REPORT ON EXAMINATION

OF THE

NEW YORK SCHOOLS INSURANCE RECIPROCAL

AS OF

DECEMBER 31, 1999

DATE OF REPORT	DECEMBER 21, 2000
EXAMINER	VERONICA DUNCAN-BLACK

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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 21593 dated September 7, 2000, attached hereto, I have made an examination into the condition and affairs of the New York Schools 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 designation "the Reciprocal" or "NYSIR" appear herein without qualification, they should be understood to indicate the New York Schools Insurance Reciprocal.

Wherever the designation "NYSIF" appear herein without qualification, it should be understood to indicate the New York Schools Insurance Foundation, Inc., Attorney-in-Fact for the New York Schools Insurance Reciprocal.

Wherever the designations “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 Schools 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, loss and loss adjustment expense reserves and the provision for reinsurance. 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 by states
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 Schools 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 March 29,1989. The Reciprocal was licensed on June 30, 1989 and commenced operations on July 1, 1989.

The Reciprocal was organized to provide a market source for New York State public school districts and board of cooperative education services organized and existing under the Education Law of the State of New York. NYSIR'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 NYSIR. To provide surplus, NYSIR requires each subscriber, as a prerequisite to the initial purchase of an insurance policy, to contribute to the surplus of NYSIR in accordance with such plan as developed by its Board of Governors. In 1998, the Reciprocal changed its method of calculating a subscriber's contribution. Subscribers are required to contribute 20% of their initial surplus contribution or 5% 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, NYSIR 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, NYSIR will issue 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 investments 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 twenty-two members.

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

Name and Residence	Principal Business Affiliation
John Joseph Belmonte Holbrook, NewYork	Assistant Superintendent for Finance, Sayville C.S.D
Kimberly Bucci Hawthone, New York	Director of Buiness/Finance, Rye Neck U.F.S.D
Anthony Albert Cashara Highland Mills, New York	Assistant Superintendent for Business, Clarkstown C.S.D
Robert Louis Celente Ossining, New York	Assistant Superintendent, Peekskill C.S.D
Karen Arlene Chapman Merrick, NewYork	Assistant Superintendent, Hewlett-Woodmere U.F.S.D
George James Chesterton Mt. Sinai, New York	Superintendent of Business, Oster-Bay-East Norwich C.S.D
Joseph Anthony Colistra Peru, New York	Superintendent, Peru C.S.D

Name and Residence	Principal Business Affiliation
James Salvatore Fischera Webster, New York	Director of Business Service, Webster C.S.D
Shelly Hood Fitzpatrick Sandy Creek, New York	Business Administrator, Sandy Creek C.S.D
Edwin George Groshans Floral Park, New York	Assistant Superintendent, Great Neck U.F.S.D
Richard Ira Hirt Dix Hills, New York	Assistant Superintendent of Business, Locust Valley C.S.D
David Vernon Kutcher Valley Stream, New York	Assistant Superintendent, Valley Stream U.F.S.D
Richard Charles Lasselle Carmel, New York	Assistant Superintendent, White Plains City School District
Daniel Edgar Laub Dix Hills, New York	Assistant Superintendent for Business, Elwood U.F.S.D
Robert Kenneth Libby Johnstown, New York	Assistant Superintendent, Cohoes C.S.D
Cam John Morton Clarence Center, New York	Business Manager, Cleveland Hill U.F.S.D
Richard Thomas Mueller Pleasant Valley, New York	Assistant for Business, Brewster C.S.D
Sheila Joan Nugent Newburgh, New York	Assistant Superintendent, Ramapo C.S.D
Michael Joseph Senno Stormville, New York	Assistant Superintendent for Business, Elmsford C.S.D
Kenneth Frederick Smith Mahopac, New York	Assistant Superintendent, Briarcliff Manor U.F.S.D
Raymond Greene Southard Carmel, New York	Assistant Superintendent, Arlington C.S.D
Roberta Ray Zampolin Valley Cottage, New York	Superintendent, Nyack U.F.S.D

The minutes of all of the meetings of the board of governors held during the examination period were reviewed. A review of the board of governors' minutes shows that the board held 27 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:

Name	Title
Kenneth Frederick Smith	President
Edwin George Groshans	Vice-President
Daniel Laub	Vice-President
Roberta Ray Zampolin	Secretary and Treasurer

(ii) Attorney-in-Fact Agreement

The New York Schools Insurance Foundation, Inc. ("NYSIF"), a New York not-for-profit corporation, was appointed as the Attorney-in-Fact for NYSIR pursuant to an agreement dated June 27, 1989. The directors and officers of NYSIF are the same directors and officer of NYSIR.

(ii) Management Agreement

The Reciprocal recently renewed its original management agreement dated July 1, 1989 with Wright Risk Management, Inc. ("WRM"). The new agreement was effective July 1, 1999, covering the period July 1, 1999 through June 30, 2005. Pursuant to the terms of the agreement, WRM was appointed to manage the day to operations of NYSIR 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. Under the 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. Section H of the management agreement provides a detailed fee structure of how WRM should be compensated for its services.

Section H of the management agreement covering the period July 1, 1999 through June 30, 2005 sets forth a method of compensation for the Manager as follows:

- "The Manager's fee … shall in the first year of this contract be derived from the fee in effect on the last day of June of the 1998-99 policy year, hereinafter referred to as the Base Fee. In subsequent years, the Fee in effect on the last day of the preceding policy year shall be referred to as the Revised Base Fee."
- "The Manager's Fee shall be set annually at a rate equal to the Base or Revised Base Fee, increased by an amount equal to the change in the most recent May to May Consumer Price Index for all Urban Consumers. This adjustment shall be no less than three (3) percent and no more than six (6) percent."
- "As subscribers… enter the Reciprocal…adjustment to the Manager's fee shall be made prospectively, commencing July 1, 1999 and semiannually thereafter. All such adjustments shall be set at fourteen (14) percent of the change in gross written premium from the Base Fee or Revised Base Fee."
- "As subscribers… leave Reciprocal. Adjustment to the Manager's Fee shall be made prospectively, commencing July 1, 1999 and annually thereafter. The adjustment, a reduction in fee equal to the departing subscriber's final year annualized adjusted fee. …Every July thereafter for the life of this agreement, the Manager's fee shall receive a single payment "fixed amount" per file for all open claims maintained on behalf of departed subscribers."
- The agreement also includes a provision for the payment of specific cost for marketing, risk management and school board leader program, which are to be added annually to the adjusted base fee. Lastly, the agreement requires NYSIR to pay the cost of a computer system, which would payable over six years commencing July 1, 1999.

A review of the management fee paid for the period July 1, 1999 through December 31, 1999 revealed that WRM was compensated in the manner described in Section H of the management agreement except for a modification that was made to the adjustment for new subscribers joining the Reciprocal. It was determined that the management fee was adjusted in accordance with a 1996 board of governor's resolution. The resolution was as follows: "Upon inception and/or renewal of policies written by NYSIR through the services of a NYSIR Certified Representative, WRM and NYSIR shall share in equal parts the contractual obligation of WRM to compensate the NYSIR representative." It was further noted that the current management agreement did not include the 1996 board of governors' resolution. It is recommended that the Reciprocal amend its management agreement to include the above resolution accordingly and file the amendment with the New York Insurance Department.

Section A(8) of the management agreement states in part:

"….Any amendment or modification will require the approval of the New York State Insurance Department and shall not be effective until and unless such approval is granted.

The examiner notes that the prior report on examination recommended that the Reciprocal obtain the Department's approval prior to implementing any amendment to the management agreement. This examination also notes that the Reciprocal did not submit the revised schedule H of its current management agreement to the Department for approval prior to its implementation. It is again recommended that NYSIR comply with Section A(8) of the management agreement and obtain approval of the New York State Insurance Department before implementing any amendment or modification to the management agreement.

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:

Paragraph	Kind of Insurance
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

Effective April 14, 1997, the Reciprocal received approval from this Department to amend its license to include boiler and machinery insurance and inland marine insurance pursuant to paragraphs 9 and 20, respectively, of subsection (a) of Section 1113 of the New York Insurance Law.

Based upon the lines 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 and is prohibited from underwriting the five largest city school systems of New York, Buffalo, Rochester, Syracuse and Yonkers. The Reciprocal's business is produced through brokers and agents.

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 treaties effected during the examination period. All but one of the contracts contained the required standard clauses, including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law. The examiner noted that the property excess of loss agreement fails to meet the requirements of Section 1308(a)(2)(A)(I) of the New York Insurance Law in that it does not contain the insolvency clause required therein. A review of this contract shows that only premium amounts were ceded under this contract. As a result, there will not be an examination adjustment for this contract. It is, however, recommended that the Reciprocal comply with the provisions of Section 1308 of the New York Insurance Law with regard to its ceded reinsurance agreements by including the required insolvency clause.

It was further noted that two of the Reciprocal's automatic facultative agreements (first property excess of loss and automatic physical property 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 follow: " In the absence of applicable law, either party may offset mutual debts and credits." It is recommended that the Reciprocal amend the captioned agreements 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."

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

Type of Contract	Limit and Retention
Property	
First Property Excess of Loss	
Five Layers Automatic facultative reinsurance and Property excess of loss 100% Authorized	Limit of $250,000,000 blanket per risk or occurrence excess $250,000, per risk or $2,250,00 per occurrence.

The captioned property automatic facultative reinsurance treaty provides five layers of coverage. Layers one, two, four and five are placed at 100% percent. The third layer is placed 20% with the automatic facultative treaty and 80% with a property excess of loss treaty. The property excess of loss treaty provides a limit of 80% part of $125,000,0000 excess $25,000,000 per risk or $26,500,000 per occurrence. Layers one and two of this treaty also provides coverage for auto physical damage reinsurance as respects on-road and off road (vehicle storage) exposures.

Type of Contract	Limit and Retention
Auto Physical Damage and Vehicle Storage	
Three Layers Automatic Facultative Reinsurance 100% Authorized	Limit of $5,000,000 excess $10,000 Layer one provides a limit of $490,000 excess $10,000 per vehicle per school district, subject to a maximum of $490,000 excess $100,000 per occurrence per school, subject to an overall occurrence limit of $1,500,000 for all school districts combined. $5,000,000 excess of $500,000 is covered in the first two layers of the first property excess of loss treaty in respect to on-road exposures.

Type of Contract	Limit and Retention
Boiler and Machinery	
Equipment Breakdown (Boiler and Machinery) Quota Share Excess of loss Treaty	
100% Authorized	Section A Limit of up to 90% part of $5,000,000, net loss per policy per accident.
	Section B Limit of $25,000,000 net loss per risk per occurrence excess of $5,000,000, net loss per policy per accident.
Casualty	
First Casualty Excess of Loss (Policy limits less than $1,000,000)	
80% Authorized 20% Unauthorized	Limit of $650,000 ultimate net loss each and every occurrence excess of $350,000, ultimate net loss each and every occurrence.
Education Excess Catastrophe Liability Quota Share and Commercial Umbrella Liability Quota Share (Policy limits greater than $1,000,000)	
Section (I) 100% Authorized	General Liability Section (I) 90% quota share participation of the Reciprocal’s net retained liability in respect to the first $5,000,000 each occurrence, products/completed operations each occurrence, and each person or organization personal and advertising injury.
Section (ii) 78.95% Authorized 21.05% Unauthorized	Section (ii) 95% quota share participation of the Reciprocal’s net retained liability for an amount up to $20,000,000 in excess of $5,000,000 each occurrence, products/completed operations each occurrence, and each person or organization personal and advertising injury.

Type of Contract	Limit and Retention
	Automobile Section (I) 90% quota share participation of the Reciprocal's net retained liability in respect to the first $5,000,000, each occurrence and the first $5,000,000 policy aggregate. Section (ii) 95% quota share participation of the Reciprocal's net retained liability for an amount up to $20,000,000 in excess of $5,000,000. School Leaders' Error & Omissions Section (I) 90% quota share participation of the Reciprocal's net retained liability as respect the first $5,000,000 each occurrence and the first $5,000,000 policy aggregate. Section (ii) 95% quota share participation of the Reciprocal's net retained liability for an amount up to $20,000,000 in excess of $5,000,000 each occurrence and amounts up to $20,000,000 in excess of policy aggregate.
School leaders error and omission liability variable quota share	
80% Authorized 20% Unauthorized	Limit of up to $5,000,000, each claim and in the aggregate any one policy period for all business subject to the contract. This insurance provides the Reciprocal with a sliding scale of coverage. The Reciprocal maintains retention ranging from 10% to 20% depending on the underlying policy limit ranging from $1,000,000 to $5,000,000.
Casualty catastrophe excess of loss (clash cover)	
100% Authorized	Limit of $1,000,000 excess of $1,000,000, ultimate net loss each and every occurrence. The reinsurer's liability is limited to $1,000,000, in any one occurrence and is limited to $3,000,000 in respect of all losses in any one contract period.

Type of Contract	Limit and Retention
Casualty aggregate excess of loss treaty	
92.75% Authorized 7.5% Unauthorized	Limit of $10,000,000 excess $350,000 ultimate net loss arising from covered loss occurrence, subject to a maximum aggregate of $3,500,000, per occurrence. This treaty provides the Reciprocal with coverage for losses arising out from sexual misconduct.
Claims made (Assessment Protection)	
Excess of loss or assessment protection reinsurance treaty	
100% Authorized	Limit of up to $5,000,000 net loss any one statutory assessment after a minimum of 50% reduction in surplus as regards policyholders, subject to a minimum reduction as regards policyholders to be no less than $10,000,000.

C. Significant operating ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	42.73%
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	51.46%
Premiums in course of collection to surplus as regards policyholders	83.00%

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:

	Amounts	Ratios
Losses incurred	$ 35,892,818	43.18 %
Loss adjustment expenses incurred	17,552,195	21.11
Other underwriting expenses incurred	21,189,220	25.49
Net underwriting gain (loss)	8,494,691	10.22
Premiums earned	$ 83,128,924	100.00 %

D. 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 in regard to its third party claimants. It is recommended that the Reciprocal comply with the Abandoned Property Law and file the required reports accordingly.

E. Custodian Agreement

As of the examination date, the Reciprocal's securities were held with a bank pursuant to a custodial agreement. This Department requires that a custodial agreement must contain certain provisions in order to insure that an insurer's assets are properly safeguarded. A review of the Reciprocal's custodial agreement indicated that the agreement was lacking several protective covenants that are 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. 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.

3. 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.

4. Access shall be during the bank's regular banking hours and specifying those persons who shall be entitled to examine at the bank securities held by you on your premises and your records regarding securities held, but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.

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.

F. Accounts and Records

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. The Reciprocal stated in a memorandum to the examiner that, "NYMIR pays contractually agreed upon fees to Wright Risk Management Company. The annual statement for NYSIR does not include any allocation of fee paid…instead, fee paid listed under Part 4 Expenses: Allowances to manger and agents."

Based upon the captioned statement by the Reciprocal and a review of the expenses in accordance with Regulation 30, it appears that the Reciprocal did not comply with such Regulation. 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. 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.

Assets	Ledger Assets	Non-ledger Assets	Not-Admitted Assets	Admitted Assets
Bonds	$ 71,689,138	$	$	$71,689,138
Cash & Short-term Investments	10,526,324			10,526,324
Premiums and agents' balances in course of collection	(1,989,587)		181,983	(2,171,570)
Reinsurance recoverable on loss and loss adjustment expense payments	367,879			367,879
Interest, dividends and real estate income due and accrued		933,414		933,414
Fees		1,115	843	272
Receivables		5,500		5,500
Total assets	$ 80,593,754	$ 940,029	$ 182,826	$ 81,350,957

Liabilities

Losses	$ 27,731,082
Loss adjustment expenses	4,683,249
Contingent commissions and other similar charges	(296,973)
Other expenses	100,235
Unearned premiums	8,667,176
Provision for reinsurance	35,600
Excess of statutory reserve over statement reserves	63,000
Total liabilities	$ 40,983,369

Surplus

Gross paid in and contributed surplus	$ 4,948,413
Unassigned funds (surplus)	35,419,177
Surplus as regards policyholders	$ 40,367,587
Total liabilities and surplus	$ 81,350,957

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $28,106,260 during the five-year examination period, January 1, 1995 through December 31, 1999.

Underwriting Income		
Premiums earned		$ 83,128,924
Deductions:		
Losses incurred	$ 35,892,818	
Loss adjustment expense incurred	17,552,195	
Other underwriting expense incurred	20,803,093	
Aggregate write-ins	386,127	
Total underwriting deductions		74,634,233
Net underwriting gain		$ 8,494,691
Investment Income		
Net investment income earned	$ 18,519,491	
Net realized gains	637,100	
Net investment gain		19,156,591
Other Income		
Expense Adjustment	$ 187,000	
Miscellaneous income	2,498	
Total other income		189,498
Net Income		$ 27,840,780

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

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, December 31, 1994 per prior report on examination			$ 12,261,327
Net income	$ 27,840,780	$	
Net unrealized capital gains	475,523		
Change in non-admitted assets		182,822	
Change in provision for reinsurance		35,600	
Change in excess of statutory reserves over Statement reserves	251,000		
Change in surplus paid in	1,954,057		
Change in capitalization receivable		1,005,595	
Capitalization returned to subscribers		1,551,187	
Prior year adjustment	360,104		
Total gains and losses	$ 30,881,464	$ 2,775,204	
Net gain in surplus			$ 28,106,260
Surplus as regards policyholders, per report on Examination as of December 31, 1999			$ 40,367,587

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination amount for loss and loss adjustment expense reserves, $27,731,082 and $4,683,249 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. The results of this analysis indicate that NYSIR's reserves for loss and loss adjustment expenses as of the examination date was adequate.

In reviewing the Reciprocal's loss and loss adjustment expense reserves it was determined that the Reciprocal did not establish a reserve for unallocated loss adjustment expense for known claims. In accordance with the management agreement, the management fee paid did not provide for the settlement or run-off of outstanding claims (both known and incurred but not reported). The management agreement stipulated that if the contract were to be terminated by either party, then NYSIR would have the option of entering in to an agreement with WRM for the handling of outstanding claims. WRM management informed the examiner that the board of governors of NYSIR and the Management Company has agreed to amend the management agreement using a one-time payment per claim, which amounted to $1,185,000 in the aggregate to run-off claims as of December 31, 1999. Section 1303 of the New York Insurance Law requires insurers to maintain, "… reserves in an amount estimated to provide for the expenses of adjustments or settlement of… losses or claims." Due to immateriality, no examination change will be made.

It is, however, recommended that in the future that the Reciprocal comply with Section 1303 of the New York Insurance Law, and maintain a reserve for unallocated loss adjustment expenses for both known and incurred but not reported claims (IBNR).

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

ITEM		PAGE NO.
A.	Management	
	It is recommended that NYSIR comply with Section A(8) of its management agreement and obtain the approval of the New York Insurance Department before implementing any new amendment or modifications to the management agreement.	7
	The Reciprocal has not complied with this recommendation.	
B.	Reinsurance	
	It is recommended that NYSIR obtain a valid reinsurance agreement that complies with Section 1308 of the New York Insurance Law with respect to its property reinsurance program.	11
	The Reciprocal has not complied with this recommendation.	
C.	Maintenance of Subscribers' Separate Account	
1.	It is recommended that NYSIR comply with Section 6112(a) of the New York Insurance Law and with Item 4.2 of the subscribers' agreement and keep a separate account for each individual subscriber.	12-13
	The Reciprocal has complied with this recommendation	

ITEM		PAGE NO.
	2. It is recommended that NYSIR comply with Item 4.3 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.	12-13
	The Reciprocal has complied with this recommendation.	
D.	Capitalization Receivable	
	It is recommended that in the future the Reciprocal not admit any capitalization receivable from school districts that became subscribers after five years from the date the license was granted.	14
	The reciprocal has complied with this recommendation.	

7. SUMMARY COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	It is recommended NYSIR amend its management agreement to include the 1996 Board of Governor's resolution which adjusted the management fee and file the amendment with the New York Insurance Department.	8
	The Reciprocal did not submit the revised schedule H of it current management agreement to the Department. It is again recommended that NYSIR comply with Section A(8) of its management agreement and obtain the approval of the New York Insurance Department before implementing any new amendment or modification to the management agreement.	8
B.	Reinsurance	
	It is recommended that NYSIR, with reference to its excess of loss agreement, comply with the provisions of Section 1308 of the New York Insurance Law by including the required insolvency clause.	10
	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.	10

ITEM		PAGE NO.
C.	Abandoned Property	
	It is recommended that the Reciprocal comply with the Abandoned Property Law and file the required reports.	15
D.	Custodian Agreement	
	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 and protections.	16
E.	Accounts and Records	
	It is recommended that the Reciprocal comply with Regulation 30 with respect to the allocation of expenses between expense groups.	17
	It is recommended that the Reciprocal comply with the NAIC Annual Statement Instructions with respect to the proper classification of expenses.	17
F.	Losses and Loss Adjustment Expenses	
	It is recommended, for the future, that the Reciprocal comply with Section 1303 of the New York Insurance Law regarding establishing reserves for unallocated loss adjustment expenses for both known and IBNR reserves.	22

Respectfully submitted,

/S/
Veronica Duncan-Black
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

VERONICA DUNCAN-BLACK, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

/S/
Veronica Duncan-Black

Subscribed and sworn to before me

this _____ day of _________ 2001.

Appointment No 21593

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY 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 Schools 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