



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
AGENCY BUILDING ONE  
EMPIRE STATE PLAZA  
ALBANY, NY 12257

REPORT ON EXAMINATION  
OF THE  
CHAUTAUQUA PATRONS' INSURANCE ASSOCIATION  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT:

AUGUST 20, 2001

EXAMINER:

GERARD L. FRANCO

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August 20, 2001

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 No. 21734 dated June 7, 2001, attached hereto, I have made an examination into the condition and affairs of the Chautauqua Patrons' Insurance Association as of December 31, 2000 and submit the following report thereon. The examination was conducted at the Association's home office, located at 529 West Third Street, Jamestown, New York 14702-0070.

Whenever the designations "the Association", or "CPIA" appear herein without qualification, they should be understood to indicate the Chautauqua Patrons' Insurance Association.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the four year period from January 1, 1997 through December 31, 2000 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 and verification and utilized, to the extent considered appropriate, work performed by the Association's independent public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

A review was made to ascertain what action was taken by the Association 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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Association was organized in 1877 as "The Chautauqua County Patrons' Fire Relief Association" for the purpose of transacting business as an assessment co-operative fire insurance company in Chautauqua County, New York.

On December 27, 1910, a certificate was issued by this Department authorizing the Association to continue the transaction of business as an assessment co-operative fire insurance company in the above named county.

Effective February 26, 1976, the Association was authorized to change its name to Chautauqua Patrons' Insurance Association.

The Department authorized a change in the Charter of the Association as of November 26, 1999 extending the territorial limits to include all of the counties of this State, except the counties of New York, Kings, Queens, Bronx and Richmond; and all the counties of the state of Pennsylvania and Ohio.

Subsequent to the examination date, it is noted that the Association is in the process of converting to an advance premium insurance company.

A. Management

Pursuant to the Association's charter and by-laws, management of the Association is vested in a board of directors consisting of not less than nine nor more than twenty-nine members. As of the examination date, the board was comprised of fifteen members, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years. The full board meets two times during each calendar year, with executive committee meetings held at least twice a year, to comply with Section 6624(b) of the New York Insurance Law.

The board of directors membership at December 31, 2000 was as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Gaius W. Becker(E) Brockton, NY	Insurance agent
Douglas A. Bowen Ripley, NY	Insurance agent
Salvatore Caruso(E) Portland, NY	Insurance agent
Allen S. Chase(E) Cassadaga, NY	Vice President, CPIA; Insurance agent

<u>Director</u>	<u>Principal Business Affiliation</u>
Warren J. Chase Cassadaga, NY	Retired
Joe Edwards, Jr(E) Panama, NY	President, CPIA, Insurance Agent
Brenda J. Ireland Panama, NY	Insurance Agent
Craig W. Kinney Randolph, NY	Insurance Agent
Karen E. Leccadone Randolph, NY	Insurance Agent
David I. Lipsey(E) Bemus Point, NY	Secretary-Treasurer, CPIA, Insurance Agent
Karen Mathewson Fredonia, NY	Insurance Agent
Ruth O. Newton Sinclairville, NY	Retired
William R. Reynolds Ashville, NY	Policeman
David I. Sturges(E) Panama, NY	Retired
Charles S. Sundquist(E) Jamestown, NY	Chairman of the Board, CPIA, Insurance Agent

(E) denotes 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 92%, with each individual director's attendance being adequate at these meetings, unless otherwise indicated.

At December 31, 2000, the officers of the Company were as follows:

Chairman of the Board	Charles S. Sundquist
President	Joe Edwards, Jr.
Vice President	Allen S. Chase
Secretary and Treasurer	David I. Lipsey

B. Territory and Plan of Operation

The following schedule shows direct premium written by CPIA in New York State for the examination period:

<u>Calendar Year</u>	<u>Total Direct Premiums Written(000's)</u>
1997	\$ 3,981
1998	4,226
1999	4,544
2000	5,155

As of the examination date, the Association 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 Business</u>
4	Fire
5	Miscellaneous Property
6	Water Damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (employers'
19	Motor vehicle and aircraft physical damage(motor vehicle only)
20	Marine and inland marine(inland marine only)

The Association was also licensed as of December 31,2000, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

The Association underwrites predominantly package policies with commercial multiple peril, homeowners multiple peril and farmowners multiple peril comprising 41.1%, 35.5% and 12.6% respectively of 2000 net premium writings.

C. Reinsurance

The Association had no assumed reinsurance premiums written as of December 31, 2000. The Schedule F's as contained in the Association's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

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 the examination date, the Association has the following property and casualty combination excess of loss reinsurance program in place.

Property(4 layers)	\$60,000 x/s \$40,000 ultimate net loss any one loss any one risk, with the reinsurer liable to a further limit of \$120,000 on any one loss occurrence; except specified catastrophe perils, such as windstorm, tornado, flood, etc. which is \$80,000 x/s \$20,000 any one loss any one risk
	\$900,000 x/s \$100,000 ultimate net loss any one loss any one risk
Casualty(3 layers)	\$970,000 x/s \$30,000 ultimate net loss any one occurrence
Casualty clash	\$1,000,000 x/s \$1,000,000 in any one loss occurrence
Property catastrophe (2 layers)	95% of \$600,000 x/s \$125,000 ultimate net loss each loss occurrence involving three or more risks
Aggregate	95% of \$1,500,000 x/s \$700,000 aggregate net losses, when aggregate net losses exceed an amount equal to 75% of net earned premium income during the agreement year

As of the examination date, the Association has the following property facultative reinsurance program in place:

Property	The lesser of fifty percent(50%) of the gross liability or \$500,000 in respect of any property risk reinsured under this agreement
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All the reinsurance contracts reviewed during the examination period were reinsured by authorized reinsurers, as was the case in the previous examination. Since the previous examination, the Association's net retention has increased from \$35,000 to \$40,000 on property business, and from \$25,000 to \$30,000 on casualty business.

D. Holding Company System

The Association owned 100% of the outstanding shares of Chautauqua Patrons' Insurance Agency, Inc. at December 31, 2000. The above mentioned agency was incorporated to furnish an outlet for CPIA's agents for those kinds of insurance not provided by the Association. It is noted, that the Agency has been inactive during the examination period.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000 based upon the results of this examination:

Net premiums written in 2000 to Surplus as regards policyholders at December 31,2000	.99:1
Uncollected premiums(net of Reinsurance balances payable) to Surplus as regards policyholders	2.53%
Liabilities to Cash and invested assets	54.20 %

The underwriting ratios presented below are on an earned-incurred basis and encompass the four year period January 1, 1997 to December 31, 2000:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$ 6,610,595	54.4%
Loss adjustment expenses incurred	1,034,200	8.5%
Other underwriting expenses incurred	4,116,230	33.9%
Net underwriting gain(loss)	<u>394,924</u>	<u>3.2%</u>
Premiums earned	<u>\$12,155,949</u>	<u>100.0%</u>

F. Abandoned property law

During the period covered by this examination, the Association was in compliance with Section 1316 of the New York Abandoned Property Law. Attempts were made to locate payees and appropriate filings were delivered to the state comptroller.

G. Conflict of Interest

It is noted that the Association has used a conflict of interest questionnaire and policy statement throughout all years of the examination period. However, seven of the Association's director agents and brokers did not answer or answered no to Question 8 of the conflict of interest questionnaire. This question asks if the respondent or anyone in their immediate family has an agent's or broker's license. It was determined from the review of the Department's agents' listing and from Association records that all seven of the directors were licensed. A natural conflict of duties exists when a director is also an agent of the Association as well as of other insurance companies, where an inherent conflict as to which organization to better serve, also exists. The intent of the conflict of interest questionnaire is used to make the Association aware of any conflicts or potential conflicts of interest and if it is not fully and properly completed, the goal of questionnaire can not be accomplished. Therefore, it is recommended the Association adapt a procedure whereby the conflict of interest questionnaire will be properly completed by its directors.

H. Section 6611(a)(4)(c) of the New York Insurance Law

During the review of the cash reconciliation it was determined that employees of the Association were signing a majority of the checks written. Section 6611(a)(4)(c) of the New York Insurance Law requires that all checks shall be signed by two officers or by one officer upon the written order of another officer. It is recommended that the Association comply with the Section 6611(a)(4)(c) of the Insurance Law.

## I. Custodial Agreement

Prior to September of 1999 the Association had a custodial agreement with a proper banking institution. However, in September of 1999 the Association's banking institution was purchased by another banking organization. As of December 31, 2000, the Association has not executed a custodial agreement with the new banking institution, as required by Department Circular Letter No 2(1977) which states that a custodial bank should hold an insurance company's securities under an acceptable custodial agreement. It is recommended that the Association comply with Department Circular Letter No. 2(1977) and sign an acceptable custodial agreement with its current banking institution.

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, 2000. This statement is the same as the balance sheet filed by the Association.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$3,883,055	\$ -0-	\$ -0-	\$3,883,055
Common stocks	1,884,309	99,667	-0-	1,983,976
Real Estate	301,535	-0-	-0-	301,535
Cash and short term investments	1,198,238	-0-	-0-	198,238
Agents' balance or uncollected premiums	729,977	-0-	21,473	708,504
Reinsurance recoverables on loss and loss adjustment expense	9,805	-0-	-0-	9,805
Interest, dividends and real estate income due and accrued	-0-	48,696	-0-	48,696
Other assets nonadmitted	<u>40,557</u>	<u>-0-</u>	<u>40,557</u>	<u>-0-</u>
Total	<u>\$8,047,476</u>	<u>\$148,363</u>	<u>\$62,030</u>	<u>\$8,133,809</u>
 <u>Liabilities and Surplus</u>				
Losses				\$1,069,886
Loss adjustment expenses				174,649
Contingent commissions and other similar charges				97,440
Other expenses				87,304
Federal and foreign income taxes				63,000
Unearned premiums				2,685,207
Remittances and items not allocated				43,036
Total liabilities				\$4,220,522
Required Surplus			\$ 100,000	
Unassigned funds(surplus)			<u>3,813,287</u>	
Surplus as regards policyholders				<u>3,913,287</u>
Total Liabilities and Surplus				<u>\$8,133,809</u>

The Internal Revenue Service has not performed an audit of the Association's federal income tax returns for any tax year during the examination period.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$ 1,208,236 during the four-year examination period (January 1, 1997 to December 31, 2000) detailed as follows:

	<u>Statement of Income</u>	
<u>Underwriting Income</u>		
Premiums earned		\$12,155,949
Losses incurred	\$6,610,595	
Loss adjustment expenses incurred	1,034,200	
Other underwriting expenses incurred	<u>4,116,230</u>	
Total underwriting deductions		<u>(11,761,025)</u>
Net underwriting gain (loss)		\$ 394,924
<u>Investment Income</u>		
Net investment income earned	\$ 858,160	
Net realized capital gain or (loss)	<u>661,618</u>	
Net investment gain		1,519,778
<u>Other Income</u>		
Finance charges	\$ 188,863	
Agents' balances charged off	(1,538)	
Borrowed money	(70,771)	
Miscellaneous income	<u>(8,747)</u>	
Net other income		<u>107,807</u>
Net income before federal income taxes		\$2,022,509
Federal income tax incurred		<u>(729,784)</u>
Net income		<u>\$1,292,725</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996, per prior report on examination			\$ 2,705,051
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or loss	\$1,292,725	\$ -0-	
Net unrealized capital loss	-0-	85,392	
Change in non-admitted assets	<u>903</u>	<u>-0-</u>	
Totals	<u>\$1,293,628</u>	<u>\$85,392</u>	
Net increase in Surplus as regards policyholders			<u>1,208,236</u>
Surplus as regards policyholders, December 31,2000 per report on examination			<u>\$ 3,913,287</u>

4. LOSSES

The examination liability of \$1,069,886 is the same as the \$1,069,886 reported by the Association on its filed 2000 annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Association's internal records and in its filed annual statements.

The Association's actuarial opinion and report were reviewed and utilized in the determination of an appropriate reserve for the Association's unpaid losses.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of \$174,649 is the same as the \$174,649 reported by the Association on its filed 2000 annual statement. The loss adjustment expense reserve was predicted on the ratio of loss adjustment expenses paid (both allocated and unallocated) to losses paid, then applied to the outstanding loss reserve as established by the Association and this examination.

6. TREATMENT OF POLICYHOLDERS AND CLAIMANTS

During the course of this examination, a review was made of the manner in which the Association 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 Association in the following areas:

- A Sales and advertising
- B Underwriting
- C Rating
- D Claims

No unfair practices were encountered unless otherwise noted.

Cancellations were reviewed for Association compliance with Section 3425(d)(1) and 3426(e)(2) of the New York Insurance Law. It was found in several instances that only general reasons, such as “underwriting standards” and “claim frequency”, were given for the cancellation. The above mentioned reasons are too broad in nature and do not comply with the specificity required by the above - cited laws. Therefore, it is recommended that the Association comply with Section 3425(d)(1) and 3426(e)(2) of the New York Insurance Law and give a more detailed description of the reason for the cancellation.

7. 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>
A. The Association should comply with Article II, Section 2 of its by-laws and divide the board into three groups as nearly equal as possible	3
The Association has complied with this recommendation.	
B. The Association should comply with its agency contracts and pay only commissions agreed upon in the agency agreements.	14
The Association has complied with this recommendation.	
C. The Association should comply with Section 1209(f) of the New York Insurance Law and discontinue incentive payments to director-agents.	14-15
The Association has complied with this recommendation.	
D. The Association should comply with Department Regulation 64 and include the Department's address on all correspondence that rejects any element of a claim.	15
The Association has complied with this recommendation	

8. SUMMARY OF COMMENTS

<u>Item</u>	<u>Page No.</u>
<u>A. Conflict of interest</u>	
It is recommended the Association adapt a procedure whereby the conflict of interest questionnaire will be properly completed by its directors	8
<u>B. Section 6611(a)(4)(c) of New York Insurance Law</u>	
It is recommended the Association comply with Section 6611(a)(4)(c) of the New York Insurance Law	8-9
<u>C. Custodial Agreement</u>	
It is recommended that the Association comply with Department Circular Letter No. 2 (1977) and sign an acceptable custodial agreement with its current new banking institution	10
<u>D. Treatment of Policyholders and Claimants</u>	
It is recommended that the Association comply with Sections 3425(d)(1) and 3426(e)(2) of the New York Insurance Law and give a more detailed description of the reason for the cancellation.	13

Respectfully submitted

LSI  
Gerard L. Franco  
Senior Examiner

STATE OF NEW YORK )  
                                  )  
COUNTY OF ALBANY )

Gerard L. Franco, being duly sworn, deposes and says the foregoing report, subscribed by him, is true to the best of his knowledge, information and belief.

LSI  
Gerard L. Franco  
Senior Examiner

Sworn to before me this

22nd day of August, 2001.

LSI  
Notary Public  
RUTH C. BROOKS Wrabel  
Notary Public, State of New York  
Residing in ~~Rensselaer~~ County Albany  
My Commission Expires May 18, 2003 21  
4895369



Appointment No 21734

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:

**Gerard L. Franco**

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

**Chautauqua Patrons Insurance Association**

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

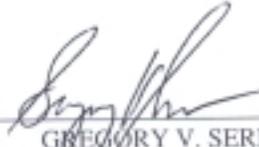
**Company**

*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 7<sup>th</sup> day of June, 2001*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance



