



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

REPORT ON EXAMINATION

OF THE

FINGER LAKES FIRE AND CASUALTY COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT:

JANUARY 25, 2001

EXAMINER:

GERARD L. FRANCO



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

January 25, 2001

Honorable Neil D. Levin
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 No. 21631 dated October 4, 2000, attached hereto, I have made an examination into the condition and affairs of the Finger Lakes Fire and Casualty Company as of December 31, 1999 and submit the following report thereon. The examination was conducted at the Company's home office, located at 6905 Rte 227, P.O. Box 550, Trumansburg, New York 14886.

Whenever the designations "the Company", or "FLFCC" appear herein without qualification, they should be understood to indicate the Finger Lakes Fire and Casualty Company.

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1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covered the four year period from January 1, 1996 through December 31, 1999 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. 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 Company with regard to comments and recommendations contained in the prior report on examination.

2. DESCRIPTION OF COMPANY

The Company was organized on December 23, 1876, as the Patrons Fire Relief Company of Seneca County, New York for the purpose of transacting business as a co-operative fire insurance corporation in the counties of Seneca, Ontario and Schulyer in this State. On November 14, 1967, this Department issued a certificate approving a change in the name of the Company to the Seneca Co-operative Insurance Company.

On November 7, 1985, this Department approved an Agreement of Merger between the Finger Lakes Co-operative Insurance Company and the Seneca Co-operative Insurance Company, the surviving corporation. In accordance with this agreement, the corporate title of the Company became Finger Lakes-Seneca Cooperative Insurance Company, effective January 1, 1986.

Effective June 1, 1994, the Department approved the conversion of the Company into a non-assessable advance premium cooperative. On the same date, the Department also issued a license to the Company to do business as an advance premium cooperative.

The Department gave the approval for the Company to change its name to the Finger Lakes Fire and Casualty Company effective April 3, 1995.

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 twenty-one members. As of the examination date, the board was comprised of twelve members. The board meets six times during each calendar year.

The directors as of December 31, 1999 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Thomas R. Ball Dryden, NY	Vice President, Finger Lakes Fire and Casualty Company
Joseph M. Barrick Watkins Glen, NY	Self employed real estate developer
John W. Benedict (E) Trumansburg NY	Auditor, State of New York
Ray G. deBogart Willseyville, NY	Self employed dairy farmer
David R. Eastman (E) Ovid, NY	Self employed crop farmer
Stephen E. Gillette Watkins Glen, NY	Self employed owner of several NAPA auto parts stores
Stephen C. Hall (E) Van Etten, NY	President & Secretary, Finger Lakes Fire and Casualty Company
Martin Hayes (E) Geneva, NY	Treasurer, Finger Lakes Fire and Casualty Company

<u>Director</u>	<u>Principal Business Affiliation</u>
Thomas L. Kime (E) Waterloo, NY	Chairman of the Board, FLFCC
Lauren W. Lodge Watkins Glen, NY	Retired Executive Vice President & Secretary, FLFCC
Douglas R. Thornton Spencer, NY	U.S. Postal Service employee
Kathryn M. West Newfield, NY	Assistant County Administrator, Tompkins County, New York

(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 89%, with each individual director's attendance being adequate at these meeting, unless otherwise indicated.

At December 31, 1999 the officers of the Company were as follows:

Chairman of the Board	Thomas L. Kime
Vice Chairman of the Board	John W. Benedict
President, Secretary & CEO	Stephen C. Hall
Treasurer	Martin Hayes
Vice President	Thomas R. Ball

B. Territory and Plan of Operation

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

DIRECT PREMIUMS WRITTEN (000's)

<u>Calendar Year</u>	<u>Total Premiums Written</u>
1996	\$3,938
1997	3,957
1998	3,960
1999	4,160

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>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
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland marine only)

The Company was also licensed as of December 31, 1999, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

The Company underwrites predominantly commercial multiple peril, homeowners multiple peril, and fire lines of business, which accounted for 42%, 37% and 7% respectively, of the 1999 net premium writings.

C. Reinsurance

The Company had no assumed reinsurance premiums written as of December 31, 1999.

The Schedule F's as contained in the Company'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 Company has the following property and casualty excess of loss reinsurance program in place:

Property (3 layers)	\$100,000 x/s \$50,000 with respect to any one risk in any one loss occurrence, with the reinsurer liable up to a maximum of \$300,000 as respects all risks in any one loss occurrence
	\$350,000 x/s \$150,000 with respect to any one risk in any one loss occurrence, with the reinsurer liable up to a maximum of \$1,050,000 as respects all risks in any one loss occurrence
	\$500,000 x/s \$500,000 with respect to any one risk in any one loss occurrence, with the reinsurer liable up to a maximum of \$1,500,000 as respects all risks in any one loss occurrence
Casualty (4 layers)	\$1,950,000 x/s \$50,000 ultimate net loss with respect to any one loss occurrence
Property catastrophe (3 layers)	\$4,750,000 x/s \$250,000 ultimate net loss as respects any one loss occurrence
	100% of the ultimate net loss x/s \$5,000,000 arising out of each occurrence

As of the examination date, the Company has the following umbrella quota share reinsurance program in place:

Casualty (2 layers)	95% quota share of \$1,000,000 x/s \$2,000,000 ultimate net loss per occurrence, per policy
	100% quota share of \$5,000,000 x/s \$3,000,000 ultimate net loss per occurrence, per policy

All the reinsurance contracts reviewed during the examination period were reinsured by an authorized reinsurer, as was the case in the previous examination. Since the previous examination, the Company's net retention has increased from \$40,000 to \$50,000 on property business, and from \$40,000 to \$50,000 on casualty business.

D. Holding Company System

As of December 31, 1999, the Company was not a member of any holding company system. The Company was independent with no affiliations or pooling agreements in force at December 31, 1999.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999 based upon the results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	.57 to 1
Premiums in course of collection to Surplus as regards policyholders	1.68%
Liability to cash and invested assets	49.97%

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 four-year period, January 1, 1996 to December 31, 1999:

	<u>Amounts</u>	<u>Ratios</u>
Losses	\$5,103,483	39.53%
Loss adjustment expenses	1,501,736	11.63%
Other underwriting expenses	4,840,565	37.49%
Net underwriting gain (loss)	<u>1,465,698</u>	<u>11.35%</u>
Premiums earned	<u>\$12,911,482</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. The Company filed all required abandoned property reports with the State Comptroller in a timely manner during the examination period.

G. Accounts and Records

It is noted some of the information provided by the Company on its 1999 annual statement Schedule P Parts 1, 3, 1E, 2E, and 5 was inaccurate. The annual statement Schedule P should be prepared as required by the National Association of Insurance Commissioners (NAIC) annual statement instructions, whereby the estimated losses will be reasonable. Therefore, it is recommended that the Company prepare Schedule P in accordance with the NAIC annual statement instructions and accurately fill out all parts of Schedule P in all future financial statements submitted to this Department.

H. Section 1411(c) of the Insurance Law

The Company entered into a Pledge Agreement with The Tompkins County Trust Company on February 29, 2000 for the purpose of obtaining a line of credit. The agreement calls for a security interest in the Company's invested assets held by its custodian bank, Tompkins County Trust Company, in the amount of \$1,000,000. Section 1411(c) of the New York Insurance Law requires that the amount pledged not exceed five percent of the Company's admitted assets. As of December 31, 1999 the admitted assets of FLFCC totaled \$10,865,833. Based on that admitted asset amount, and the requirements of the aforementioned section of law, the Company would only be permitted to pledge \$543,292. Therefore, it is recommended the Company comply with Section 1411(c) and lower the pledged amount to within the stated limitation.

It is noted the Company has contacted the institution involved with reference to amending the pledged amount.

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, 1999. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$7,740,355	\$-0-	\$-0-	\$7,740,355
Preferred stocks	24,813	-0-	4,125	20,688
Common stocks	1,203,561	183,893	-0-	1,387,454
Real estate	369,859	-0-	-0-	369,859
Cash and short term investments	232,098	-0-	-0-	232,098
Agents' balance or uncollected premiums	818,547	-0-	14,800	803,747
Federal income tax recoverable	3,782	-0-	-0-	3,782
Interest, dividends and real estate income due and accrued	131,824	-0-	-0-	131,824
Equities in pools and Companys	40,527	-0-	-0-	40,527
Other assets nonadmitted	39,157	-0-	39,157	-0-
Aggregate write-ins for other than invested assets	<u>135,499</u>	<u>-0-</u>	<u>-0-</u>	<u>135,499</u>
Total	<u>\$10,740,022</u>	<u>\$183,893</u>	<u>\$58,082</u>	<u>\$10,865,833</u>

Liabilities and Surplus

Losses		\$1,253,684
Loss adjustment expenses		312,983
Contingent commissions and other similar charges		152,992
Other expenses		298,836
Federal and foreign income taxes		666
Unearned premiums		2,483,685
Amounts withheld or retained by company for account of others		3,486
Excess of statutory reserves over statement reserves		23,000
Aggregate write-ins for liabilities		<u>187,115</u>
Total liabilities		\$4,716,447
Unassigned funds(surplus)	5,754,686	
Special contingent surplus	<u>394,700</u>	
Surplus as regards policyholders		<u>6,149,386</u>
Total		<u>\$10,865,833</u>

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

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$2,283,080 during the four-year examination period, (January 1, 1996 through December 31, 1999) detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$12,911,482
Losses incurred	\$5,103,483	
Loss adjustment expenses incurred	1,501,736	
Other underwriting expenses incurred	<u>4,840,565</u>	
Total underwriting deductions		<u>(11,445,784)</u>
Net underwriting gain or (loss)		\$ 1,465,698

Investment Income

Net investment income earned	\$1,370,273	
Net realized capital gain or (loss)	<u>684,763</u>	
Net investment gain		2,055,036

Other Income (Loss)

Finance charges	\$68,220	
Agents balances charged off	(43,216)	
Deferred compensation	<u>(134,663)</u>	
Total other income (loss)		<u>(109,659)</u>
Net income (loss) before federal income tax		\$3,411,075
Federal income tax		<u>(1,337,098)</u>
Net income (loss)		<u>\$2,073,977</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995 per prior report on examination \$3,866,306

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>
Net income	\$2,073,977	\$-0-
Excess of statutory reserves over statement reserves		23,000
Unrealized capital gain (loss)	183,893	-0-
Change in non-admitted assets	<u>48,210</u>	<u>-0-</u>
Totals	<u>\$2,306,080</u>	<u>\$23,000</u>

Net increase in Surplus as regards policyholders 2,283,080

Surplus as regards policyholders, December 31, 1999, per report on examination \$6,149,386

4. LOSSES

The examination liability of \$1,253,684 is the same as the \$1,253,684 reported by the Company on their filed 1999 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 Company's internal records and in its filed annual statements.

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

5. LOSS ADJUSTMENT EXPENSES

The examination liability of \$312,983 is the same as the \$312,983 reported by the Company on their filed 1999 annual statement. The loss adjustment expense reserve was predicated 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 Company and this examination.

6. 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

No unfair practices were encountered unless otherwise indicated.

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 Company should comply with the annual statement instructions by recording all securities on deposit with the Superintendent on the Schedule of Deposits exhibit in future annual statements filed with this Department.	8
The Company has complied with this recommendation.	
B. The Company should modify its custodial agreement to conform to the provisions set forth in the Department's In-House Task Force memorandum.	9-10
The Company has complied with this recommendation.	
C. The Company is directed to revise its accounting procedures in order to integrate its fair plan business in with its remaining business on an account-by-account basis.	10-11
The Company has complied with this recommendation.	
D. It is recommended that the Company charge itself a sufficient amount of rent to offset the expense of maintaining its home office building.	10-11
The Company has complied with this recommendation.	
E. The Company should comply with Section 1409(a) of the New York Insurance Law and set up and maintain a special contingent surplus in its general ledger.	17
The Company has complied with this recommendation.	
F. It is recommended that the Company adhere to Department Regulation 90 by including the required wording in all future termination letters to agents.	18
The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

As indicated in the body of this report, the Company should be directed to comply with the following:

<u>Item</u>	<u>Page No.</u>
<u>A. Annual Statement Schedule P Parts 1, 3, 1E, 2E and 5</u>	
It is recommended that the Company prepare Schedule P in accordance with the NAIC annual statement instructions and accurately fill out all parts of Schedule P in all future financial statements submitted to this Department.	8
<u>B. Section 1411(c) of the Insurance Law</u>	
It is recommended the Company comply with Section 1411(c) and lower the pledged amount to within the stated limitation.	9

Respectfully submitted

Gerard L. Franco
Gerard L. Franco
Senior Insurance Examiner

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

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

Gerard L. Franco
Gerard L. Franco
Senior Insurance Examiner

Sworn to before me this

3rd day of November, 2000

Carolyn D. Gressick
Notary Public

CAROLYN D. GRESSICK
Notary Public, State of New York
No. 4658907
Qualified in Montgomery County
Commission Expires October 31, 2001

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Gregory V. Serio, *First Deputy 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

Finger Lakes Fire and Casualty Company

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

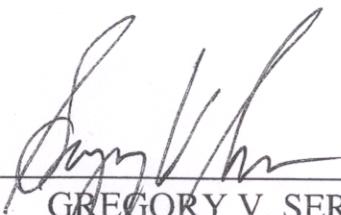
Company

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 New York,

this 4th day of October 2000





GREGORY V. SERIO
First Deputy Superintendent of Insurance