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

George E. Pataki
Governor

Gregory Serio
Superintendent

REPORT ON EXAMINATION

OF THE

MONROE CO-OPERATIVE FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT NOVEMBER 22, 2002

EXAMINER GERARD L. FRANCO

TABLE OF CONTENTS

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

George E. Pataki
Governor

Gregory Serio
Superintendent

November 22, 2002

Honorable Gregory V. Serio
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 21906, dated June 11, 2002, attached hereto, I have made an examination into the condition and affairs of the Monroe Co-operative Fire 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 3861 Lyell Road, Rochester, New York 14606.

Whenever the designations "the Company" or "MCFIC" appears herein without qualification, it should be understood to indicate the Monroe Co-operative Fire Insurance Company.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the five year period from January 1, 1997 through December 31, 2001, and was limited in its scope to 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 certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 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 Company was organized on April 21, 1877 as the Monroe County Patrons' Fire Relief Association, for the purpose of transacting business as an assessment co-operative fire insurance company in Monroe County in New York State. The Company has since grown to where it can now transact business in the entire State of New York, excluding the counties of New York, Kings, Queens, Bronx and Richmond.

On July 9, 1964, the Company changed its corporate name to Monroe Co-operative Fire Insurance Company.

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 thirteen members. As of the examination date, the Board of Directors was comprised of nine members, divided into three equal groups, with one group being elected at each annual policyholders' meeting for a term of three years.

Every person insured by the Company is entitled to one vote in person or by proxy at each of its annual meetings. The annual meeting of the Board of Directors is held immediately after the annual meeting of the Company. At least four board and executive committee meetings were held each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law.

The directors as of December 31, 2001, were as follows:

Director	Principal Business Affiliation
Marvin K. Achilles Fillmore, NY	Vice President of Underwriting, Allegany Co-op Insurance Company
Donald G. Bennett Rochester, NY	CFO Art Craft Optical
Rae A. Clark, Jr Rochester, NY	Law firm partner
Marcia J. Davies Freedom, NY	RV camper sales
Wilson L. Gilbert Rushford, NY	Retired farmer and insurance agent Chairman of the Board, MCFIC and Allegany Co-op Ins. Co.
Matthew F. Minor Brockport, NY	Senior loan officer, Farm Credit
James M. Russell Andover, NY	President, MCFIC and Allegany Co-op Ins. Co.

Director	Principal Business Affiliation
Rodney R. Stettner Spencerport, NY	Farmer
Duane A. Vaclavik Fillmore, NY	Vice President, MCFIC; President & CEO Genesee Valley Teacher's Assoc. a Federal Credit Union

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 directors' attendance being adequate at these meetings.

Each of the director's qualifications, as set forth in Article VI of the Company's charter and Article IV Section I of its by-laws, was reviewed and it appears that each director is duly qualified.

During the review of the by-laws contained on the Company's policy jackets it was found that such by-laws were different than those approved in the Company's corporate minute books and by the Insurance Department on May 22, 2000. Upon further investigation, it was determined that the company did not resubmit policy jackets with the aforementioned revisions rather, the Company continued using its former approved policy jackets with the previously approved by-laws.

The Company was informed of this during the current examination and is in the process of making the necessary changes and returning the policy jackets to the Department for approval. However, it is recommended that, in the future, the Company obtain Insurance Department approval for all new forms before they are put into use.

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

President	James M. Russell
Vice President	Duane A. Vaclavik
Secretary	Dennis H. Kindred
Assistant Secretary	Melanie K. Stam
Treasurer	Donald G. Bennett

B. Territory and Plan of Operation

The following schedule shows direct premiums written by Monroe Co-operative Fire Insurance Company in New York State for the examination period:

Calendar Year	Direct Premium Written(000's)
1997	$ 1,609
1998	1,765
1999	1,433
2000	1,223
2001	973

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:

Paragraph	Kind of Business
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' liability only)
19	Motor vehicle and aircraft physical damage(motor vehicle only)
20	Marine and inland marine(inland marine only)

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $100,000.

The Company's predominate lines of business are homeowners multiple peril, commercial multiple peril and farmowners multiple peril, which accounted for 36.4%, 34.3% and 14.0% respectively, of the Company's 2001 direct written business.

C. Reinsurance

The Company assumed approximately 1.4% and 38.7% of direct premiums written from Allegany Co-op Insurance Company, respectively, for the examination years 2000 and 2001.

The Schedule F's 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, as endorsed during the examination, 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, 2001, the Company had the following property and casualty combination excess of loss reinsurance program in place:

Property 2 layers	$50,000 x/s $50,000 ultimate net loss any one loss any one risk; except windstorm which is $70,000 x/s $30,000 any one loss any one risk; both subject to an occurrence limit of $125,000 $400,000 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 $775,000 x/s $125,000 ultimate net loss each loss occurrence, involving three or more risks 100% x/s $900,000 ultimate net loss each loss occurrence
Aggregate	95% of the amount aggregate net losses for any one agreement year exceeds 82.5% of net written premium income, subject to a maximum recovery of 95% of $400,000 aggregate net losses any one agreement year

In the review of the above noted reinsurance contract it was noted that a loss corridor deductible was included in this contract. Upon further review it was learned that the corridor deductible was applied to just one loss during the year 2001, causing the retention of the Company to exceed the limitation of 3% of surplus, as required by Section 6610 (c) of the New York Insurance Law. The Company, as of January 1, 2002, has eliminated this corridor deductible from their excess of loss reinsurance agreements.

However, it is recommended that in the future, the Company comply with Section 6610(c) and not exceed any of the limitations specified in the above cited Section of the Insurance Law.

As of December 31, 2001, the Company had the following property facultative reinsurance program in place:

Property	facultative cessions which are the lesser of 50% of the gross liability or $250,000 in respect of any property risk reinsured

As of December 31, 2001 the Company also had in effect a property net line quota share reinsurance program with the Allegany Co-op Fire Insurance Company (ACIC). Under the terms of the agreement, ACIC ceded and MCFIC assumed by way of reinsurance 25% quota share of the net property business written or assumed by the Allegany Co-op Insurance Company. The cessions under this contract are limited to $21,250 (being 25% of a maximum of $85,000) each risk each individual loss, plus a proportionate share of loss expenses, subject to a maximum of $75,000 for each and every loss occurrence.

As of December 31, 2001 the Company had in effect the following property facultative reinsurance program with the Allegany Co-op Insurance Company.

Property	facultative cessions which are the lesser of 50% of the entire risk or $500,000 in respect of any property risk reinsured

As of December 31, 2001 the Company also, had in effect the following assumed property facultative reinsurance program with the Allegany Co-op Insurance Company:

Property	facultative cessions which are the lesser of 50% of the entire risk or$500,000 in respect of any property risk reinsured

It is noted the company has increased its retention from$30,000 to $50,000 on its non-windstorm property business, from $15,000 to $30,000 on its casualty business and from $15,000 to $30,000 on its windstorm property business. It is also noted that the Company, at December 31, 2001, was backed by an authorized reinsurer, as was the case in the previous examination.

D. Holding Company System

Since the previous examination an affiliation has developed between the Monroe Co-operative Fire Insurance Company and the Allegany Co-op Insurance Company (ACIC). The Companies share a similar management through some common directors and one common officer, the president. The affiliation was accomplished on June 30, 1999 when a Section 1307 Surplus Note, in the amount of $1,000,000, was issued by the Monroe Co-operative Fire Insurance Company (MCFIC) to the Allegany Co-op Insurance Company. A review of the Surplus Note showed compliance with all applicable Sections of Law.

Also, an Expense Sharing Agreement was entered into between ACIC and MCFIC that became effective July 1, 1999. After completing a review of the agreement it was determined that ACIC was charging MCFIC expenses that related to the sharing agreement on the actual time and cost incurred based upon timesheets with individual's salaries and related benefits when employees were on-site at the home office of MCFIC. Any expenses for ACIC employees working on MCFIC related business while at ACIC home office was not allocated to MCFIC. According to the agreement, starting January 1, 2001, all expenses shall be allocated pursuant to a time study based on the allocation of expense in the prior year. However, ACIC continued the aforementioned expense methodology which did not include an allocation for ACIC employees working on MCFIC related business while at the ACIC home office. Also, Regulation 30 (NYCRR Part 109.2) states that when a direct allocation of salaries is not used, time studies is one of the appropriate bases that can be used. Therefore, it is recommended that the Company comply with both Regulation 30 (NYCRR Part 109.2) and the terms of the Expense Sharing Agreement and develop a method of allocation that will more accurately reflect the employees' actual work expenses with respect to the Monroe Co-operative Fire Insurance Company.

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 as regards policyholders	.59 to 1
Liabilities to Liquid assets (cash and invested assets)	44.0%
Premiums in course of collection to Surplus as regards policyholders	5.5%

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 a earned-incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$ 2,562,441	58.05%
Loss adjustment expenses incurred	899,733	20.38%
Other underwriting expenses incurred	2,052,122	46.49%
Net underwriting gain (loss)	(1,100,269)	(24.92%)
Premiums earned	$4,414,027	100.00%

F. Abandoned Property Law

During the period covered by this examination, the Company had acceptable procedures to comply with the provisions of Section 1316 of the New York Abandoned Property Law. Appropriate filings were made to the Office of the State Comptroller.

G. Certificate of Designation by Insurer

It was determined from the review of the Company’s currently filed Certificate of Designation by Insurer filed with the Insurance Department dated August 18, 1993 that the designated person on the form, as well as the officers who acted as witnesses, have retired as employees of the Monroe Co-operative Fire Insurance Company. Section 1212(a) of the Insurance Law states that any change in the contact person must be filed in the office of the superintendent. The Company has not filed any changes as of the examination date. Therefore, it is recommended that the Company comply with Section 1212 (a) of the Insurance Law and file a new Certificate of Designation by Insurer naming a current employee as the proper contact person.

H. Depreciation of Home Office

In the review of the depreciation of the Company's home office building, it was ascertained that both the land and building cost were included in the calculation. The fair value of the Company's real estate has been valued at $212,489 and was last appraised on June 11, 1993, the original date of purchase. Paragraphs 7, 8 and 12 of Statement of Statutory Accounting Principles (SSAP) No. 40 of the Accounting Practices and Procedures Manual require that the fair value of real estate be allocated between land and buildings purchased based upon appraisals no more than five years old, with property, other than land, to be depreciated over its useful life, not to exceed fifty years. It is recommended that the Company follow all the requirements of SSAP No. 40 of the Accounting Practices and Procedures Manual and have the fair value of real estate be based upon an appraisal not more than five years old and depreciate only the acquisition cost of the home office building, excluding the cost of the land.

I. Regulation 30 (NYCR Part 107.4)

The Company does conduct time studies on an annual basis for allocating various expenses for Part 4 of the annual statement. However, it was determined through the examination process that written documentation for the years 1998-2000 were not able to be produced as required by Regulation 30 (NYCRR Part 107.4). Therefore, it is recommended that the Company comply with Regulation 30 (NYCRR Part 107.4) and retain all written documentation verifying the allocation of all major expense groups on Part 4 of all future annual statements filed with this Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

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

Assets	Ledger Assets	Not Admitted Assets	Net Admitted Assets
Bonds	$1,470,783	$ -0-	$ 1,470,783
Preferred stocks	101,760	-0-	101,760
Common stocks	437,664	-0-	437,664
Real Estate	170,151	-0-	170,151
Cash and short term investments	550,889		550,889
Agents' balances or uncollected premiums	439,260	1,516	437,744
Reinsurance recoverable on loss and loss adjustment expenses	148	-0-	148
Electronic data processing equipment	4,652	-0-	4,652
Interest, dividends and real estate income due and accrued	26,451	-0-	26,451
Other assets nonadmitted	3,847	3,847	-0-
Total	$3,205,605	$5,363	$ 3,200,242

Liabilities and Surplus

Losses and loss adjustment expenses		$ 541,508
Reinsurance payable on paid loss and loss adjustment expense		91,163
Contingent commissions and other similar charges		37,727
Other expenses		43,121
Unearned premiums		541,726
Ceded reinsurance premiums payable		28,648
Amounts withheld or retained for account of others		2,623
Payable to parent, subsidiaries and affiliates		9,568
Aggregate write-ins for liabilities		18,701
Total liabilities		$1,314,785
Unassigned funds(surplus)	$ 100,000	
Surplus notes	1,000,000	
Special contingent surplus	785,457	
Surplus as regards policyholders		1,885,457
Total		$ 3,200,242

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. Except for any impact that might result from the examination changes contained in the report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been establish herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $666,537 during the examination period, January 1, 1997 through December 31, 2001, detailed as follows:

Statement of Income

Underwriting Income		
Premiums		$ 4,414,027
Losses incurred	$ 2,562,441	
Loss adjustment expenses incurred	899,733	
Other underwriting expenses incurred	2,052,122	
Total underwriting deductions		(5,514,296)
Net underwriting loss		$(1,100,269)
Investment Income		
Net investment income earned	$ 596,386	
Net realized capital gain	73,396	
Net investment gain		669,782
Other Income		
Net gain from agent's balances charged off	$ 9,495	
Premiums received in advance	(18,701)	
Adjustment in book value of ledger assets	27,600	
Finance and service charges	73,547	
Total other income		91,941
Net income(loss) before federal income taxes		$ (338,546)
Federal income taxes incurred		-0-
Net income(loss)		$ (338,546)

Capital and Surplus Account

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 1996, per report on examination			$ 1,218,920
Net income	$ -0-	$338,546	
Unrealized capital loss	-0-	9,383	
Change in not-admitted assets	14,466	-0-	
Surplus note	1,000,000	-0-	
Total gains and losses	$1,014,466	$347,929	
Net increase/decrease in surplus as regards policyholders			666,537
Surplus as regards policyholders, December 31, 2001, per report on examination			$ 1,885,457

4. CASH AND SHORT TERM INVESTMENTS

The examination admitted asset of $ 316,710 is $ 33,142 less than the $ 349,852 reported by the Company as of December 31, 2001. The change represents the examination decrease due to the Company's investment in excess of the limitations set forth in Section 1409(a) of the New York Insurance Law. Section 1409(a) of the Insurance Law, in part, states that …..” no domestic insurer shall have more than ten percent of its admitted assets … invested in, or loaned upon the securities(including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.” The Company has exceeded this investment limitation prescribed by law by investing more than ten percent of its admitted assets in one institution. It is hereby recommended that the Company comply with Section 1409(a) of the Insurance Law and not invest more than ten percent of its admitted assets in one institution.

It is noted that as the change of $ 33,142 is less than five percent of surplus and is not of a material value no change has been made for this asset in the examination report.

5. LOSSES AND LOSS ADJUSTMENT EXPENSE

The examination liability for loss and loss adjustment expenses of $ 541,508 is the same as the $ 541,508 reported by the Company on its filed 2001 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

The Department's analysis indicated that, in the aggregate the Company's losses and loss adjustment expense reserves were adequate.

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

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants.

The 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 noted.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Accounts and Records	
	It is recommended that the Company comply with the Annual Statement instructions in the preparation of its future filed financial statements	10-11
	The Company has complied with this recommendation.	
B.	Compliant Log	
	It is recommended that the Company maintain a central log to monitor complaint activity as required by Circular Letter No. 11(1978)	16
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the comments and recommendations made in the body of this report.

ITEM		PAGE NO.
A.	Management	
	It is recommended that, in the future, the Company obtain Insurance Department approval for all new forms before they are put into use.	4

<u>ITEM</u>		<u>PAGE NO.</u>
B.	<u>Reinsurance</u>	
	It is recommended that in the future, the Company comply with Section 6610 (c) and not exceed any of the limitations specified in the above cited Section of the Insurance Law	7
C.	<u>Holding Company System</u>	
	It is recommended that the Company comply with both Regulation 30 (NYCRR Part 109.2) and the terms of the Expense Sharing Agreement and develop a method of allocation that will more accurately reflect the employees actual work expenses with respect to the Monroe Co-operative Fire Insurance Company.	8
D.	<u>Certificate of Designation by Insurer</u>	
	It is recommended that the Company comply with Section 1212(a) of the Insurance Law and file a new Certificate of Designation by Insurer naming a current employee as the proper contact person.	10
E.	<u>Depreciation of Home Office Building</u>	
	It is recommended that the Company follow all the requirements of SSAP No. 40 of the Accounting Practices and Procedures Manual and have the fair value of real estate be based upon an appraisal not more than five years old and depreciate only the acquisition cost of the home office building, excluding the cost of the land.	10

ITEM		PAGE NO.
F.	Regulation 30 (NYCRR 107.4)	
	It is recommended that the Company comply with Regulation 30 (NYCRR Part 107.4) and retain all written documentation verifying the allocation of all major expense groups on Part 4 of all future annual statements filed with this Department	10
G.	Cash and Short Term Investments	
	It is hereby recommended that the Company comply with Section 1409(a) of the Insurance Law and not invest more than ten percent of its admitted assets in one institution.	14

Respectfully submitted,

/S/
Gerard Franco
Senior Insurance Examiner

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

Gerard 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.

/S/
Gerard Franco
Senior Insurance Examiner

Sworn to before me this

26th day of November 2002

/S/
Notary Public

CAROLYN D. GRESSICK
Notary Public, State of New York
No. 4858907
Qualified in Montgomery County
Commission Expires October 31, 2005

Appointment No 21906

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 Franco

as proper person to examine into the affairs of the

Monroe Co-operative Fire 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