges not included in premiums	319,226	
Aggregate write-ins for miscellaneous income	<u>(1)</u>	
Total other income		<u>389,366</u>
Net income before federal income taxes		\$(1,425,347)
Federal income taxes incurred		<u>(113,995)</u>
Net income (loss)		<u>\$(1,311,352)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per prior report on examination			\$5,098,381
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or loss	\$ 0	\$1,311,352	
Net unrealized capital gain or (losses)	7,258	0	
Change in non-admitted assets	<u>0</u>	<u>4,210</u>	
Total gains and losses	<u>\$7,258</u>	<u>\$1,315,562</u>	
Net decrease in surplus as regards policyholders			<u>(1,308,304)</u>
Surplus as regards policyholders, December 31, 2001 per report on examination			<u>\$3,790,077</u>

4. CASH

The examination admitted asset of \$2,673,705 is \$1,220,164 less than the \$3,893,869 reported by the Company as of December 31, 2001. The examination decrease is explained below.

Statement of Statutory Accounting Principles ("SSAP") No. 2 section 3 states that "Also classified as cash for financial statement purposes, although not falling within the above definition of cash, are savings accounts and certificates of deposit in banks or other similar financial institutions with maturity dates within one year or less from the acquisition date, and cash equivalents. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition."

Additional guidance is provided on the classification of fund investments in Issue Paper No. 28 section 11 and in the annual statement instructions.

During the review of what the Company reported as cash in its 2001 annual statement it was found that such amount included balances for funds that should not have been reported as cash or cash equivalents based upon the guidance cited above, but rather as short-term investments. In correspondence dated December 13, 2002 the Company did agree to take corrective action regarding this matter. Nevertheless, it is recommended that the Company classify cash, cash equivalents and short-term investments in accordance with Statement of Statutory Accounting Principles No. 2, Issue paper No. 28 and the annual statement instructions.

5. SHORT-TERM INVESTMENTS

The Company reported no admitted asset under this caption as of the examination date. This examination has established the captioned admitted asset in the amount of \$1,220,164. The examination amount represents fund balances that were transferred from cash for report on examination purposes. See section 4 of this report for additional information.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$9,379,114 is \$1,053,000 more than the \$8,326,114 reported by the Company as of December 31, 2001.

The Department's 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. Such analysis indicated that the Company's loss and loss adjustment expense reserves were not adequate as of December 31, 2001 by the examination increase noted above.

Section 1303 of the New York Insurance Law states, in part, that “Every insurer shall ... maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Management has indicated that the reserves established and reported by the Company in its December 31, 2001 filed annual statement represented its best estimate for unpaid losses and loss adjustment expenses, and was based on the information available at that time. The Company’s independent actuary opinioned that the reserves carried at December 31, 2001 make a reasonable provision for all unpaid loss and loss adjustment expenses and meet requirements of New York Insurance Law.

Therefore, it is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.

7. AMOUNTS WITHHELD OR RETAINED BY COMPANY FOR ACCOUNT OF OTHERS

The examination liability of \$105,491 is \$56,258 more than the \$49,233 reported by the Company as of the examination date. The examination increase represents amounts that should be escheated to the New York State Comptroller’s Office as required by Section 1316 of the New York Abandoned Property Law. The Company was writing these amounts off as a reduction of expenses. See Section 2(F) of this report for additional information.

8. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices 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 areas:

- 1) Sales and advertising
- 2) Underwriting
- 3) Rating
- 4) Treatment of policyholders and claimants

Except as noted below, no unfair practices were encountered.

Section 1313 of the Insurance Law

The Company does not maintain copies of all its advertisements. Thus, it could not be determined if all of its advertisements were in compliance with Section 1313 of the New York Insurance Law or if they were unfair or misleading. In correspondence dated December 12, 2002 the Company did agree to take corrective action regarding this matter. Nevertheless, it is recommended that the Company maintain copies of all advertisements and that it be able to cross-reference the ad copy to the applicable invoice, so as to provide a means upon examination to determine if its advertisements were in compliance with Section 1313 of the New York Insurance Law and if they were unfair or misleading.

Department Regulation 90

During the review of agent termination notices issued by the Company it was found that the termination notices sent to some agents contained unsupported general statements as the reason for termination. This violates Regulation 90 Part 218.4(a), which requires that all notices to agents that their contract is to be terminated shall state the specific reason or reasons for termination, which can not be an unsupported general statement. In addition, it was found that the agent termination notices issued by the Company did not contain the redlining wording required by Regulation 90 Part 218.5(b).

In correspondence dated January 14, 2003 the Company did agree to take corrective action regarding these matters. Nevertheless, it is recommended that the Company comply with Department Regulation 90 Parts 218.4(a) and 218.5(b) when terminating agent's contracts.

Section 2112(a) of the Insurance Law

Section 2112(a) of the New York Insurance Law states, in part, that "Every insurer ... doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer..."

Examination review of the Company's procedures relative to compliance with Section 2112(a) of the New York Insurance Law revealed that the Company was using some agents whose appointment had been terminated by the Department.

In correspondence dated January 24, 2003 the Company did agree to take corrective action regarding this matter. Nevertheless, it is recommended that the Company comply with the requirements of Section 2112(a) of the New York Insurance Law by ensuring that all agents it is doing business with, are currently appointed with the Department to represent it.

Department Regulation 64

Department Regulation 64 Section 216.6(g) states, in part, that "...No insurer shall issue a check or draft in payment of a first-party claim or any element thereof...that contains any language or provision that expressly or impliedly states that acceptance of such check or draft shall constitute a final settlement or release of any or all future obligations arising out of the loss..."

During the review of the Company's compliance with Department Regulation 64, it was found that its first party claim checks contained wording in violation of Regulation 64 Section 216.6(g).

During the review of the Company's claim files it was found that the Company was not complying with this Department's Regulation No. 64 Section 216.9(a), which requires the Company to send a written notice to claimants of payment of claim in third-party liability settlements when a payment of \$5,000 or more is made to their representative.

In correspondence dated January 20, 2003 and January 23, 2003 the Company did agree to take corrective action regarding these matters. Nevertheless, it is recommended that the Company comply with the provisions of Department Regulation 64 Sections 216.6(g) and 216.9(a).

Section 3426 of the Insurance Law

During the review of non-renewal notices issued by the Company, it was found that the Company issued non-renewal notices that did not contain the specific reason for non-renewal in violation of Section 3426(e)(2) of the New York Insurance Law.

Section 3426(e)(7) of the New York Insurance Law requires the maintenance of a written or electronic record of any non-renewal notice not in compliance with provisions of Sections

3426(e)(1)(A), (B), (C), 3426(e)(2) and 3426(e)(3). Such record shall indicate the expiration date of the policy, the date notice should have been sent, the date when notice was sent, the policy number, and the name and address of the insured. The Company was not maintaining the required records in all cases.

In correspondence dated January 16, 2003 the Company indicated that these matters have been corrected. Nevertheless, it is recommended that the Company comply with the provisions of Sections 3426(e)(2) and 3426(e)(7) of the New York Insurance Law.

During the review of commercial lines cancellation notices issued by the Company it was found that AMIC issued cancellation notices for the reason "a determination by the superintendent that the continuation of the policy would violate, or would place the insurer in violation of, any provision of the Insurance Law", which is Section 3426(c)(1)(G) of the New York Insurance Law. However, the superintendent never authorized the Company to use such reason other than in cases involving the anti arson application.

In correspondence dated January 16, 2003 the Company indicated that this matter has been corrected. Nevertheless, it is recommended that the Company not issue notices of cancellation using as the reason Section 3426(c)(1)(G), unless the superintendent specifically authorizes the Company to use such reason.

Mortgagee Clause and Department Circular Letter No. 17 (1976)

During the review of cancellations it was found that the Company failed to give mortgagees ten days advance notice that an insurance policy was being cancelled at the insured's request. The New York Standard Mortgagee Clause, as reaffirmed by Department Circular Letter No. 17 (1976), requires that such notice be given to mortgagees before their interest in such policies is cancelled.

In correspondence dated February 11, 2003 the Company did agree to take corrective action regarding this matter. Nevertheless, it is recommended that the Company comply with the provisions of the New York Standard Mortgage Clause and Department Circular Letter No. 17 (1976).

9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>Item</u>	<u>Page No.</u>
A. Recommendation that the Company increase their fidelity coverage to an amount at least equal to that suggested by the NAIC.	9
<p>The Company had not complied with this recommendation as of December 31, 2001; however, it brought itself into compliance during the course of this examination. See section 2(G)(i) of this report.</p>	
B. Recommendation that the Cooperative charge itself a sufficient amount of rent to offset the expenses of maintaining its home office building.	10
<p>The Company has not complied with this recommendation. See section 2(G)(ii) of this report.</p>	
C. Recommendation that the Company enter into a custodial agreement with a proper banking institution to comply with Circular Letter No. 1 dated March 14, 1975.	10
<p>The Company has complied with this recommendation.</p>	
D. i. Recommendation that when purchasing mortgages the Cooperative must have an appraiser value the property at the time of purchase to comply with Section 1404(a)(4)(iv) of the New York Insurance Law.	11

The Company has complied with this recommendation.

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| ii. | Recommendation that the Company not insure any of the mortgages it purchases as required by Section 1101(a)(1) of the New York Insurance Law. | 11 |
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The Company has complied with this recommendation as of December 31, 2001.

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| E. | Recommendation that the Cooperative comply with Regulation 118 (NYCRR Part 89) and have all future CPA engagement letters contain the required wording of the above stated regulation. | 12 |
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The Company has not complied with this recommendation. See section 2(G)(iii) of this report.

10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of comments and recommendations made in the body of this report:

<u>Item</u>	<u>Page No.</u>
A. <u>Management</u>	
i. It is recommended that the Company maintain formal minutes of committee meetings, as required by Section 6611(a)(3) of the New York Insurance Law.	5
ii. It is recommended that the Company adhere to all the provisions of Section 712(a) of the New York Business Corporation Law.	5
iii. It is recommended that the Company adhere to all the provisions of its charter and by-laws, henceforth.	5

<u>Item</u>	<u>Page No.</u>
B. <u>Abandoned Property</u>	10
<p>It is recommended that the Company escheat to the State Comptroller's Office of Unclaimed Funds all amounts required by Section 1316 of the New York Abandoned Property Law.</p>	
C. <u>Accounts and Records</u>	
i. <u>Fidelity Insurance</u>	10-11
<p>It is recommended that the Company maintain fidelity coverage at least equal to the minimum amount recommended by the NAIC, for a company of its size, in order to adequately protect the assets of the Company. A similar recommendation was included in the prior report on examination.</p>	
ii. <u>Rental Charge for the Occupancy of its Own Buildings</u>	11
<p>It is recommended that the Company ensure that the rental charge for the occupancy of its own buildings includes real estate expenses, real estate taxes and real estate depreciation, plus a reasonable investment return thereon. A similar recommendation was included in the prior report on examination.</p>	
iii. <u>CPA Contracts</u>	11-12
<p>It is recommended that the Company ensure that its contracts with its CPA firm covering all future all audit years meet the requirements of Department Regulation 118 and Section 307(b) of the New York Insurance Law. A similar recommendation was included in the prior report on examination.</p>	

<u>Item</u>	<u>Page No.</u>
iv. <u>Allocation of Expenses:</u>	12
<p>Management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups and allocate expenses of the Company to each expense category as required by this Department's Regulation No. 30.</p>	
v. <u>Amortization of Bond Investments</u>	13
<p>It is recommended that the Company amortize its bond investments using the scientific (constant yield) interest method as required by Statement of Statutory Accounting Principles No. 26.</p>	
vi. <u>Approval of Investments</u>	13
<p>It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law and ensure that the minutes of board meetings accurately reflect the approval of all the Company's investment transactions.</p>	
D. <u>Cash</u>	18
<p>It is recommended that the Company classify cash, cash equivalents and short-term investments in accordance with Statement of Statutory Accounting Principles No. 2, Issue paper No. 28 and the annual statement instructions.</p>	

<u>Item</u>	<u>Page No.</u>
E. <u>Losses and loss adjustment expenses</u>	19
<p>It is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.</p>	
F. <u>Market Conduct Activities</u>	
i. It is recommended that the Company maintain copies of all advertisements and that it be able to cross-reference the ad copy to the applicable invoice, so as to provide a means upon examination to determine if its advertisements were in compliance with Section 1313 of the New York Insurance Law and if they were unfair or misleading.	20
ii. It is recommended that the Company comply with Department Regulation 90 Parts 218.4(a) and 218.5(b) when terminating agent's contracts.	21
iii. It is recommended that the Company comply with the requirements of Section 2112(a) of the New York Insurance Law by ensuring that all agents it is doing business with, are currently appointed with the Department to represent it.	21
iv. It is recommended that the Company comply with the provisions of Department Regulation 64 Sections 216.6(g) and 216.9(a).	22
v. It is recommended that the Company comply with the provisions of Sections 3426(e)(2) and 3426(e)(7) of the New York Insurance Law.	22

<u>Item</u>	<u>Page No.</u>
vi. It is recommended that the Company not issue notices of cancellation using as the reason Section 3426(c)(1)(G), unless the superintendent specifically authorizes the Company to use such reason.	23
vii. It is recommended that the Company comply with the provisions of the New York Standard Mortgagee Clause and Department Circular Letter No. 17 (1976).	23

Appointment No 2190

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:

Warren Youngs, Jr.

as proper person to examine into the affairs of the

Associated Mutual Insurance Cooperative

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

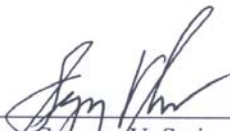
Company

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 11th day of June, 2002





Gregory V. Serio
Superintendent of Insurance