REPORT ON EXAMINATION

OF THE

GRAPHIC ARTS MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT	MARCH 21, 2001
EXAMINER	ROBERT W. CLARK

TABLE OF CONTENTS

ITEM			PAGE NO.
1.	Scope of examination		2
2.	Description of Company		3
	A.	Management	3
	B.	Territory and plan of operation	6
	C.	Reinsurance	7
	D.	Affiliated companies	11
	E.	Significant operating ratios	13
	F.	Abandoned Property Law	14
	G.	Custodial agreement	14
3.	Financial statements		15
	A.	Balance sheet	15
	B.	Underwriting and investment exhibit	17
4.	Losses and loss adjustment expenses		19
5.	Market conduct activities		19
6.	Compliance with prior report on examination		20
7.	Summary of comments and recommendations		20

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

March 21, 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 Number 21529 dated May 2, 2000, attached hereto, I have made an examination into the condition and affairs of the Graphic Arts Mutual Insurance Company as of December 31, 1999 and submit the following report thereon.

The examination was conducted at the Company's home office located at 180 Genesee Street, New Hartford, New York 13413.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the four year period from January 1, 1996 through December 31, 1999. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 1999, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operations
Growth of Company
Loss experience
Reinsurance
Accounts and records
Market conduct activities

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations 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.

Concurrent examinations were conducted of Utica Mutual Insurance Company ("UMIC"), a New

York domestic insurer, and of Utica National Assurance Company ("UNAC"), a New York domestic insurer, as of December 31, 1999. These companies are part of a pooling operation with GAMIC, as described further in this report in Item 2C, "Reinsurance". Separate reports on examination have been rendered relative to Utica Mutual Insurance Company and to Utica National Assurance Company.

A concurrent examination has been conducted of Republic-Franklin Insurance Company ("RFIC"), an Ohio domestic insurer, by the Ohio Insurance Department. Since January 1, 1984, RFIC has been part of the aforementioned pooling operation with the Company.

2. DESCRIPTION OF COMPANY

The Company was incorporated in 1914 under the laws of the State of New York and commenced business in April, 1914. Operations were conducted under the title, "New York Printers and Bookbinders Mutual Insurance Company" until September 1, 1959, when the present name was adopted.

A common management arrangement with UMIC of New Hartford, New York, became effective in 1967. Since 1969, the Company has pooled premiums, losses and expenses with UMIC through a reinsurance pooling agreement which is discussed more fully in Item 2C, "Reinsurance".

In 1983, the Company purchased 6% of the outstanding shares of RFIC of Columbus, Ohio from UMIC. Effective January 1, 1984, RFIC was made a party to the herein beforementioned UMIC-GAMIC pooling agreement.

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 thirteen nor more than thirty-one members. As of the examination date, the board of directors was comprised of fourteen members. The board met four times during each calendar year. The directors as of December 31, 1999, were as follows:

Director	Principal Business Affiliation
Clarence W. Bachman Penfield, NY	President, Empire Digital Communications
Alfred E. Calligaris Watertown, NY	Chairman of the Board, Stebbins Engineering & Manufacturing Company
Roy A Cardia Norwood, NY	President and CEO, M & M Bindery, Inc.
Richard G. Clark Cazenovia, NY	Retired
Gregory M. Harden McConnellsville, NY	Chairman and President, Harden Furniture Company
Jerry J. Hartman Phoenix, MD	President, Reese Press
William C. Heston Clinton, NY	Chairman and CEO, Grahic Arts Mutual Insurance Company
Herbert P. Ladds, Jr. Buffalo, NY	Chairman of the Board, Columbus McKinnon Corporation
Francis X. Matt, II New Hartford, NY	Chairman of the Board, F.X.Matt Brewing Company
Timothy R. Reed Utica, NY	President, The Utica Companies
James D. Robinson New Hartford, NY	President, Graphic Arts Mutual Insurance Company
Henry Westphalen, Jr. Dorset, VT	Investment Executive and Financial Advisor, PaineWebber, Inc.
Jacob E. Worner Kettering, OH	Retired

Director	Principal Business Affiliation
John R. Zapisek Utica, NY	Treasurer, CFO and EVP, Graphic Arts Mutual Insurance Company

The minutes of all of the 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 94%, with each individual director's attendance being adequate at these meetings.

In accordance with Section 1209(b) of the New York Insurance Law, all except four of the directors of a mutual insurance corporation must be members of the corporation or officers of member corporations. As of December 31, 1999, eight of the corporation's directors were neither members nor officers of member corporations.

It is recommended that the Company comply with Section 1209(b) of the Insurance Law by having the required number of directors as either members or officers of member corporations.

At December 31, 1999 the principal officers of the Company and their respective titles were as follows:

Name	Title
William C. Heston	Chairman and Chief Executive Officer
James D. Robinson	President and Chief Operating Officer
George P. Wardley, III	Secretary
John R. Zapisek	Treasurer, Chief Financial Officer and Executive Vice President

B. Territory and Plan of Operation

The Company is authorized to transact business in all states, the District of Columbia and Puerto Rico and by the Government of Canada in all provinces except the Yukon Territory.

The following schedule shows direct premiums by calendar year written nationwide within the examination period, countrywide as well as direct premiums written in New York State, and the percentage which the New York premiums bear to the countrywide premiums:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Percentage of U.S. Premiums Written in New York State
1996	$107,462,282	$198,389,488	54.2%
1997	$93,959,747	$188,323,964	49.9%
1998	$81,746,276	$171,084,497	47.8%
1999	$81,977,079	$186,907,917	43.9%

As of December 31, 1999, the Company was authorized to transact the kinds of businesses defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Kind of Business
3	Accident and health
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
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity

Paragraph	Kind of Business
24	Credit unemployment
26	Gap insurance
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Company is also licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act. (Public Law No. 803, 69th Congress as amended; 33USC Section 901 et seq. as amended).

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $6,325,000.

The Company obtains business through 1,261 agents and 143 brokers as of December 31, 1999. Additionally, the Company participates in various pools, associations, syndicates and FAIR plans throughout the United States.

The Company maintains seven full service branch offices and three district claims offices.

C. Reinsurance

The Company assumes reinsurance from affiliates and from non-affiliates as of December 31, 1999.

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in force as of December 31, 1999. 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 had the following excess of loss reinsurance program in place:

Type of Contract	Cession
Property	\$9,000,000 excess of \$1,000,000 each risk, each loss subject to a loss occurrence limit of \$27,000,000; agreement is subject to annual aggregate deductible of \$2,500,000.
Casualty (5 layers)	\$29,000,000 excess of \$1,000,000 each occurrence; annual aggregate deductible \$2,500,000.
Fidelity	\$4,000,000 excess of \$1,000,000 each and every loss per insured.
Casualty	\$5,000,000 excess of \$1,000,000 of the liability from directors & officers, condominiums and senior citizen housing; \$9,000,000 excess of \$1,000,000 of the liability from all other.

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

Type of Contract	Cession
Casualty	50% of liability of agricultural workers' compensation and employers' liability business produced by the Kansas Farm Bureau.
Auto	66.67% of \$750,000 excess of \$250,000 each occurrence for commercial auto produced by its "Spec Pro" division.
Errors & Omissions	50% of \$1,000,000 of the liability produced by Graphic Arts Industries.

Type of Contract	Cession
Automatic Umbrella	90% of $1,000,000 and 100% of $9,000,000 excess of $1,000,000 of the liability produced by Graphic Arts Industries.
Boiler and machinery	100% of $100,000,000 of equipment breakdown liability.

As of the examination date, the Company had the following additional reinsurance in place:

Type of Contract	Cession
Surety	45% of $1,000,000, per bond. $3,000,000 excess of $1,000,000 any one principal.
Agents' Errors & Omissions	90% of $5,000,000 per policy, per claim. $5,000,000 excess of $5,000,000 per policy, per claim.
Property and casualty	20% of the liability of the commercial business produced by the Kansas Farm Bureau.
Personal Umbrella	95% of $1,000,000, each occurrence. $4,000,000 excess of $1,000,000, each occurrence.
Commercial & School Umbrellas	50% of $5,000,000 each occurrence. $5,000,000 excess of $5,000,000 each occurrence for commercial; $10,000,000 excess of $5,000,000, each occurrence for school.

At December 31, 1999, the Company also maintained the following coverage on a per occurrence basis:

Type of Contract	Cession
Property (2 layers)	95% of $120,000,000 in excess of $30,000,000 each occurrence.
Workers' compensation (2 layers)	$50,000,000 excess of $5,000,000, each occurrence.

As of December 31, 1999, the Company had in force the following automatic facultative excess of loss reinsurance agreement:

Type of Contract	Cession
Property	$30,000,000 excess of $10,000,000 each risk, for schools and condominiums.
	$10,000,000 excess of $10,000,000 each risk, for printers.

As of December 31, 1999, the Company had in force the following facultative binding authority excess of loss reinsurance agreement:

Type of Contract	Cession
Property	$20,000,000 excess of $20,000,000 each risk, for printers.
	$30,000,000 excess of $10,000,000 each risk, all others.
Casualty	90% of $1,000,000 net loss each claim and 100% of $1,000,000 excess of $1,000,000 of net loss each claim of the employment related practices liability.

The Company's net retention for both property and casualty business is currently $1,000,000.

The Company cedes to authorized and unauthorized reinsurers. Any balance sheet credit reported by the Company for the unauthorized portions of these cessions were secured by bona fide letters of credit.

Effective January 1, 1969, Utica Mutual Insurance Company and Graphic Arts Mutual Insurance Company entered into a reinsurance pooling agreement. Effective January 1, 1984, Republic-Franklin Insurance Company was made party to the agreement by amendment thereto. Effective January 1, 1995, Utica National Insurance Company of Texas was made a party to the agreement by amendment. Furthermore, effective January 1, 1997, Utica National Assurance Company was also made party to agreement by amendment thereto. Under this pooling agreement premium income, losses and expenses are shared as follows:

Utica Mutual Insurance Company	89%
Graphic Arts Mutual Insurance Company	5%
Republic-Franklin Insurance Company	3%
Utica National Assurance Company	2%
Utica National Insurance Company of Texas	1%
Total	100%

D. Affiliated Companies

The Company is not a part of a holding company system as such term is defined in Article 15 of the New York Insurance Law and is therefore not required to make any filings specified by Department Regulation 52.

The Company and its various affiliates comprise the unincorporated entity known as Utica National Insurance Group. The following is an organizational chart outlining the relationships between members as of December 31, 1999.

- Utica Mutual Insurance Company

  Graphic Arts Mutual Insurance Company (pooled)
  - Utica National Assurance Company 1
  - Republic-Franklin Insurance Company 2
    - Utica Bermuda, Ltd. 9
  - Utica Specialty Risk Insurance Company 3
  - Utica National Insurance Company of Texas 1
  - UNI-Service Operations Corporation 1
    - UNI-Service Excess Facilities, Inc. 5
      - UNI-Service Excess Facilities Insurance Agency of New England, Inc. 6
    - UNI-Service Risk Management Corp. 5
  - Utica Lloyd's, Inc. 1
    - Utica Lloyd's of Texas 8
  - Utica National Life Insurance Company 7
    - UNI-Service Life Agency, Inc. 4

1. Owned 100% by Utica Mutual Insurance Company.
2. Owned 94% by Utica Mutual Insurance Company and 6% owned by Graphic Arts Mutual Insurance Company.
3. Owned 100% by Utica Mutual Insurance Company (The name of this company was changed effective June 30, 1999. The company was previously known as Utica Lloyd's of Texas.)
4. Owned 100% by Utica National Life Insurance Company.
5. Owned 100% by UNI-Service Operations Corporation.
6. Owned 100% by UNI-Service Excess Facilities, Inc.
7. Owned 79% by Utica Mutual Insurance Company and 21% by Graphic Arts Mutual Insurance Company.
8. A Texas Lloyds association of 12 underwriters under sponsorship of the Utica Mutual Insurance Company.
9. Owned 100% by Republic-Franklin Insurance Company.

At December 31, 1999 the Company has the following written business agreements in effect:

Common Management Agreement with Graphic Arts Mutual Insurance Company

Effective August 1, 1967, the Company entered into a common management agreement with Graphic Arts Mutual Insurance Company to consolidate the production, underwriting, reinsurance, claims, statistical, accounting, personnel, and billing and credit functions of the two companies.

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	0.97 to 1
Liabilities to liquid assets (less investment in affiliates)	83%
Premiums in course of collection to Surplus as regards policyholders	24%

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:

	Amounts	Ratios
Losses incurred	$69,416,181	61.5%
Loss adjustment expenses incurred	15,765,504	14.0
Other underwriting expenses incurred	36,052,013	31.9
Net underwriting loss	(8,376,704)	(7.4)
Premiums earned	$112,856,994	100.0%

F. Abandoned Property Law

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 reports that were required to be filed with the State Comptroller relative to abandoned property were done so in a timely manner.

G. Custodial Agreement

As of December 31, 1999, the Company was a party to a custodial agreement with the Bank of New York for the safekeeping of securities. The agreement was reviewed and found not to be within the framework of the guidelines established by this Department for the contents of such agreement. The deficiencies are described as follows:

1. The agreement did not contain a provision which indicates whether the custodian is covered under a Bankers Blanket Bond of the broadest form available, nor provisions that the Company will be notified in writing at least 60 days in advance of any material change in the form or amount of such bond or termination of the bond.

2. The agreement did not specifically state that the custodian would at all times give the securities held by it the same care that it gives its own property of a similar nature.

3. The agreement did not require the custodian to furnish the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares of stocks or par value of bonds so held at the end of such quarter.

Upon learning of the Department’s objections the Company revised its custodial agreement to bring itself into compliance with said guidelines.

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:

Assets	Ledger Assets	Non-Ledger Assets	Not Admitted Assets	Net Admitted Assets
Bonds	$70,172,026	$	$286,088	$69,885,938
Preferred stocks	367,039		20,571	346,468
Common stocks	11,117,668	2,452,940		13,570,608
Cash	1,806,222			1,806,222
Uncollected premiums	9,860,722	19,746	330,475	9,549,993
Bills receivable, taken for premiums	35,693		35,693	
Reinsurance recoverable on loss payments	259,654			259,654
Guaranty funds receivable	103,666		14,976	88,690
Electronic data processing equipment	91,107			91,107
Interest and dividends due and accrued		1,247,560		1,247,560
Equities and deposits in pools and associations	271,479		1,411	270,068
Other assets non-admitted	1,294,972		1,294,972	
Aggregate write-in for other than invested assets	3,266,147		78,482	3,187,665
Total assets	$98,646,395	$3,720,246	$2,062,668	$100,303,973

Liabilities and Surplus

Losses		$36,311,777
Loss adjustment expenses		11,027,643
Contingent commissions and other similar charges		539,705
Other expenses		1,635,894
Taxes, licenses and fees		437,865
Federal and foreign income taxes		69,030
Unearned premiums		15,104,051
Dividends declared and unpaid		504,761
Amounts withheld or retained by company for account of others		1,394,487
Provision for reinsurance		472,865
Drafts outstanding		1,314
Payable to parent, subsidiaries and affiliates		510,575
Aggregate write-ins for liabilities		904,772
Total liabilities		$68,914,739
Surplus		
Aggregate write-ins for surplus funds	$111,871	
Aggregate write-ins for other than special surplus funds	1,450,000	
Unassigned funds	29,827,363	
Surplus as regards policyholders		31,389,234
Total liabilities and surplus		$100,303,973

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 1995. All material adjustments made subsequent to the date of the examination and arising from said audits are reflected in the financial statements included in this report. Audits covering tax years 1996 to 1999 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 $8,808,378 during the four year examination period, January 1, 1996 to December 31, 1999 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$ 112,856,994
Losses incurred	$69,416,181	
Loss adjustment expenses incurred	15,765,504	
Other underwriting expenses	36,052,013	
Total underwriting deductions		121,233,698
Net underwriting (loss)		$ (8,376,704)
Investment Income		
Net investment income earned	$20,033,573	
Net realized capital gains	1,634,447	
Net investment gain		21,668,020
Other Income		
Agents' balances charged off	$ (177,185)	
Finance fee and service charges	499,066	
Miscellaneous income	(198,137)	
Net other income		123,744
Net income before dividends to policyholders and federal income taxes		$ 13,415,060
Dividends to policyholders		2,995,483
Net income before federal income taxes		$ 10,419,577
Federal income taxes incurred		1,872,652
Net income		$ 8,546,925

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995, per prior report on examination			$ 22,580,856
	Gains in Surplus	Losses in Surplus	
Net income	$ 8,546,925	$	
Net unrealized capital gains	1,406,551		
Change in non-admitted assets		1,017,437	
Change in provision for reinsurance	373,328		
Contingent balance in safety groups		91,950	
New Jersey volunteer pool buyout		267,397	
North Carolina escrow account balance		141,642	
Totals	$10,326,804	$ 1,518,426	
Net increase in surplus as regards policyholders			8,808,378
Surplus as regards policyholders, December 31, 1999, per report on examinations			$ 31,389,234

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of $36,311,777 and $11,027,643 respectively, are the same as the amounts reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements, as verified by the examiners.

5. 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, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department. 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.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	The Company should refrain from changing prior year amounts unless a revised annual statement is filed with this Department. The Company has complied with this recommendation.	13
B.	The Company should report allocated loss adjustment expense reserves on both a case basis and a bulk basis in all future filed annual statements. The Company has complied with this recommendation.	14
C.	The Company should include, in its filing with the State of New York, any drafts which have been outstanding for more than three years. The Company has complied with this recommendation.	14

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company comply with Section 1209(b) of the Insurance Law by having the required number of directors as either members or officers of member corporations.	5

Respectfully submitted

/S/
Robert W. Clark
Senior Insurance Examiner

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

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

/S/
Robert W. Clark
Senior Insurance Examiner

Sworn to before me this ____________ day

of ________________________, 2001

____

Notary Public

Appointment No 21529

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Robert Clark

as proper person to examine into the affairs of the

Graphic Arts 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 2nd *day of* May 2000

NEIL D. LEVIN
Superintendent of Insurance