



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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

REPORT ON EXAMINATION

OF THE

HARTWICK TOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT

JULY 29, 2002

EXAMINER:

ROBERT W. CLARK



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

George E. Pataki
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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 21814 dated June 11, 2002, attached hereto, I have made an examination into the condition and affairs of the Hartwick Town Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office located at 618 County Highway 59, Cooperstown, New York 13326.

Wherever the designations "the Company" or "HTIC" appears herein without qualification, it should be understood to indicate the Hartwick Town Insurance

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SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the five year period from January 1, 1997 thorough December 31, 2001 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. The Company received exemptions from audits by independent certified public accountants for all years under review.

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.

DESCRIPTION OF COMPANY

The company was organized on April 15, 1886 for purpose of transacting business as an assessment cooperative fire insurance in the Town of Hartwick, Otsego County, New York. The Company's present license, issued on December 6, 1965, authorizes the Hartwick Town Insurance Company to transact business in the entire County of Otsego in this State.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of eleven(11) directors, divided into three groups as evenly as possible, with one group being elected at each annual policyholders' meeting for a term of three years. The board meets four times during each calendar year. The directors as of December 31, 2001 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Mary Balcom Cooperstown, NY	Secretary-Treasurer, HTIC
Eileen Balcom Mount Vision, NY	Retired
Chris Briggs Cooperstown, NY	Contractor
Donald Eldred Hartwick, NY	Farmer
Donald Elliott Milford, NY	Farmer
Frederick D. Field Milford, NY	Contractor
Ralph Goodrick, Jr. Hartwick, NY	Retired
Kim Gruchacz Milford, NY	Saw mill operator
Orrin Higgins Milford, NY	Vice President, HTIC
Patrick McBrearty Milford	Retired
William Powers Milford, NY	President, HTIC

The minutes of all meetings of the Board of Directors' and committees there of held during the examination period were reviewed. The average attendance by the board of directors during the examination period was approximately 77% with each individual director's attendance being adequate at these meetings.

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

President	William Powers
Vice President	Orrin Higgins
Secretary and Treasurer	Mary Balcom

B. Territory and Plan of Operation

At December 31, 2001, the Company was authorized to write of fire and miscellaneous property insurance in Otsego County. The following schedule represents the Company's direct premiums written by year:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1997	\$ 2,816
1998	\$ 2,475
1999	\$ 2,349
2000	\$ 2,493
2001	\$ 2,319

The Company was licensed, as of December 31, 2001, to transact the kinds of businesses 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

The Company writes fire coverage for farms, rural homes, mobile homes and some rural commercial property. Policies are issued by HTIC for three-year term and assessments are levied annually in advance for the Company's fiscal year, October first to September thirtieth. An insured starting insurance coverage after October first pays the pro-rata share of the last assessment.

C. Reinsurance

The Company did not assume nor cede any reinsurance during the examination period.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2001. Furthermore, the Company had no affiliations or pooling agreements in force at December 31, 2001.

E. Significant Operating Ratios

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

Net premiums written in 2001 to Surplus	0.02 to 1
Premiums in course of collection to Surplus	0%
Liabilities to cash and invested assets	1.3%

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, January 1, 1997 to December 31, 2001:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$ 2,321	18.1%
Other underwriting expenses	28,206	220.3%
Net underwriting loss	<u>(17,722)</u>	<u>(138.4%)</u>
Premiums earned	<u>\$ 12,805</u>	<u>100.0%</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. Those reports that were required to be filed with the State Comptroller were done so in a timely manner.

FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Assets Current Year</u>	<u>Nonadmitted Assets Current Year</u>	<u>Admitted Assets Current Year</u>
Cash	<u>\$ 130,754</u>	<u>\$ -0-</u>	<u>\$ 130,754</u>
Total	<u>\$ 130,754</u>	<u>\$ -0-</u>	<u>\$ 130,754</u>
<u>Liabilities and Surplus</u>			
Losses and loss adjustment expenses			\$ -0-
Unearned premiums			<u>1,739</u>
Total liabilities			\$ 1,739
Surplus as regards policyholders			<u>129,015</u>
Totals			<u>\$ 130,754</u>

B. Underwriting and Investment exhibits

The following is a combined statement of the underwriting and investment results for the five-year period under review, January 1, 1997 to December 31, 2001:

Statement of Income

Underwriting Income

Premiums earned		\$ 12,805
Losses and loss adjustment expenses incurred	\$2,321	
Other underwriting expenses	<u>28,206</u>	
Total underwriting deductions		
Net underwriting loss		30,527

Investment Income

		\$(17,722)
Net investment income earned	\$28,036	
Net realized capital loss	<u>(130)</u>	
Net investment gain		<u>27,906</u>
Net income before federal income taxes		\$10,184
Federal income taxes incurred		<u>-0-</u>
Net income		<u>\$10,184</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996, per prior report on examination			\$ 118,831
Net income or loss	<u>\$ 10,184</u>	<u>\$ -0-</u>	
Totals	\$ 10,184		
Net increase in Surplus as regards policyholders			<u>10,184</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u>\$ 129,015</u>

4. ANNUAL STATEMENT

The Company investments included money market securities that were reported as cash in its filed 2001 Annual Statement. The annual statement instructions classify said assets as common stock. It is recommended that the Company correctly report its money market securities as common stock in future financial statements submitted to this Department.

5. INVESTMENTS

Section 1402 of the New York Insurance Law requires insurers to make specified investments before investing elsewhere. The Company's money market holding does not qualify as said specified investments. It is recommended that the Company fulfill the requirement of Section 1402 of the Insurance Law before investing in other securities.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$ -0- is the same as the amount 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.

The examination reserve was based on the actual experience of the Company. The 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.

7. 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.

It is noted that the Company denied one claim during the examination period of 1997 through 2001. Subsequently, the Company wrote the insured in reference to this claim but failed to indicate the Department address on said correspondence.

This Department's Regulation No. 64 (11NYCRR216.7) requires that the address of the Insurance Department be included on any explanation letter used when the claim is not covered, due to the cause of the loss not being one of the coverage purchased.

It is recommended that when the Company send claimants explanation letters having the wording required by the aforementioned Regulation No. 64.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>Items</u>	<u>Page No.</u>
A. Director Chris Briggs should agree to try to attend at least one-half of the Company's directors meetings, henceforth. The Company has complied with this recommendation.	4-5
B. The Company should comply with Section 1409(a) of the New York Insurance Law and not invest more than 10% of its admitted assets in any one institution, henceforth. The Company from the Section 1409(a) Section 6623(c) to the Insurance Law has been amended relieving.	7-8
C. Management should either resume issuing form F1-84 Co-op and FL-85 Co-op or present the Department with alternative forms, for approval, with essentially contain all of the mandatory elements of the original forms. The Company has complied with this recommendation.	13

9. 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</u>	8
It is recommended that the Company correctly classify its money market securities as common stock in future financial statements submitted to this Department.	
<u>B. Investments</u>	8
It is recommended that the Company fulfill the requirements of Section 1402 of the Insurance Law before investing in other securities.	
<u>C. Claims practice</u>	9
It is recommended that the Company send claimants explanation letters having the wording as required by Regulation No. 64 (11NYCRR216.7)	

Appointment No 21814

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:

Robert W. Clark

as proper person to examine into the affairs of the

Hartwick Town 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 11th day of June, 2002





GREGORY V. SERIO
Superintendent of Insurance

