REPORT ON EXAMINATION

OF THE

NEW YORK PROPERTY INSURANCE UNDERWRITING ASSOCIATION

AS OF

DECEMBER 31, 2012

DATE OF REPORT	MAY 6, 2014
EXAMINER	JOSEPH REVERS

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 6, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 31009 dated June 7, 2013, attached hereto, I have made an examination into the condition and affairs of New York Property Insurance Underwriting Association as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Association” appears herein without qualification, it should be understood to indicate New York Property Insurance Underwriting Association.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Association’s administrative office located at 100 William Street, New York, NY 10038.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Association, a single-state Underwriting Association. The previous examination was conducted as of December 31, 2007. This examination covered the five-year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association including corporate governance, identifying and assessing inherent risks within the Association and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Association were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Association's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
History of Association
Management and control
Fidelity bonds and other insurance
Pensions and insurance plans
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Association 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. MEMBERS' EQUITY

This examination has determined that as of December 31, 2012, the Association's carried loss and LAE reserves were deficient in the amount of $13,784,000. As a result, its Members' Equity was impaired in the amount of $13,164,334.

The Department noted that the Association subsequently increased reserves by this amount and recognized this deficiency as of November 30, 2013. In 2013, it obtained assessments from member companies of $27,874,958. As a result, the impairment of members' equity was subsequently cured.

3. DESCRIPTION OF COMPANY

The New York Property Insurance Underwriting Association was organized in 1968 pursuant to the laws of the State of New York. The Association was created to provide basic property insurance (fire, extended coverage, vandalism and malicious mischief, loss of rents and business interruption) to those consumers who were unable to obtain such coverage in the voluntary market. All licensed companies, except assessment co-operatives, are required to join and accept participation on the basis of their respective shares of direct fire and extended coverage premiums written in this state, including the fire and extended coverage components of homeowners' and commercial multiple peril package policies, as computed by the Superintendent. In addition, all licensed insurers shall be and remain a member of the Association as a condition of its authority to continue to transact fire and extended coverage insurance in this State.

Rating procedures are subject to approval by the Superintendent. Pursuant to statute in effect prior to August 1, 1979, the rates in effect were based on the Association's own losses and loss expense experience. On August 1, 1979, the statute was amended so that the rates would be no greater than the specified percentages of those recommended for the voluntary market by the principal rating organization deemed by the Department of Financial Services to be the Insurance Services Office ("I.S.O."). A maximum surcharge of 20% to 40% is applied to the various categories ranging from owner occupied dwellings to apartment buildings with more than eight dwelling units.

During August of 1979, the law was amended to provide that the Association annually estimate its deficit from operations. If the Superintendent approves such estimates, the Association shall be credited with income earned from the New York Property/Casualty Insurance Security Fund. The credit shall be an amount determined by the Superintendent, which in any given year shall not exceed the income earned on the fund or the sum of 15 million dollars, whichever is less. If a deficit still exists, members may be assessed up to one percent of net direct premiums written for the last calendar year, or the Association may be granted appropriate rate increases in the respective rate classes. If the assets of the Association exceed its liabilities on or after November 30 in any given year, the Association will be required to reimburse the New York Property/Casualty Insurance Security Fund for amounts equal to any amount paid from such fund to the Association. Such reimbursement, however, is subject to the provisions of Article 76 and Section 5405 of the New York Insurance Law.

Coastal Market Assistance Program ("C-MAP")

The Coastal Market Assistance Program is a mechanism that was created by the Department to assist homeowners living in New York State's coastal areas to acquire insurance coverage. This program commenced operations on March 18, 1996. C-MAP represents a group of insurers who have agreed to give special underwriting consideration to homeowners who are unable to obtain insurance through the voluntary market.

The program is administered by the New York Property Insurance Underwriting Association with the assistance of the Professional Insurance Agents of New York State ("PIANY"), and Independent Insurance Agents Association of New York ("IIAANY"). The C-MAP operations are also overseen by a C-MAP steering committee. The committee is comprised of representatives from the Association, PIANY, IIANY, participating C-MAP insurers, and the Superintendent or designee. The Association is required to provide monthly progress reports to the Superintendent, the Speaker of the Assembly, the Senate Majority Leader and the C-MAP steering committee, showing C-MAP's application status and dispositions. The Association is required to absorb the expenses of administering the program.

Under the terms of the C-MAP plan of operation, the insurers participating in the program have agreed to write 5,000 homeowners policies during the life of the program. The cap was raised to 10,000 homeowners policies in 2006. The insurers have also agreed to continue with such business pursuant to Section 3425 of the New York Insurance Law and insure these policies for a full three-year policy period.

A. Management

Pursuant to statute and the Association's plan of operation, the business and affairs of the Association are to be governed by a board of thirteen directors, ten of whom are elected annually by cumulative voting by the members of the Association. The remaining three directors are appointed annually by the Superintendent. The appointed directors shall be duly licensed insurance agents or brokers, representatives of a broad segment of the public obtaining insurance through the Association. Since the inception of the Association, it has been the practice of the membership to elect member companies as directors and then have the elected companies select various individuals to represent the elected companies at the board of directors meeting.

At December 31, 2012, the board of directors was comprised of the following thirteen members:

Name and Location	Represented Member Companies
Jeffrey R. Barrett Edmeston, NY	Senior Vice President, NY Central Mutual Fire Insurance Company
Anthony S. Calafiore Brooklyn, NY	President, Apex Brokerage Company, Inc.
Brian F. Connors Williamsville, NY	AVP, Underwriting Manager, Tower Group Companies
Kevin J. Curry Marlton, NJ	Director, Government Relations, Travelers Companies, Inc.
David A. Fazioli East Greenbush, NY	Appointed Member, Rose and Kiernan, Inc.
Michael Grove Boston, MA	AVP, Director, State Operations, Liberty Mutual Personal Markets
Diane Hausserman New Hartford, NY	Assistant Vice President and Managing Actuary, Utica Mutual Insurance Company

Name and Location	Represented Member Companies
Sandra L. Horvath Ballston Spa, NY	Fire Manager, State Farm Insurance Company
William W. Martin Wethersfield, CT	Consultant, The Hartford
Denis A. Miller Long Beach, NY	President, Denis A. Miller Insurance Agency
Michael W. O’Malley Warren, NJ	Senior Vice President, Chubb & Son
Rhonda L. Rittenberg Boston, MA	SVP and Senior Associate General Counsel, American Home Assurance Company
Frederick M. Strauss Northbrook, IL	Prod Ops Director, Shared Market Governance, Allstate Insurance Company

A review of the minutes of the board of directors’ meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2012, the principal officers of the Association were as follows:

Name	Title
Dane Austin	President
Dennis Dee	Vice President and Comptroller
Robin Pollack	Vice President, Underwriting and Customer Service
Nigel Shepherd	Vice President, Claims and Operations

B. Territory and Plan of Operation

In accordance with Section 5402 of the New York Insurance Law and with the approval of the Superintendent, the Association promulgated a plan of operation. The plan of operation provides for economical, fair and non-discriminatory administration and prompt and efficient provision of fire, extended coverage and homeowners insurance. The plan of operation also provides for the management of the Association, the underwriting standards, and the policy limits of insurance coverage, which shall not exceed $1.5 million for insurable real property or personal property thereon. The plan of operation requires the Association to report the condition of its operation to its member companies not less frequently than every three months. The Association is also required to maintain and file certain types of reports with the Superintendent as required by Article 54 of the New York Insurance Law.

All of the Association's business is written directly on properties located in the State of New York. The following schedule shows the direct premiums written by the Association in New York for the period under examination:

Year	Direct Premiums Written
2008	$34,588,286
2009	35,601,014
2010	35,735,389
2011	35,253,767
2012	35,497,916

C. Reinsurance

Assumed

The Association did not assume any business during the period under examination.

Ceded

Catastrophe Excess of Loss

Property (1st layer - 40% authorized)	82% of $50,000,000 excess of $100,000,000 each and every loss occurrence.
(2nd layer – 43% authorized)	82% of $85,000,000 excess of $150,000,000 each and every loss occurrence.

The catastrophe excess of loss ceded reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Management has represented that the ceded reinsurance agreement transfers both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation from the Association's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Association was not a party to any finite reinsurance agreements. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

D. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written in 2012 to Members' equity	999%
Liabilities to liquid assets (cash and invested assets)	127.37%
Premiums in course of collection to Members' equity	999%

The above ratios fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual values were caused by the impact of Superstorm Sandy on the Association. The Association Members' Equity was decreased from $73,532,256 as of December 31, 2011 to ($13,164,334) as of December 31, 2012.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$159,693,718	108.8%
Operating expenses incurred	48,841,954	33.3%
Net underwriting gain (loss)	(61,705,188)	(42.0)%
Premiums earned	$146,830,484	100.0%

E. Accounts and Records

Certified Public Accountant ("CPA") Engagement Letter

The engagement letter between the Association and its independent Certified Public Accountants ("CPA"), dated September 20, 2012, does not include the following provisions:

> 1) The requirement that the CPA firm must retain the audit work papers and communications for six calendar years from the date of the audit report or until the filing of the report on examination covering the period of the audit, whichever is longer, as required by Part 89.2(c) of Department Regulation 118; and
>
> 2) The Association shall obtain a letter from the CPA, and file a copy with the Superintendent, stating that the CPA is aware of the provisions of the insurance law and the regulations thereunder of the state of domicile that relate to accounting and financial matters, in accordance with Part 89.4(b) of Department Regulation 118.

It is recommended that the Association ensure that all future contracts with its independent CPA include all of the required provisions in Department Regulation 118.

4. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and members' equity as of December 31, 2012 as determined by this examination and as reported by the Association:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Cash and cash equivalents	$ 5,163,965	$ 0	$ 5,163,965
Long-term investments (at amortized value)	55,940,222	0	55,940,222
Accounts receivable	1,480,344	0	1,480,344
Equipment, furniture & leasehold improvements	1,245,673	1,245,673	0
Interest accrued	413,161	0	413,161
Taxes recoverable	2,190,866	0	2,190,866
Prepaid expense	8,375	8,375	0
Prepaid pension contributions	941,604	941,604	0
Cash advances	1,872,000	1,872,000	0
Total	$69,256,210	$4,067,652	$65,188,558

Liabilities and Equity	Association	Examination	Members' Equity Increase/ (Decrease)
Unpaid losses and loss adjustment expenses	$34,794,957	$ 48,578,957	$(13,784,000)
Unearned premiums	14,656,082	14,656,082	0
Accrued pension & postretirement benefit obligation	8,084,286	8,084,286	0
Unpaid operating expenses	338,438	338,438	0
Total Reserves	$57,873,763	$ 71,657,763	$(13,784,000)
Ceded premiums	$ 2,999,152	$ 2,999,152	$ 0
Advanced premiums	1,232,232	1,232,232	0
Premium taxes	1,207,000	1,207,000	0
Return premiums	310,866	310,866	0
Deferred rent	943,239	943,239	0
Amount withheld for others	2,640	2,640	0
Total payable and reserves	$64,568,892	$ 78,352,892	$(13,784,000)
Members' equity	$ 619,666	$(13,164,334)	$(13,784,000)
Total liabilities and equity	$65,188,558	$ 65,188,558	

Note: The Internal Revenue Service has not completed an audit of the Association's tax returns covering tax years 2008 through 2012. The examiner is unaware of any potential exposure of the Association to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Members' equity decreased $87,830,493 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Premiums earned		$146,830,484
Deductions:		
Losses and loss adjustment expenses incurred	$ 159,693,718	
Operating expenses incurred	48,841,954	
Total underwriting deductions		$208,535,672
Net underwriting loss		$ (61,705,188)
Investment Income		
Net investment income earned	$ 22,643,158	
Net realized capital gains	5,080,202	
Net investment gain		$ 27,723,360
Other Income		
Net loss from agents' balances charged off	$ (63,409)	
Net loss from grant program	(497,066)	
Policy installment fees	809,237	
Net gain from other income		$ 248,762
Net income before NYC unincorporated business taxes incurred		$(33,733,066)
NYC unincorporated business taxes incurred		923,640
Net Income		$(32,809,426)

C. Change in Equity Account

	Gains	Losses	
Members' equity as of December 31, 2007 per report on examination			$ 74,666,159
Net income		$32,809,426	
Change in non-admitted assets		3,858,780	
Additional minimum pension liability		3,752,291	
Distribution to Members' companies		47,409,996	
Total gains and losses		$87,830,493	
Net decrease Members' equity			$(87,830,493)
Members' equity as of December 31, 2012 per report on examination			$(13,164,334)

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Association liability for the captioned items of $48,578,957 is $13,784,000 more than the $34,794,957 reported by the Association in its December 31, 2012, filed financial statement. The examination change is due to the following:

Significant developments of Sandy claims were noted during a nine month period ending September 30, 2013. Based on the fact that the majority of Sandy claims are property claims and the expectation that the majority of Sandy claims should be reported after eleven months, a determination was made that the third quarter numbers were reasonable. The Department noted that the Association has already increased reserves by this amount and recognized this deficiency as of November 30, 2013.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55"), and was based on statistical information contained in the Association's internal records and in its filed financial statements.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Accounts and Records	
	Custodial Agreement	
	It is recommended that the Association amend its custodian agreement to incorporate the necessary safeguards and controls in accordance with Section 3 (III)(H) paragraph 2e, of the NAIC Financial Condition Examiners Handbook.	8
	The Association has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	Certified Public Accountant ("CPA") Engagement Letter	
	It is recommended that the Association ensure that all future contracts with its independent CPA include all of the required provisions in Department Regulation 118.	9

Respectfully submitted,

/s/
Joseph Revers, CFE
Senior Insurance Examiner

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

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Joseph Revers

Subscribed and sworn to before me

this__________ day of _________________________, 2014.

APPOINTMENT NO. ***31009***

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ***BENJAMIN M. LAWSKY****, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Joseph Revers

as a proper person to examine the affairs of the

NEW YORK PROPERTY INSURANCE UNDERWRITING ASSOCIATION

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

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 7th day of June, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent