



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

REPORT ON EXAMINATION
OF THE
NEW YORK CENTRAL MUTUAL FIRE INSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

MAY 31, 2002

EXAMINER:

WARREN YOUNGS

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May 31, 2002

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 21762, dated August 1, 2001, attached hereto, I have made an examination into the condition and affairs of the New York Central Mutual Fire 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 1899 Central Plaza East, Edmeston, New York 13335.

Wherever the designations "the Company" or "NYCMFIC" appear herein without qualification, they should be understood to indicate the New York Central Mutual Fire Insurance Company.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the four year period from January 1, 1997 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 April 11, 1899 for the purpose of transacting business as a co-operative fire insurance corporation in Otsego County, New York. The Company currently operates as an advance premium cooperative property/casualty corporation under the provisions of Article 66 of the New York Insurance Law.

The Company reinsured outstanding risks of the Central City Co-operative Fire Insurance Company of Onondaga County on January 27, 1921 and the outstanding business of the Protective Co-operative Fire Insurance Company of Alfred, New York on February 2, 1923.

On November 1, 1942, the Company assumed all of the assets and liabilities of Merchants Co-operative Fire Association of Central New York, and on April 1, 1957, assumed all of the assets and liabilities of the Woodstock Mutual Fire Insurance Association of Woodstock, New York.

All policies issued by the Company are non-assessable.

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 eleven nor more than fifteen members. As of the examination date, the board of directors was comprised of thirteen members.

Three board meetings and numerous executive committee 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 directors as of December 31, 2000, were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Edward Gozigian Cooperstown, NY	Attorney, Gozigian, Washburn & Clinton
Edward Stuart Nelson Norwich, NY	Attorney, Nelson & Flanagan

<u>Director</u>	<u>Principal Business Affiliation</u>
Benjamin Clark Nesbitt West Oneonta, NY	Senior Vice President of Wilbur National Bank
Albert Pylinski, Jr. Edmeston, NY	Executive Vice President and Treasurer of NYCMFIC; Treasurer and Director of A. F. Stager, Inc.
Robert Wesley Ranger West Winfield, NY	Private Investment Banker
Douglas Theodore Robinson Edmeston, NY	Vice Chairman of the Board of NYCMFIC; Director of A. F. Stager, Inc.
Douglas Theodore Robinson, II East Amherst, NY	Marketing Representative of NYCMFIC
VanNess Daniel Robinson Edmeston, NY	Chairman of the Board and Secretary of NYCMFIC; President and Director of A. F. Stager, Inc.
VanNess Daniel Robinson, II Edmeston, NY	President and COO of NYCMFIC; Vice President and Director of A. F. Stager, Inc.
Charles Raymond Schanz Cooperstown, NY	President of Ray-Mar Variety, Inc. and Charles R. Schanz, Inc.
Harry William Smith, Jr. Norwich, NY	President of Smith Norwich, Inc.
William Francis Streck, M.D. Cooperstown, NY	President and CEO of Bassett Healthcare
Howard Chase Talbot, Jr. Cooperstown, NY	Retired

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 VI of the Company's charter and Article III Section 1 of its by-laws, was reviewed and it appears that each director was duly qualified.

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

Chairman of the Board and Secretary	VanNess Daniel Robinson
Vice-Chairman of the Board	Douglas Theodore Robinson
President and COO	VanNess Daniel Robinson, II
Executive Vice President and Treasurer	Albert Pylinski, Jr.
Senior Vice President	Jeffrey R. Barrett
Senior Vice President	Stephen M. Cembrinski
Senior Vice President	John E. Holdorf
Senior Vice President	Dolores J. Miller
Senior Vice President	James R. Slosek
Vice President	Timothy A. Trueworthy
Vice President	Michele D. Couperthwait
Vice President	Douglas Franklin
Vice President	James E. Potts, Jr.
Vice President	Katharine S. Bell
Vice President	Michael J. LaCava
Vice President	William W. Couperthwait

Fiduciary Responsibilities of Directors and Officers

Sections 717(a) and 715(h) of the New York Business Corporation Law put forth the fiduciary responsibilities of directors and officers, respectively. The sections indicate that the director or officer shall perform their duties as such in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.

During the course of this examination we found instances where a director or an officer was not fulfilling their fiduciary responsibilities to the Company and its policyholders.

In view of the above, it is recommended that, henceforth, the board of directors and the officers of the Company remain mindful of their responsibilities to the Company and its policyholders, as set forth in Sections 717(a) and 715(h) of the New York Business Corporation Law. In addition, the Company is directed to replace any director and/or officer who cannot or does not fulfill his/her duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.

Conflicts of Interest

During the examination period the directors of the Company were signing conflict of interest statements; however, they were not disclosing any potential conflicts of interest. During the course of this exam, it was found that some of the directors did have potential conflicts of interest that should be disclosed. It was also found that the Company does not have non-director officers or responsible employees complete conflict of interest statements. The above was reviewed with Company management.

All officers began completing conflict of interest statements in 2002. The conflict of interest statements completed by the directors and officers in 2002 did reveal potential conflicts of interest. Nevertheless, it is recommended that the Company ensure directors and officers disclose all potential conflicts of interest on an annual basis when completing their conflict of interest statement.

B. Territory and Plan of Operation

The Company is licensed to transact business within the States of New York and North Carolina. During the period under examination (1997-2000) the Company wrote in New York State only.

<u>Calendar Year</u>	<u>Direct Premiums Written (000's)</u>
1997	\$353,235
1998	345,607
1999	341,560
2000	365,866

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
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
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, 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 \$1,450,000.

At December 31, 2000, the Company wrote insurance through independent agents. The Company maintained three branch offices, one in Sherburne, New York, one in Amsterdam, NY and one in Orchard Park, New York.

The Company's predominate lines of business are homeowners multiple peril, private passenger auto liability and auto physical damage, which accounted for 25.77%, 44.02% and 25.67%, respectively, of the Company's 2000 direct written business.

C. Reinsurance

The Company did not assume any reinsurance as of December 31, 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 the examination date, the Company had the following quota share reinsurance program in place:

Multiple Line (excludes auto and personal umbrella)	37.5% of \$1,000,000 per risk; per policy for property 37.5% of \$1,100,000 per occurrence; per policy for homeowners casualty with redball express coverage 37.5% of \$1,000,000 per occurrence; per policy for all other casualty
Automobile	32.5% of \$1,000,000 of Company's gross liability
Personal Umbrella	95% of \$1,000,000 each occurrence

100% of \$4,000,000 in excess of \$1,000,000
each occurrence

At December 31, 2000, the Company had the following property/casualty excess of loss
reinsurance program in place:

Property (2 layers)	62.5% of \$825,000 in excess of \$175,000 each risk 100% of \$1,000,000 in excess of \$1,000,000 each risk, each occurrence
Casualty (2 layers)	67.5% of \$825,000 in excess of \$175,000 and \$4,000,000 in excess of \$1,000,000 each occurrence for auto liability 62.5% of \$925,000 in excess of \$175,000 and \$4,000,000 in excess of \$1,100,000 each occurrence for homeowners with redball express endorsement 62.5% of \$825,000 in excess of \$175,000 and \$4,000,000 in excess of \$1,000,000 each occurrence for all other

As of the examination date, the Company also maintained the following catastrophe
coverage on a per occurrence basis:

Property (4 layers)	62.5% of \$95,000,000 in excess of \$5,000,000 each occurrence, with a \$2,500,000 annual aggregate deductible on the first layer, the remaining 37.5% had been paid by the Company's quota share reinsurers.
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As of December 31, 2000, the Company had in force property aggregate catastrophe
excess of loss reinsurance coverage of 62.5% of \$10,000,000 in excess of \$19,500,000 during the
term of the agreement (loss occurrences must contain more than fifty claims; maximum ultimate

net loss of \$5,000,000 any one loss occurrence and also up to \$2,500,000 in the aggregate annually excess of \$5,000,000 each loss occurrence).

As of the examination date, the Company utilized property facultative reinsurance to cover its larger exposures. All risks are underwritten on an offer and acceptance basis. In addition, the Company had property and casualty aggregate excess of loss reinsurance coverage in force of 62.5% of aggregate incurred losses, subject to a limit of \$3,851,500 (loss occurrences must contain more than fifty claims each).

Since the last examination, the Company's net retention for both property and casualty business has decreased from \$118,125 to \$109,375. The Company's net retention of \$118,125 for its auto liability exposures and \$50,000 for its personal umbrella exposures are the same as last examination.

The Company is backed by authorized and unauthorized reinsurers. During the examination period the Company reported no liability for the provision for reinsurance. Bona fide Letters of Credit covered the unauthorized reinsurance portions of its recoveries. The Company's reliance on unauthorized reinsurers has decreased during the examination period.

It is noted that several of the Company's reinsurance contracts provided coverage for extra contractual obligations, which may include coverage for punitive damages. It is against the public policy of this state, as determined by New York courts, to insure punitive damages. Therefore, any contract that provides coverage for extra contractual obligations should either specifically exclude punitive damages or contain a "savings clause" as follows: "in no event shall coverage be provided to the extent that such coverage is not permitted under New York Law".

After bringing the above noted matter to the attention of Company management they proceeded to have the current contracts amended in an acceptable manner. Nevertheless, it is recommended that the Company ensure that its reinsurance contracts containing extra contractual obligations clauses either specifically exclude punitive damages or contain a "savings clause", as coverage for punitive damages is against the public policy of New York State.

Section 1308(e)(1)(A) of the New York Insurance Law states, in part, that "During any period of twelve consecutive months, without the superintendent's permission: no domestic insurer, except life, shall by any reinsurance agreement or agreements cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period..."

The Department granted approval for the Company to cede an amount in excess of the 50% limitation prescribed by Section 1308(e)(1)(A) of the New York Insurance Law, in 1982. However, the Company has failed to submit since October 1989 any subsequent amendments to the reinsurance contracts, nor did it submit additional reinsurance treaties that it became a party to subsequent to that date, for our review in accordance with Section 1308(e)(1)(A).

After the above was brought to the attention of Company management they submitted the reinsurance contracts effective January 1, 2001 to the Department. Nevertheless, it is recommended that the Company submit any subsequent amendments to its 2001 reinsurance contracts to the Department, as well as any new contracts it becomes a party to, for our review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.

D. Holding Company System

The Company had one subsidiary in its holding company system at December 31, 2000. The Company's subsidiary, Albert F. Stager, Inc. ("Stager"), was purchased in 1991 from Charles M. Kuhn for the negotiated price of \$264,500. The Company owns 14.5 shares of Stager, which represents 100% of the issued and outstanding shares. On April 5, 1991 this Department issued a non-objection letter to the purchase of Stager by the Company.

Stager provides claims adjusting services primarily in Western New York to property and casualty insurance companies. The majority of Stager's income is derived from providing services to the Company. The Company has a Loss Processing Agreement and a 24-Hour Answering Service agreement with Stager. The Company also shares office space with Stager; however, no lease was provided detailing the arrangement. During the course of the examination the Company was unable to provide any documentation supporting the reasonableness of the charges or fees between itself and Stager.

Section 1608(c) of the New York Insurance Law states that "The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties."

Based upon the information mentioned above, we have determined that the Company was in violation of Section 1608(c). Therefore, it is recommended that the Company comply with Section 1608(c) of the Insurance Law and maintain accounting information to support the reasonableness of all charges or fees between itself and its subsidiary Albert F. Stager, Inc.

Department Regulation 59 Part 78.4(d) states that " If a subsidiary is valued on the basis of paragraph (1) of subdivision (b) of section 78.3 of this Part and the books of the subsidiary are not audited at the time the valuation is included in the insurer's annual statement, the insurer shall thereafter report and explain the difference, if any, between the value of the subsidiary as reported in the annual statement and the value as determined by audit. Such report and explanation shall be made as soon as possible following such audit."

The Company was not providing the required report and explanation to the Department when there were differences between the annual statement valuation and the audit valuation. After the requirements of Regulation 59 noted above were brought to the attention of Company management, they issued correspondence, dated April 15, 2002, indicating that the Company would comply with the above noted requirements when applicable. The Company did file the required report and explanation for the 2001 year. Nevertheless, it is recommended that the Company comply with Regulation 59 Part 78.4(d) when valuing a subsidiary on the basis of Regulation 59 Part 78.3(b)(1) and submit to the Department an explanation of any differences between the valuation of a subsidiary's stock included in the annual statement and the value determined by the CPA audit.

Subsequent Events

On June 23, 2000 the Department issued a non-objection letter to the Company regarding its proposed formation of a subsidiary, to be known as NYCM Holdings, Inc. ("Holdings"). Holdings would be authorized to issue 200 shares of common stock. It would issue 100 shares of common stock, with a par value of \$1,000 per share, to the Company for \$5,000,000.

Holdings was being incorporated for the purpose of acting as an intermediate holding company to hold all issued and outstanding voting stock of a stock insurance company. The insurance company was being organized to write non-standard auto business and other business in New York. Holdings was not incorporated until January 24, 2001 and was not funded until February 22, 2001. The Company paid \$5,100,000 for 100 shares of Holdings.

The insurance company, A. Central Insurance Company ("ACIC"), was incorporated on December 21, 2000. On February 23, 2001, ACIC issued 3,000 shares of common stock to Holdings, for a consideration of \$5,050,000.

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	1.12 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	63.07%
Premiums in course of collection to Surplus as regards policyholders	2.16%

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 covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and Loss adjustment expenses incurred	\$658,621,479	75.49%
Other underwriting expenses incurred	223,322,708	25.60%
Net underwriting gain (loss)	<u>(9,501,518)</u>	<u>(1.09)%</u>
 Premiums earned	 <u>\$872,442,669</u>	 <u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company filed the reports with the state comptroller required by Section 1316 of the New York Abandoned Property Law. It is noted that the Company has written procedures related to the handling of unclaimed funds.

G. Allocation of Expenses

This Department’s Regulation 30 (11NYCRR105-109) sets forth the rules and methods governing the allocation of expenses among the major expense groups (loss adjustment, other underwriting and investment). This regulation also requires insurers to maintain detailed worksheets on file, supporting percentages used in allocating expenses to the various expense groups.

Management could not provide detailed worksheets to support the allocation of each expense category to a particular expense group. Thus, there was no viable way to determine whether the Company correctly allocated expenses, as per the rules found in the regulation.

In view of the above, management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.

H. Sections 1217 and 1411(f)(1) of the New York Insurance Law

Section 1217 of the New York Insurance Law states, in part, that "No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment..."

Section 1411(f)(1) of the New York Insurance Law states, in part, that " No insurer doing business in this state shall ... make any loan to any of its directors or officers, directly or indirectly, or through its subsidiaries; nor shall any such officer or director accept any such loan directly or indirectly."

During the course of this examination it was found that the Company was making disbursements for goods or services not rendered for the Company and that the Company and its officers/directors entered into transactions in violation of Section 1411(f)(1).

In view of the above, it is recommended that the Company and its officers and directors comply with Section 1217 and Section 1411(f)(1) of the New York Insurance Law, henceforth.

I. Custodial agreement provisions

The Company maintained two custodial agreements as of December 31, 2000, one with Central National Bank and one with Fleet National Bank.

The provisions of the Company's custodial agreements with both banks were reviewed to determine whether they were within the framework of the guidelines established by this Department for the contents of custodial agreements. Both agreements were found to be deficient in several areas. After the above was brought to the attention of Company management they proceeded to enter into new agreements with both banks that did comply with the guidelines established by this Department for the contents of custodial agreements.

Nevertheless, it is recommended that should the Company enter into any new custodial agreements in the future that it ensure that such agreements contain all the provisions established by this Department to be included in custodial agreements.

J. Mortgage loans

Section 1407(a)(2) of the Insurance Law indicates that obligations secured by real property, which are either not eligible under or which exceed the investment limitations under Section 1404(a)(4) are prohibited investments.

During the course of this examination it was found that as of December 31, 2000, the Company had one commercial mortgage loan and one residential mortgage loan that exceeded the investment limitations under Section 1404(a)(4) of the New York Insurance Law.

During the course of this examination the above was brought to the attention of Company management. They proceeded to have both properties in question reappraised on December 5,

2001. Based upon the reappraised values and pay downs of the mortgage loans during 2001 both loans did come into compliance with the investment limitations under Section 1404(a)(4) as of the reappraisal date. However, it is recommended that the Company ensure that its mortgage loans meet the requirements of Section 1404(a)(4) of the New York Insurance Law, henceforth.

K. Agreements with CPA firm

Section 307(b) of the New York Insurance Law requires the Company to file within five months of the end of each calendar year, an annual financial statement together with an opinion thereon of an independent certified public accountant.

Department Regulation 118, Section 89.2 requires an insurer to enter into a written contract with its certified public accountant. In addition, Section 89.2 of the regulation spells out those terms that the contract must encompass.

A review of the written contracts provided for the audit years 1997 through 2000 revealed that such contracts did not conform with all the provisions of Regulation 118 and Section 307(b) of the New York Insurance Law.

After notifying Company management of the above, they proceeded to enter into an agreement with the CPA firm for the 2001 audit that substantively meets the requirements of Regulation 118 and Section 307(b) of the New York Insurance Law.

It is recommended that the Company ensure future agreements with its CPA firm meet the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118.

L. Transactions with the Robinson Insurance Agency

The Robinson Insurance Agency ("Agency") is owned by a director/officer of the Company. It is housed in the home office of the Company and a Company employee performs services for the Agency.

The Agency pays \$1,000 annually for rent and \$10,000 annually for clerical help to the Company. There are no written agreements between the Company and the Agency (i.e. leases, expense sharing, etc.). The Company did not provide any documentation to support the reasonableness of the amounts being paid by the Agency.

In view of the fact that the Agency is owned by a director/officer of the Company, the reasonableness of any charges or fees between the two parties must be able to be determined. Therefore, it is recommended that the Company and the Agency enter into a written agreement that includes payment provisions, termination provisions, the basis for all costs to be reimbursed by the agency, etc. and that the documentation supporting the reasonableness of all charges be maintained and provided upon examination.

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	\$340,312,608	\$0	\$208,416	\$340,104,192
Common stocks	25,642,417	9,062,230	0	34,704,647
Mortgage loans on real estate	627,271	0	0	627,271
Real estate	6,120,026	0	0	6,120,026
Cash on hand and on deposit	(8,081,809)	0	0	(8,081,809)
Short-term investments	21,151,449	0	0	21,151,449
Other invested assets	91,042	0	91,042	0
Agents' balances or uncollected premiums	66,976,182	0	329,291	66,646,891
Reinsurance recoverables on loss and loss adjustment expense payments	10,849,681	0	0	10,849,681
Electronic data processing equipment	1,463,470	0	0	1,463,470
Interest, dividends and real estate income due and accrued	0	5,484,948	0	5,484,948
Equities and deposits in pools and associations	982,470	0	0	982,470
Other assets non-admitted	2,628,338	0	2,628,338	0
Cash Surrender Value	8,049,408	0	0	8,049,408
Accounts Receivable	<u>150,814</u>	<u>1</u>	<u>0</u>	<u>150,815</u>
Total assets	<u>\$476,963,367</u>	<u>\$14,547,179</u>	<u>\$3,257,087</u>	<u>\$488,253,459</u>

Liabilities & Surplus

Losses and Loss adjustment expenses	\$164,976,291
Contingent commissions and other similar charges	5,800,000
Other expenses (excluding taxes, licenses and fees)	2,204,413
Taxes, licenses and fees (excluding federal and foreign income taxes)	8,774
Federal and foreign income taxes (excluding deferred taxes)	197,014
Unearned premiums	111,750,533
Amounts withheld or retained by company for account of others	1,514,235
Retroactive reinsurance reserve assumed	977,141
Commutation of ceded reinsurance	<u>9,809</u>
Total liabilities	287,438,210
Required surplus	\$1,450,000
Unassigned funds (surplus)	<u>199,365,249</u>
Surplus as regards policyholders	<u>\$200,815,249</u>
Total liabilities and surplus as regards policyholders	<u>\$488,253,459</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 \$72,793,665 during the four-year examination period, January 1, 1997 to December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$872,442,669
Losses and Loss adjustment expenses incurred	\$658,621,479	
Other underwriting expenses incurred	<u>223,322,708</u>	
Total underwriting deductions		<u>881,944,187</u>
Net underwriting gain (loss)		\$(9,501,518)

Investment Income

Net investment income earned	\$79,931,921	
Net realized capital gains or (losses)	<u>374,826</u>	
Net investment gain or (loss)		80,306,747

Other Income

Net loss from agents' or premium balances charged off	\$(319,368)	
Finance and service charges not included in premiums	16,292,008	
Aggregate write-ins for miscellaneous income	<u>14,192</u>	
Total other income		<u>15,986,832</u>
Net income before federal income taxes		\$86,792,061
Federal income taxes incurred		<u>14,376,003</u>
Net income (loss)		<u>\$72,416,058</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996, per prior report on examination			\$128,021,584
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or loss	\$72,416,058	\$0	
Net unrealized capital gains or (losses)	4,231,143	0	
Change in not-admitted assets	0	914,514	
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>2,939,022</u>	
Total gains and losses	<u>76,647,201</u>	<u>3,853,536</u>	
Net increase in surplus as regards policyholders			<u>72,793,665</u>
Surplus as regards policyholders, December 31, 2000, per report on examination			<u>\$200,815,249</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$164,976,291 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. Based upon such analysis it appears that the Company's loss and 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.

Section 1303 of the New York Insurance Law states, in part, that "Every insurer shall ... maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses

or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Therefore, it is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.

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.

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 2112 (a) of the Insurance Law

During the review of agents it was found that the Company had entered into agents' agreements with some agents, but that it had not appointed such agents to represent the Company.

Section 2112(a) of the New York Insurance Law states, in part, that "Every insurer ... doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer..."

Thus, it is recommended that the Company appoint agents it wishes to have represent it in accordance with Section 2112(a) of the New York Insurance Law prior to transacting business with such agents, henceforth.

Department Regulation 90

The review of the notices of termination issued to agents by the Company revealed that the Company was using unsupported general statements as the reason for such termination in violation of Department Regulation 90 Part 218.4(a). In addition, it was found that the Company was not including the redlining wording required by Department Regulation 90 Part 218.5(b) on the agent's termination notices. After reviewing the above with Company management, they issued a letter, dated March 7, 2002, indicating that the Company would comply with Regulation 90.

Nevertheless, it is recommended that the Company comply with Department Regulation 90 Parts 218.4(a) and 218.5(b) when terminating agent's contracts.

6. 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(i). Recommendation that the Company bring its general ledger into agreement with its detailed policy-level detail.	9

Item Page No.

The Company has complied with this recommendation.

A(ii). Recommendation that the Company comply with the provisions of 9
Section 1301(a)(1) of the New York Insurance Law and this Department's
Circular Letter dated November 29, 1978 by calculating its not-admitted
overdue premiums from the effective dates of policies or the installment due
dates rather than from the effective dates of cancellation.

The Company has complied with this recommendation.

A(iii). Recommendation that the Company comply with the provisions of 9-10
Section 6611(b) of the New York Insurance Law.

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Item Page No.

A. Management

(i) It is recommended that, henceforth, the board of directors and the 5-6
officers of the Company remain mindful of their responsibilities to the
Company and its policyholders, as set forth in Sections 717(a) and 715(h)
of the New York Business Corporation Law. In addition, the Company is

<u>Item</u>	<u>Page No.</u>
directed to replace any director and/or officer who cannot or does not fulfill his/her duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.	
(ii) It is recommended that the Company ensure directors and officers disclose all potential conflicts of interest on an annual basis when completing their conflict of interest statement.	6
B. <u>Reinsurance</u>	
(i) It is recommended that the Company ensure that its reinsurance contracts containing extra contractual obligations clauses either specifically exclude punitive damages or contain a "savings clause", as coverage for punitive damages is against the public policy of New York State.	11
(ii) It is recommended that the Company submit any subsequent amendments to its 2001 reinsurance contracts to the Department, as well as any new contracts it becomes a party to, for our review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.	11
C. <u>Holding Company System</u>	
(i) It is recommended that the Company comply with Section 1608(c) of the New York Insurance Law and maintain accounting information to support the reasonableness of all charges or fees between itself and its subsidiary Albert F. Stager, Inc.	12

<u>Item</u>	<u>Page No.</u>
(ii) It is recommended that the Company comply with Regulation 59 Part 78.4(d) when valuing a subsidiary on the basis of Regulation 59 Part 78.3(b)(1) and submit to the Department an explanation of any differences between the valuation of a subsidiary's stock included in the annual statement and the value determined by the CPA audit.	13
<u>D. Allocation of Expenses</u>	
Management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.	16
<u>E. Sections 1217 and 1411(f)(1) of the New York Insurance Law</u>	
It is recommended that the Company and its officers and directors comply with Section 1217 and Section 1411(f)(1) of the New York Insurance Law, henceforth.	16
<u>F. Custodial agreement provisions</u>	
It is recommended that should the Company enter into any new custodial agreements in the future that it ensure that such agreements contain all the provisions established by this Department to be included in custodial agreements.	17

<u>Item</u>	<u>Page No.</u>
<u>G. Mortgage Loans</u>	
It is recommended that the Company ensure that its mortgage loans meet the requirements of Section 1404(a)(4) of the New York Insurance Law, henceforth.	18
<u>H. Agreements with CPA firm</u>	
It is recommended that the Company ensure future agreements with its CPA firm meet the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118.	18
<u>I. Transactions with the Robinson Insurance Agency</u>	
It is recommended that the Company and the Robinson Insurance Agency enter into a written agreement that includes payment provisions, termination provisions, the basis for all costs to be reimbursed by the agency, etc. and that the documentation supporting the reasonableness of all charges be maintained and provided upon examination.	19
<u>J. Losses and Loss Adjustment Expenses</u>	
It is recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.	24

Item

Page No.

K. Market Conduct Activities

- | | |
|---|----|
| (i) It is recommended that the Company appoint agents it wishes to have represent it in accordance with Section 2112(a) of the New York Insurance Law prior to transacting business with such agents, henceforth. | 25 |
| (ii) It is recommended that the Company comply with Department Regulation 90 Parts 218.4(a) and 218.5(b) when terminating agent's contracts. | 25 |

Appointment No 21762

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:

Warren Youngs

as proper person to examine into the affairs of the

New York Central Mutual 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 1st day of August, 2001





GREGORY V. SERIO
Superintendent of Insurance

