

REPORT ON EXAMINATION  
OF THE  
NEW YORK MUNICIPAL INSURANCE RECIPROCAL  
AS OF  
DECEMBER 31, 1999

DATE OF REPORT

DECEMBER 21, 2000

EXAMINER

VERONICA DUNCAN-BLACK

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Reciprocal	3
	A. Management	4
	B. Territory and plan of operation	7
	C. Reinsurance	8
	D. Significant operating ratios	13
	E. Abandoned property	13
	F. Custodian agreement	14
	G. Conflict of interest	15
	H. Accounts and records	15
3.	Financial statements	18
	A. Balance sheet	18
	B. Underwriting and investment exhibit	20
4.	Losses and loss adjustment expense	22
5.	Market conduct activities	22
6.	Compliance with prior report	22
7.	Summary of comments and recommendations	23



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

December 21, 2000

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 21592 dated September 7, 2000, attached hereto, I have made an examination into the condition and affairs of the New York Municipal Insurance Reciprocal as of December 31, 1999 and respectively submit the following report thereon.

The examination was conducted at the Company's home office located 377 Oak Street, Garden City, New York 11530.

Wherever the designations "the Reciprocal" or "NYMIR" appear herein without qualification, they should be understood to indicate the New York Municipal Insurance Reciprocal.

Wherever the designation "NYSLGF" appear herein without qualification, it should be understood to indicate the New York Local Government Services Foundation, Inc., Attorney-in-Fact for the New York Municipal Insurance Reciprocal.

Wherever the designation “WRM” or the “Manager” appear herein without qualification, they should be understood to refer to Wright Risk Management Company, Inc., Manager for the New York Municipal Insurance Reciprocal.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1994. This examination covers the five year period from January 1, 1995 through December 31, 1999 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, losses, and loss adjustment expenses. The examination included a review of income, disbursements and Reciprocal records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Reciprocal's independent 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 Reciprocal
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Reciprocal
- Business in force
- Reinsurance
- Accounts and records
- Financial statements

A review was made to ascertain what action was taken by the Reciprocal 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 departure from laws, regulation or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF THE RECIPROCAL

The New York Municipal Insurance Reciprocal is an insurer, as defined in Section 107(a)(37) of the New York Insurance Law and organized pursuant to the provisions of Article 61 of the New York Insurance Law. As provided by the provisions of Section 6102(b) of the New York Insurance Law the declaration creating a municipal reciprocal was approved by Superintendent on August 23, 1993. The Reciprocal was licensed on August 31, 1993 and commenced operations on the same day.

The Reciprocal was organized to provide a market source for New York State counties, towns, villages, cities or district corporations organized and existing under the Finance Law of the State of New York. NYMIR's policyholders engage in the business of inter-insurance on the reciprocal plan, through an Attorney-in-Fact. Each policyholder is a subscriber and only policyholders may be subscribers. The subscribers share proportionately in all losses, expenses, and profits of the reciprocal, based on the percentage their premium represents to the total written premium by NYMIR. To provide surplus, NYMIR requires each subscriber, as a prerequisite to the initial purchase of an insurance policy, to contribute to the surplus of NYMIR in accordance with such plan as developed by its Board of Governors. Subscribers are required to contribute 20% of their initial surplus contribution or 8% percent of gross premiums in each of the first five years, or at their option accelerate such contributions.

In accordance with Section 6102(12) of the New York Insurance Law, NYMIR has selected not to be subject to coverage by the Property/Casualty Insurance Security Fund under Article 76 of the New York Insurance Law. Accordingly, NYMIR issues assessable policies which provide for unlimited contingent several liability for assessment of its subscribers.

A. Management

(i) Board of Governors

Pursuant to a declaration executed by the Superintendent of Insurance and Section 6102 of the New York Insurance Law a board of governors was elected to act on behalf of the subscribers with powers to supervise and control the Attorney-in-Fact and to control investment of the assets of the reciprocal insurer, along with such power as may be conferred by the articles of association and the Subscribers' Agreement. The Articles of Incorporation and the Subscribers' Agreement specify that the board of governors should consist of no fewer than nine members. As of December 31, 1999, the board of governors was comprised of thirteen members.

As of December 31, 1999, the members of the board of governors together with their residence and principal business affiliations were as follows:

<u>Name and Residence</u>	<u>Principle Business Affiliation</u>
Kenneth Charles Andrew Dewitt, New York	Town Councilman, Town of Dewitt
Robert James Bondi Mahopac, New York	County Exective, Putnam County
Stanley John Dudek Medina, New York	Chief Administrator, County of Orleans
Robert Watson Elliot Croton, New York	Mayor, Village of Croton-On-Hudson
Sandra Lynn Frankel Rochester, New York	Supervisor, Town of Brighton
John Joseph Gilfeather Red Hook, New York	Supervisor, Town of Red Hook
Gale Marie Hatch Ilion, New York	Village Clerk/Treasurer Village of Ilion

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Russell Lapointe Putnam, New York	Supervisor, Town of Putnam
John Charles Layne Airmont, New York	Mayor, Village of Airmont
Dominic Francis Mazza Avon, New York	County Administrator, Livingston County
Thomas Richard Moran Java Center, New York	Supervisor, Town of Java
Jon Raymond Stead Johnstown, New York	Clerk of the Board, Fulton County
William John Wood Cortland, New York	City Clerk, City of Cortland

The minutes of all of the meetings of the board of governors held during the examination period were reviewed. The review indicated that the board held twenty regular meetings during the period, January 1, 1995 through December 31, 1999, and that such meetings were well attended by the members.

The principal officers of the Reciprocal as of December 31, 1999 were as follows:

<u>Name</u>	<u>Title</u>
Dominic F. Mazza	President
John Gilfeather	Vice- President
Gale Hatch	Secretary
Sandra Frankel	Treasurer

(ii) Attorney-in-Fact Agreement

The New York State Local Government Service Foundation, Inc. (“NYSLGF”), a New York not-for-profit corporation, was appointed as the Attorney-in-Fact for NYMIR pursuant to an organization meeting held on August 24, 1993. This appointment authorized the Attorney-in-Fact to enter into all

contracts necessary for the operations of NYMIR. In March 1995, a formal agreement was executed by NYMIR to confirm the appointment of NYSLGF as the Attorney-in-Fact.

The members of the board of directors and the officers of NYSLGF as of December 31, 1999 are as follows:

Directors

Jeffery Haber  
Edward Farrell  
Robert Gregory

Officers

G. Jeffery Haber  
Edward Farrell  
Robert Gregory

President  
Vice-President  
Secretary and Treasurer

(iii) Management Agreement

Pursuant to a management agreement dated August 27, 1993, Wright Risk Management (f/k/a Wright Municipal Company, Inc.) was appointed to manage the day to day operations of NYMIR and to assist the Attorney-in-Fact and the board of governors in the performance of their responsibilities pursuant to the Subscriber's Agreement and the New York Insurance Law. This agreement was renewed in 1998 with an effective date of July 1, 1998, for a five year term. In accordance with the terms of the new agreement, the general scope of services to be rendered by the Manager includes staffing and facilities, underwriting and policyholders services, engineering and management services, claims and loss control services, and accounting services. The agreement also states that WRM shall receive a fee of 15.5% of all gross written premiums, except that the fee shall be 17.5% of gross premium for any new business for the first year only.

In addition, the management agreement contains a provision regarding the settlement of claims. This provision, however, is not specific as to WRM's responsibility for the run-off of NYMIR's claims in the event of termination of the management agreement. It is recommended that the Reciprocal take the necessary steps to amend its management agreement to provide more precise wording in regard to WRM's responsibility for the running-off of both known and incurred but not reported claims in the event that the management agreement is terminated.

B. Territory and Plan of Operation

As of the examination date, the Reciprocal was licensed in the State of New York pursuant to Article 61 of the New York Insurance Law to transact only 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
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based upon the line of business for which the Reciprocal is licensed and pursuant to the requirements of Article 61 of the New York Insurance Law, the Reciprocal is required to maintain surplus to policyholders in the amount of \$1,800,000.

The Reciprocal is licensed to write business only in the State of New York. Most of its business is produced either directly or through a network of brokers.

It was noted in the prior report on examination that the Reciprocal was accepting policy applications and collecting premiums for certain lines of business that it was not licensed to write (boiler and machinery, fidelity and surety, and inland marine insurance) and remitting such premium amounts to other insurance entities. It was recommended in the prior report on examination that the Reciprocal refrain from collecting premiums on behalf of other insurers, and that they devise an alternative method of enabling their policyholders to obtain boiler and machinery, fidelity and surety, and inland marine coverage.

It was noted during this examination that the Reciprocal has partially complied with the above recommendation. The Reciprocal is now licensed to write boiler and machinery and inland marine business. The Reciprocal, however, continues to accept applications and premiums for fidelity and surety insurance and a certain parts of inland marine insurance for which it is not licensed. It was noted that the premium collected for these lines of business have been reduced substantially. It is, however, again recommended that the Reciprocal comply with the prior report on examination recommendation in that the Reciprocal should refrain from collecting premiums on behalf of other insurers, and devise an alternative method of enabling its policyholders to obtain fidelity and surety, inland marine (earthquake) insurance coverages.

### C. Reinsurance

The Schedule F data as contained in the Reciprocal'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 effected during the examination period. All of these contracts contained the required standard clauses, including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

It was noted that two of the Reciprocal's automatic facultative agreements (first property excess of loss and casualty excess of loss) included an offset clause that was not compliance with Section 7427 of the New York Insurance Law. The clause in the contract reads as follows: "In the absence of applicable law, either party may offset mutual debts and credits." It is recommended that the Reciprocal amend the captioned agreement to include the following wording, "In the event of the insolvency of either party to this agreement then offsets shall be allowed to the extent permitted by the provisions of the New York Insurance Law Section 7427".

A review of the Reciprocal's boiler and machinery reinsurance agreement shows that such contract was still in draft form and was not signed by each respective party. Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual states the following:

"...if a contract entered into, renewed or amended on or after January 1, 1994 has not been finalized, reduced to a written form and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance arrangement, then the arrangement is presumed to be retroactive and must be accounted for as a retroactive reinsurance contract."

A review of Schedule F, Part 3 of the Reciprocal's annual statement shows that the amounts ceded and recoverable under this agreement are not material and no change has been made to the financial statements in this report. It is, however, recommended in the future that the Reciprocal comply with Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and record its reinsurance transactions accordingly.

As of the examination date, the Reciprocal had the following working excess of loss and quota share reinsurance program in place:

<u>Type of Contract</u>	<u>Limit and Retention</u>
<u>Property</u>	
<u>First Property Excess of Loss</u>	
Four Layers Automatic facultative reinsurance and Facultative property reinsurance 100% Authorized	Limit of \$50,000,000 blanket limit risk or per occurrence excess of \$100,000 blanket limit risk per risk or per occurrence, subject to an occurrence limit of \$1,250,000.

The captioned property automatic facultative reinsurance treaty provides four layers of coverage. Layer one is placed at 100% percent. The second, third and fourth layers are placed at 75%, 86.67% and 75%, respectively with the automatic facultative treaty and 25%, 13.33% and 25%, respectively with a facultative property agreement directly placed with American Re-Insurance Company.

<u>Type of Contract</u>	<u>Limit and Retention</u>
<u>Boiler and Machinery</u>	
<u>Equipment Breakdown (Boiler and Machinery)</u>	
<u>Quota Share Excess of loss Treaty</u>	
100% Authorized	<u>Section A</u> Limit of up to 95% part of \$5,000,000, net loss per policy per accident.
	<u>Section B</u> Limit of \$25,000,000 net loss per risk per occurrence excess of \$5,000,000, net loss per policy per accident.

Type of ContractLimit and RetentionCasualty

First Casualty Excess of Loss (Policy limits equal \$1,000,000)

100% Authorized

Limit of \$750,000 ultimate net loss each and every occurrence excess of \$250,000, ultimate net loss each and every occurrence.

Casualty Excess of Loss  
( Umbrella Policy)

100% Authorized

General LiabilitySection (i)

100% quota share participation of the Reciprocal's net retained for an amount of \$900,000 in excess of \$100,000 in respect to the first \$1,000,000 each occurrence, per person or organization personal advertising and products completed operations annual (aggregate) and the first \$2,000,000 annual (aggregate).

Section (ii)

100% quota share participation of the Reciprocal's net retained liability for an amount up to \$9,000,000 in excess of \$1,000,000 each occurrence, per person or organization personal and advertising injury and products completed operations annual aggregate (general) and amounts of up to \$18,000,000 excess of \$2,000,000 annual aggregate (general).

AutomobileSection (i)

100% quota share participation of the Reciprocal's net retained liability for an amount of \$900,000 in excess of \$100,000 as respects the first \$1,000,000, each occurrence.

Section (ii)

100% quota share participation of the Reciprocal's net retained liability for an amount up to \$9,000,000 in excess of \$1,000,000, each occurrence.

Type of ContractLimit and RetentionPublic Officials LiabilitySection (i)

100% quota share participation of the Reciprocal's net retained liability for an amount of \$900,000 in excess of \$100,000 in respect to the first \$1,000,000, any one claim and the first \$1,000,000 annual aggregate.

Section (ii)

100% quota share participation of the Reciprocal's net retained liability for an amount up to \$9,000,000 in excess of \$1,000,000, any one claim and amounts of up to \$9,000,000 in excess \$1,000,000 annual aggregate.

Law Enforcement LiabilitySection (i)

100% quota share participation of the Reciprocal's net retained liability for an amount of \$900,000 in excess of \$100,000 in respect to the first \$1,000,000, each occurrence and the first \$1,000,000 annual aggregate.

Section (ii)

100% quota share participation of the Reciprocal's net retained liability for an amount up to \$9,000,000 in excess of \$1,000,000 each occurrence and amounts of up to \$9,000,000 in excess \$1,000,000 annual aggregate.

Casualty catastrophe excess of loss (clash cover)

100% Authorized

Limit of \$1,000,000 excess of \$1,000,000, ultimate net loss each occurrence.

The reinsurer's liability is limited to \$1,000,000 in any one occurrence and is limited to \$3,000,000 in respect to all losses in any one contract period.

Health Care FacilityHealth care facilities professional liability

100% Authorized

A maximum limit of 90% of 1,000,000 any one loss any one insured, subject to \$3,000,000 in the aggregate any one insured.

D. 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 policy holders	96.14%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	68.47%
Premiums in course of collection to Surplus as regards policyholders	1.59%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$14,059,463	37.74%
Loss adjustment expenses incurred	12,416,912	33.34
Other underwriting expenses incurred	10,008,819	26.87
Net underwriting gain (loss)	<u>763,444</u>	<u>2.05</u>
Premiums earned	<u>\$37,248,638</u>	<u>100.00%</u>

E. Abandoned Property

Section 1316 of the Abandoned Property Law requires insurance companies to report to the comptroller's office annually on or before April 1 any properties that are deemed abandoned and have

been unclaimed for a three- year period. This filing is required by all companies regardless of whether they have any abandoned property to report.

It was noted that the Reciprocal did not file an Abandoned Property report with the state comptroller's office as required by Section 1316 of the Abandoned Property Law for any of the years under examination.

It is recommended that the Reciprocal comply with the Abandoned Property Law and file the required reports.

F. Custodian Agreement

As of the examination date, the Reciprocal's securities were held with a bank pursuant to a custodial agreement. A review of the Reciprocal's custodial agreement indicated that the agreement was lacking several protective covenants that this Department deems necessary to safeguard the Reciprocal's assets, as follows:

1. The bank shall have in force, for its own protection, Bankers' Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give the insurer 60 days written notice of any material change in the form or amount of such insurance prior to termination of this coverage.
2. Maintain records sufficient to verify information that the insurer is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
3. Furnish the insurer with the appropriate affidavits in the form as may be acceptable to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the company.
4. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodial system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

It is recommended that the Reciprocal amend its custodial agreement to include the above provisions in order to provide its assets with the necessary safeguards.

G. Conflict of Interest

The Reciprocal adopted a policy statement pertaining to conflict of interest for its directors and management. It was, however, noted that the Reciprocal failed to provide conflict of interest statements to its directors and officers for the calendar years 1996, 1997, 1998, and 1999.

It is recommended that the Reciprocal require its directors and officers to complete conflict of interest statements on an annual basis.

H. Accounts and Records

i. Cash

In reviewing the cash on hand and on deposit it was noted that a discrepancy existed between the Reciprocal's authorized signature listing and the banking institution's listing for specific cash accounts. The Reciprocal's cash represents an important part of its assets and it is extremely vital that the proper internal controls be in place.

It is recommended that the Reciprocal review and update its authorized signatories with the appropriate banking institution.

ii. Regulation 30

A review of the Reciprocal's compliance with the Department Regulation 30 was performed as part of this examination. Regulation 30, Part 107.3 states that the composition of each expense group shall be categorized under investment expenses, loss adjustment expenses, taxes, general expenses, and acquisition, field and collection expenses. Management has indicated that, "NYMIR pays contractually agreed upon fees to two entities: Wright Risk Management Company and The New York State Government Services Foundation." NYMIR records its entire management fee paid to WRM in its underwriting and investment exhibit – Part 4 Expenses, under the captioned category – general expense and acquisition, field and collection expense or other underwriting expense. The annual statement for NYMIR does not include any allocation of fees paid to the entities for the administrative functions that carried out on behalf of NYMIR.

Based upon the Management's representation and a review of the expenses reported in its filed annual statements, it appears that the Reciprocal did not comply with Department Regulation 30. It was also noted that the Reciprocal did not provide a proper allocation of its expenses as required by the National Association Insurance Commissioners (NAIC) - Annual Statement Instructions. The annual statement instructions provide specific instructions for the allocation of expense payment made to any non-affiliated entity that provides management, administration, or services in whole or part to a Reciprocal's business or operations.

It is recommended that the Reciprocal undertake a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30, Part 107.3 and comply with the NAIC Annual Statement Instructions with respect to expense classification accordingly. It is also

recommended that the Reciprocal comply with Regulation 30, Part 107.4(e)(1), which states in part “that the method and bases followed in allocation to expense group shall be described, kept and supported.”

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination and is the same as reported by the Reciprocal on its December 31, 1999 annual statement.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$19,439,603	\$	\$	\$19,439,603
Cash & Short-term Investments	2,456,782			2,456,782
Agents' balances or uncollected premiums: Premiums and agents' balances in course of collection	170,289		53,944	116,345
Premiums, agents' balances and installments booked but deferred and not yet due	612,271			612,271
Reinsurance recoverable on loss and loss adjustment expense payments	13,472			13,472
Interest, dividends and real estate income due and accrued		330,270		330,270
Fees		420	46	374
Recoverables		(426)		(426)
Total assets	<u>\$22,692,417</u>	<u>\$ 330,264</u>	<u>\$ 53,990</u>	<u>\$22,968,691</u>

Liabilities

Losses	\$ 7,865,917
Loss adjustment expenses	4,177,190
Contingent commissions and other similar charges	(311,131)
Other expenses	200,104
Unearned premiums	2,420,374
Excess of statutory reserves over statement reserves	<u>1,285,000</u>
Total liabilities	\$ 15,637,454

Surplus

Gross paid in and contributed surplus	\$ 3,721,046
Unassigned funds (surplus)	<u>3,610,191</u>
Surplus as regards policyholders, December 31, 1999	<u>7,331,237</u>
Total liabilities and surplus	<u>\$ 22,968,691</u>

B. Underwriting and investment exhibit

Surplus as regards policyholders increased \$4,863,139 during the five-year examination period, January 1, 1995 through December 31, 1999.

Statement of Income

Underwriting Income

Premiums earned		\$ 37,248,638
Deductions:		
Losses incurred	\$ 14,059,463	
Loss adjustment expense incurred	12,416,912	
Other underwriting expense incurred	<u>10,008,819</u>	
Total underwriting deductions		<u>36,485,194</u>
Net underwriting gain		763,444

Investment Income

Net investment income earned	3,674,232	
Net realized capital gains	<u>50,958</u>	
Net investment gain		3,725,190

Other Income

Miscellaneous	26,776	
Total Other Income		<u>26,776</u>

Net Income \$ 4,515,410

Note: The Reciprocal is exempt from federal, state and local income taxes.

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1994 per prior report on examination			\$ 2,468,098
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 4,515,410	\$	
Unrealized capital gains	282,074		
Change in not admitted assets		53,990	
Change in excess of statutory reserve over Statement reserve		1,257,000	
Surplus paid in	3,176,854		
Change in capitalization receivable		1,788,511	
Prior year adjustment	<u>                    </u>	<u>11,698</u>	
Total gains and losses	<u>\$7,974,338</u>	<u>\$3,111,199</u>	
Net gain in surplus			<u>4,863,139</u>
Surplus as regards policyholders, per report on Examination as of December 31, 1999			<u>\$ 7,331,237</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination amount for loss and loss adjustment expense reserves, \$7,865,917 and \$4,177,190 respectively, are the same as those reported by the Reciprocal as of December 31, 1999. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Reciprocal'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 Reciprocal 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 more precise scope of a market conduct investigation which is the responsibility of the Market Conduct Unit of the Property Bureau. No problems were encountered during this review.

#### 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations and comments. The current status of these matters is as follows (page numbers refer to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Territory and Plan of Operation</u>	
It is recommended that in the future the Reciprocal should refrain from collecting premiums on the behalf of other insurers, and that they devise an alternative method of enabling their policyholders to obtain boiler and machinery, fidelity and surety, and inland marine coverage.	8
The Reciprocal has not complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Maintenance of Subscribers' Separate Account</u>	
1. It is recommended that NYSIR comply with Section 6112(a) of the New York Insurance Law and with Item 5.2 of the subscribers' agreement and keep a separate account for each individual subscriber.	12
<p>The Reciprocal has complied with this recommendation.</p>	
2. It is recommended that NYSIR comply with Item 5.3 of the subscribers' agreement and render a statement to each subscriber showing a summary of collective transactions of the Reciprocal and also a statement of subscriber's separate accounting.	12
<p>The Reciprocal has complied with this recommendation.</p>	
C. <u>Losses and loss Adjustment Expenses</u>	
It is recommended that the Reciprocal should report all losses and loss adjustment expenses gross of all unfunded deductibles.	16
<p>The reciprocal has complied with this recommendation.</p>	

7. **SUMMARY COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Reciprocal take the necessary steps to amend its management agreement with Wright Risk Management to provide more precise wording in regard to Wright Risk's responsibility for running off both known and incurred but not reported claims in the event that the management agreement is terminated.	7
B. <u>Territory and Plan of Operation</u>	
It is recommended that the Reciprocal comply with the prior report on examination recommendation in that the Reciprocal should refrain from collecting premiums on behalf of other insurers and devise an alternative method of enabling its policyholders to obtain fidelity and surety, and inland marine(earthquake) insurance coverages.	8

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Reinsurance</u>	
It is recommended that the Reciprocal amend its first casualty excess of loss and casualty excess of loss agreement to include the appropriate offset language pursuant to Section 7427 of the New York Insurance Law.	9
It is recommended that in the future the Reciprocal comply with Chapter 22 of the NAIC accounting practices and procedures manual and record its reinsurance transactions accordingly.	9
E. <u>Abandoned Property</u>	
It is recommended that the Reciprocal comply with the Abandoned Property Law and file the required reports.	14
F. <u>Custodian Agreement</u>	
It is recommended that the Reciprocal amend its custodial agreement to include the provisions as provided in Section 2(F) herein in order to afford its assets the necessary safeguards.	15
G. <u>Conflict of Interest</u>	
It is recommended that the Reciprocal require its directors and officers to submit conflict of interest statements on an annual basis.	15
H. <u>Accounts and Records</u>	
i    It is recommended that the Reciprocal review and update its authorized bank signatories with the appropriate banking institution.	15
ii   It is recommended that the Reciprocal undertake a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30, Part 107.3 and comply with the NAIC Annual Statement Instructions accordingly.	16
iii   It is also recommended that the Reciprocal comply with Regulation 30, Part 107.4(e)(1) and provide proper supporting documentation for its expense allocation.	16



Appointment No 21592

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, First Deputy Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**Veronica Duncan-Black**

*as proper person to examine into the affairs of the*

**New York Municipal Insurance Reciprocal**

*and to make a report to me in writing of the condition of the said*

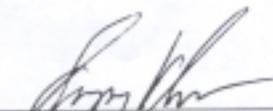
**Reciprocal**

*with such other information as she 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 7th day of September, 2000*



  
\_\_\_\_\_  
GREGORY V. SERIO  
First Deputy Superintendent of Insurance