



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

REPORT ON EXAMINATION
OF THE
FULMONT MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

SEPTEMBER 20, 2001

EXAMINER:

WARREN YOUNGS

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INSURANCE DEPARTMENT
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EMPIRE STATE PLAZA
ALBANY, NEW YORK 12257

September 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 Number 21694, dated January 31, 2001, attached hereto, I have made an examination into the condition and affairs of the Fulmont Mutual Insurance Company as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Company's home office located at 2240 State Highway 29, Johnstown, New York 12095.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covered the five year period from January 1, 1996 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 or verification and utilized, to the extent considered appropriate, work performed by the Company's independent 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 Company was organized on August 9, 1853 for the purpose of transacting business as an assessment cooperative fire insurance association in Fulton and Montgomery Counties, New York.

A certificate was issued by this Department on December 27, 1910 which authorized the Company to continue the transaction of business in the above named counties.

On December 31, 1986, the Company converted to an advance premium cooperative insurance company and changed its name from “Fulton and Montgomery Counties Farmers Mutual Fire Insurance Association” to “Fulmont Mutual Insurance Company”. At the same time, the Company became qualified to write non-assessable policies and was permitted to extend its territorial limits to include the entire state of New York.

Effective June 1, 1990, the license of FMIC was changed to require that the Company reinsure the whole risk for all perils specified in paragraphs seven, eight, thirteen, fourteen and fifteen of Section 1113(a) of the Insurance Law.

On May 1, 1998, The Mohawk Minden Insurance Company merged into the Fulmont Mutual Insurance Company.

A. Management

Pursuant to the Company’s charter, management of the Company is vested in a board of directors consisting of not less than nine nor more than fifteen members. As of the examination date, the board of directors was comprised of ten members.

At least four board 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 Company reported that the directors as of December 31, 2000, were as follows:

Director

Burlin C. Argotsinger
Gloversville, NY

Principal Business Affiliation

Insurance Agent; Director Westport MLM Agency, Inc.; Director FM Scion Service Corporation

Director

Principal Business Affiliation

Charles P. Armitstead
Fort Plain, NY

Retired

Marlene A. Benton
Amsterdam, NY

President of FMIC; Director and Secretary-Treasurer Westport MLM Agency, Inc.; Director and Secretary-Treasurer FM Scion Service Corporation

Norbert E. Bicheler
Fultonville, NY

Farmer; Insurance Agent; Vice Chairman of the Board FMIC; Director Westport MLM Agency, Inc.; Director FM Scion Service Corporation

Raynor B. Duncombe
Middleburgh, NY

Attorney; Chairman of the Board FMIC; Director Westport MLM Agency, Inc.; Director FM Scion Service Corporation

Margaret M. Leackfeldt
Pattersonville, NY

Director and President Westport MLM Agency, Inc.; Director FM Scion Service Corporation

Dudley R. Persse
Gloversville, NY

Retired

Richard D. Rathbun
Cooperstown, NY

Farmer

Deborah A. Sidney
Herkimer, NY

Secretary and Treasurer of FMIC; Director and Assistant Secretary-Treasurer Westport MLM Agency, Inc.; Director and Assistant Secretary-Treasurer FM Scion Service Corporation

Isabella VanDewerker
Cherry Valley, NY

Director Westport MLM Agency, Inc.; Director and President FM Scion Service Corporation

The minutes of all of the Board of Directors' meetings and committees thereof 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 2 of the Company's charter and Article IV Section 2 of its by-laws, was reviewed and it appears that each director was duly qualified.

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. Section 712(a) of the New York Business Corporation Law gives the authority to create committees of the board to the board of directors. It appears that for every year under examination the board of directors did not approve the committee appointments presented by an officer of the Company. This is in conflict with the provisions of Section 712(a).

Thus, it is recommended that the Company adhere to all the provisions of its charter and by-laws and Section 712(a) of the New York Business Corporation Law, henceforth.

During the review of the minutes of the annual policyholders meetings it was found that the election of directors was not being properly recorded for the period 1996 through 2000. Thus, it is recommended that the minutes of the annual policyholders meeting clearly state the names of the individuals being nominated including their length of term and the minutes definitively state that the policyholders elected such individuals as directors.

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

Chairman of the Board	Raynor B. Duncombe
Vice-Chairman of the Board	Norbert E. Bicheler
President	Marlene A. Benton
Secretary and Treasurer	Deborah A. Sidney
Assistant Secretary	Joanne E. Gifford
Assistant Secretary	Brian Kingsley
Assistant Treasurer	Anabel Kovarovic
Assistant Treasurer	Terry Dufel

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>
1996	\$2,970
1997	2,938
1998	3,189
1999	3,266
2000	3,491

As of December 31, 2000, 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
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

The Company's current license, effective June 1, 1990, requires it to reinsure the whole risk for all perils specified in paragraphs 7, 8, 13, 14 and 15.

The Company 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.

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, 2000, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

At December 31, 2000, the Company wrote insurance through independent agents, its two subsidiaries and director-agents. The Company maintained two branch offices, one in Westport, New York and one in Canajoharie, New York.

The Company's predominate lines of business are farmowners multiple peril, homeowners multiple peril and commercial multiple peril, which accounted for 9.77%, 35.60% and 42.29%, respectively, of the Company's 2000 direct written business.

C. Reinsurance

The Company had no assumed business at year-end 2000.

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, 2000, the Company had the following Property and Casualty Excess of Loss reinsurance program in place:

Property 2 Layers	\$460,000 in excess of \$40,000 each risk, each occurrence. Per occurrence limit of \$100,000 on first layer.
Casualty 1 Layer	100% of \$1,000,000 per any loss occurrence.
Casualty Clash	\$1,000,000 in excess of \$1,000,000 in any one loss occurrence.

In 1998, an \$80,000 annual corridor deductible was added to the first layer of the property excess of loss agreement. The deductible remained at \$80,000 in 1999 and 2000.

As of December 31, 2000, the Company also maintained a catastrophe cover on a per occurrence basis:

Property 3 layers	95% of \$2,900,000 in excess of \$100,000 per each occurrence.
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As of the examination date, the Company had aggregate excess of loss reinsurance coverage in force of 95% of \$750,000 in excess of 60% of net premiums earned.

The Company also had in effect, as of the examination date, a “Property Pro-Rata Facultative Agreement” that provides a maximum cession of the lesser of 50% of the entire risk or \$500,000. Risks where the total insured value exceeds \$1,000,000 are underwritten on an offer and acceptance basis.

In addition, the Company had in effect, as of December 31, 2000, a “Casualty Facultative Program”. This program allows the Company to cede up to \$500,000 in excess of \$500,000, on an offer and acceptance basis.

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

During the examination period (1996-2000) the Company’s net retention of

\$40,000 on property business stayed the same as at December 31, 1995. The Company still cedes 100% of its casualty business. However, it was noted that in 2001 the Company increased its retention on the Property Excess of Loss Reinsurance Agreement from \$40,000 to \$50,000.

All reinsurance contracts and addendums that became effective during the period under examination were submitted to the Department for review in accordance with Section 1308(e) of the New York Insurance Law.

D. Holding Company System

The Company had two subsidiaries in its holding company system at December 31, 2000. A description of the system is as follows:

FM Scion Service Corporation (“FM Scion”) was organized for the purpose of providing certain ancillary services to the Company. The initial funding of FM Scion was the Company’s purchase of five shares of \$1,000 par value common stock at \$1,000 per share for a total investment of \$5,000. Subsequent purchases of common stock by the Company increased its investment in FM Scion to 87 shares for a total investment of \$87,000.

In 1982, FM Scion expanded its scope to include the business of insurance broker, which provided a vehicle for those agents, who were also brokers, to write coverage that the Company does not write, through FM Scion. This brokerage activity was further expanded in 1985 when FM Scion purchased an independent agency, MLM Agency, Inc., which was later transferred to the Company, and became the second subsidiary, Westport MLM Agency, Inc. (“Westport”).

Westport was organized in 1987 to conduct business as a general insurance agency and brokerage company, with the provision that neither Westport nor the Company would broker business for each other. The Company contributed capital to the subsidiary by purchasing forty shares of \$3,000 par value common stock at \$3,000 per share for a total investment of \$120,000.

Department Regulation 53 requires the reporting of all transactions entered into during the next preceding calendar year by the Company with any of its subsidiaries. The prior report on examination contained a recommendation that the Company report transactions with its subsidiaries as required by Department Regulation 53. It was found during this examination that the Company was still not reporting transactions with its subsidiaries as required by Department Regulation 53. In correspondence dated August 10, 2001, Company management noted new procedures it implemented to ensure compliance with Regulation 53 in the future. Nevertheless, it is recommended that the Company report transactions with its two subsidiaries in accordance with Regulation 53, henceforth.

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	1.70 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	72.02%

Premiums in course of collection to Surplus as regards policyholders 5.81%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$4,449,104	44.82%
Loss adjustment expenses incurred	1,719,042	17.32%
Other underwriting expenses incurred	4,604,195	46.38%
Net underwriting gain (loss)	<u>(844,629)</u>	<u>(8.52)%</u>
Premiums earned	<u>\$9,927,712</u>	<u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company filed reports with the state comptroller although not always in accordance with the requirements of the New York Abandoned Property Law. In correspondence dated, July 6, 2001 and July 7, 2001, Company management indicated that it would follow the requirements of the New York Abandoned Property Law in the future.

It is noted that the Company did have written procedures related to the handling of unclaimed funds.

G. Securities in the Superintendent's Custodial Account

During the course of this examination it was found that the proceeds of securities that had matured were taken out of the "Superintendent's Custodial Account" in 2000 and

in 2001 without the written approval of the New York Insurance Department. It is noted that the deposit amount required by Section 6620 of the New York Insurance Law was maintained.

In correspondence dated July 24, 2001, management did agree to ensure approval is obtained from the New York Insurance Department prior to security proceeds being released from the account. Nevertheless, it is recommended that the Company ensure that matured security proceeds are not taken out of the Superintendent's custodial account without the written approval of the New York Insurance Department as required by Section 1314 of the New York Insurance Law.

H. Custodianship of Securities

As of December 31, 2000, the Company had investments in two mutual funds with a combined market value of \$22,754. The mutual fund investments were being held directly by the funds themselves.

Department Circular Letter No. 2 (1977) indicates that a custodian bank should hold an insurance company's securities under an acceptable custodial agreement. During the course of this examination the management of the Company was notified of the above. Management proceeded to transfer the mutual fund investments from the funds themselves to its custodial account with a bank.

Nevertheless, it is recommended that the Company comply with Department Circular Letter No. 2 (1977) and only allow its investments to be held under custodial arrangements that meet the requirements put forth in the circular letter.

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 Company. The figures included in these financial statements have been rounded.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$2,160,032	\$0	\$0	\$2,160,032
Common stocks	370,438	48,972	21,848	397,562
Mortgage loans on real estate	124,043	0	0	124,043
Real estate	162,856	0	0	162,856
Cash on hand and on deposit	165,697	0	0	165,697
Short-term investments	281,524	0	0	281,524
Agents' balances or uncollected premiums	389,852	0	23,575	366,277
Reinsurance recoverables on loss and loss adjustment expense payments	8,118	0	0	8,118
Interest, dividends and real estate income due and accrued	0	36,034	0	36,034
Federal income tax recoverable and interest thereon	15,000	0	0	15,000
Receivable from parent, subsidiaries and affiliates	40,770	0	0	40,770
Equities and deposits in pools and associations	59,998	0	116	59,882
Other assets non-admitted	82,596	0	82,596	0
A/R Other	<u>103</u>	<u>0</u>	<u>0</u>	<u>103</u>
Total assets	<u>\$3,861,027</u>	<u>\$85,006</u>	<u>\$128,135</u>	<u>\$3,817,898</u>

Liabilities & Surplus

Losses		\$353,775
Loss adjustment expenses		36,491
Contingent commissions and other similar charges		76,907
Other expenses (excluding taxes, licenses and fees)		2,471
Unearned premiums		1,863,003
Amounts withheld or retained by company for account of others		4,853
Advance premiums		48,207
Salary and vacation accruals		<u>41,002</u>
Total liabilities		\$2,426,709
Required surplus	\$100,000	
Unassigned funds (surplus)	<u>1,291,189</u>	
Surplus as regards policyholders		<u>\$1,391,189</u>
Total liabilities and surplus as regards policyholders		<u>\$3,817,898</u>

The Internal Revenue Service did not audit the Company's federal income tax returns for the period 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

Surplus as regards policyholders increased by \$650,716 during the five-year examination period, January 1, 1996 to December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$9,927,712
Losses incurred	\$4,449,104	
Loss adjustment expenses incurred	1,719,042	
Other underwriting expenses incurred	<u>4,604,195</u>	
Total underwriting deductions		<u>10,772,341</u>
Net underwriting gain (loss)		\$(844,629)

Investment Income

Net investment income earned	\$794,537	
Net realized capital gains or (losses)	<u>7,762</u>	
Net investment gain or (loss)		802,299

Other Income

Net gain from agents' or premium balances charged off	\$26,510	
Finance and service charges not included in premiums	171,941	
Aggregate write-ins for miscellaneous income	<u>(7,777)</u>	
Total other income		<u>190,674</u>
Net income before federal income taxes		\$148,344
Federal income taxes incurred		<u>12,111</u>
Net income (loss)		<u>\$136,233</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995, per prior report on examination			\$740,473
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or loss	\$136,233	\$0	
Net unrealized capital gains or (losses)	69,121	0	
Change in not-admitted assets	0	43,283	
Increase in Ledger Assets: Mohawk Minden Merger	536,902	0	
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>48,257</u>	
Total gains and losses	<u>\$742,256</u>	<u>\$91,540</u>	
Net increase in surplus as regards policyholders			<u>650,716</u>
Surplus as regards policyholders, December 31, 2000, per report on examination			<u>\$1,391,189</u>

4. LOSSES

The examination liability of \$353,775 is the same as the amount reported by the Company in its 2000 filed annual statement.

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. It appears that the Company's loss reserves were not adequate as of December 31, 2000; however, the difference noted was not material enough to make an examination change.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of \$36,491 is the same as the amount reported by the Company in its 2000 filed annual statement.

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. It appears that the Company's loss adjustment expense reserves were not adequate as of December 31, 2000; however, the difference noted was not material enough to make an examination change.

6. 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 3403 of the Insurance Law and Regulation No. 96

Department Regulation 96 was promulgated to implement the provisions of Section 3403 of the New York Insurance Law. Department Circular Letter No. 28 (1982) indicates that the anti-arson application is required in the cities of New York, Buffalo and Rochester. Thus, any business written in those cities covering the peril of fire or explosion, consisting of not more than four dwelling units, would require the use of the anti-arson application. This does not apply to owner occupied real property used predominately for residential purposes.

During the review of the Company's underwriting procedures, it was found that FMIC was not using anti-arson applications as required by Regulation 96.

In correspondence, dated July 5, 2001, Company management acknowledged non-compliance with Regulation 96 and that it has instituted immediate corrective action to ensure compliance with Department Regulation 96 and Section 3403.

Nevertheless, it is recommended that the Company comply with all the provisions of Section 3403 of the New York Insurance Law and Department Regulation No. 96, henceforth.

Sections 3425 and 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 3425(d)(1) and Section 3426(e)(2) of the New York Insurance Law.

In correspondence, dated June 27, 2001, Company management indicated that corrective action would be taken to ensure compliance with Sections 3425(d)(1) and 3426(e)(2) of the New York Insurance Law in the future.

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 correspondence, dated June 26, 2001, Company management indicated that corrective action would be taken to ensure compliance with Section 3426(e)(7) of the New York Insurance Law in the future.

In view of the above, it is recommended that the Company comply with all the provisions of Sections 3425(d) and 3426(e) of the New York Insurance Law.

Department Regulation 64

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).

In correspondence dated July 13, 2001, the Company management acknowledged that the Company had not been adhering to Section 216.9(a) of Regulation No. 64 regarding written notice to claimants of payment of claim in third-party liability settlements when the payment is made to their representative. The Company

management agreed to take corrective action to ensure compliance with Section 216.9(a) of Regulation No. 64 in the future.

Nevertheless, it is recommended that the Company comply with all the provisions of Section 216.9(a) of Department Regulation 64, henceforth.

7. 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 whenever the Company enters into any material transactions with any of its subsidiaries, said transactions be noted in the Company's Regulation 53 filings to this Department.	9
The Company has not complied with this recommendation. See Section 2(D) of this report.	
B. Recommendation that the Company increase the aggregate deductible on its directors' and officers' liability policy to \$20,000 and add a minimum coinsurance clause of at least .2% as required by Department Regulation 110.	10
The Company was not in compliance with this recommendation as of December 31, 2000; however, it brought itself into compliance in 2001. Therefore, the recommendation will not be repeated.	
C. Recommendation that management should continue to be cognizant of the expense limitation of Section 6613 of the New York Insurance Law.	11
The Company has complied with this recommendation.	
D. Recommendation that the Company remain cognizant of Section	17

Item

Page No.

1404(a)(2)(A)(i) of the New York Insurance Law when making collateral loans, henceforth.

As of December 31, 2000 the Company did not have any collateral loans outstanding.

E. Recommendation that in future financial statements to this Department, the Company report all premiums received on policies which have an effective date subsequent to the statement date as “Advance premiums” under the caption, “Aggregate write-ins for liabilities”, on the liabilities page. 18-19

The Company has complied with this recommendation.

F. Recommendation that in all financial statements the Company files with this Department, commissions receivable on reinsurance ceded business be offset against ceded reinsurance balances payable, as required by the NAIC “ Accounting Practices and Procedures Manual for Property/Casualty Insurance Companies”. 19

The Company has complied with this recommendation.

G. Recommendation that the Company follow the provisions of the Department’s instructional letter of November 29, 1978 in a consistent manner when determining premiums over 90 days past due. 19-20

The Company has complied with this recommendation.

H. Recommendation that the Company institute the necessary controls to enable the Company to report the correct liability for unused vacation pay in all financial statements to this Department. 22

The Company has complied with this recommendation.

8. 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>
<u>A. Management</u>	
(i). It is recommended that the Company adhere to all the provisions of its charter and by-laws and Section 712(a) of the New York Business Corporation Law, henceforth.	5
(ii). It is recommended that the minutes of the annual policyholders meeting clearly state the names of the individuals being nominated including their length of term and the minutes definitively state that the policyholders elected such individuals as directors.	5
<u>B. Holding Company System</u>	
It is recommended that the Company report transactions with its two subsidiaries in accordance with Regulation 53, henceforth. It is noted that a similar recommendation was included in the prior report on examination.	10
<u>C. Securities in the Superintendent's Custodial Account</u>	
It is recommended that the Company ensure that matured security proceeds are not taken out of the Superintendent's custodial account without the written approval of the New York Insurance Department as required by Section 1314 of the New York Insurance Law.	12

<u>Item</u>	<u>Page No.</u>
D. <u>Custodianship of Securities</u>	
It is recommended that the Company comply with Department Circular Letter No. 2 (1977) and only allow its investments to be held under custodial arrangements that meet the requirements put forth in the circular letter.	12
E. <u>Market Conduct Activities</u>	
(i). It is recommended that the Company comply with all the provisions of Section 3403 of the New York Insurance Law and Department Regulation No. 96, henceforth.	18
(ii). It is recommended that the Company comply with all the provisions of Sections 3425(d) and 3426(e) of the New York Insurance Law.	19
(iii). It is recommended that the Company comply with all the provisions of Section 216.9(a) of Department Regulation 64, henceforth.	20

Appointment No 21694

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:

Warren Youngs

as proper person to examine into the affairs of the

Fulmont Mutual 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 New York,

this 31st day of January, 2001



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

GREGORY V. SERIO
First Deputy Superintendent of Insurance